THE
ADEN FORECAST
MONEY • METALS • MARKETS

JUNE 2012 *our 31st year*

SAFETY & UNCERTAINTY REIGN

June started off with a bust and all of the markets reacted.

Stocks plunged, and so did interest rates, commodities and the currency markets. The U.S. dollar soared, along with bonds and the gold price. The rush to safety turned into a stampede, and then the markets reversed direction. Currently, volatility is the name of the game.

TIMES ARE A CHANGING

At this point, we don't mean to sound dramatic, but these are times when you want to be especially careful. That's the message we're getting and we want to be sure you're warned and on guard.

As subscribers, you are very special to us and our top priorities. We appreciate your loyalty, kindness and support, and we'll always do our best to keep you on the right side of the trends and out of harm's way, especially during times like this.

For now, we are in uncharted territory and as you'll see next, anything is possible. Hopefully it'll be okay but the old saying, hope for the best and plan for the worst is appropriate right now…

INSIDE

TENSIONS BUILDING

As you know, tensions have been building for months. The crisis in the Eurozone has kept the world on edge as it slowly spreads, involving more countries.

This alone has fueled a lot of uncertainty, creating a big demand for safety. But when China and the U.S. also showed slowing signs in their economies, the demand for safe havens exploded.

Anything deemed risky was tossed aside and everyone wanted a safe haven (see **Chart 1**). In other words, the world suddenly became more global.

As we've seen before, the world is more linked than ever before and one area can't be isolated from the other.

WHAT NOW?

For now, aside from short-term ups and downs, which are normal, it looks like stocks are headed lower, as well as the currencies. Bonds and the U.S. dollar are the safe havens, and along with gold, they'll all likely rise further.

This tells us the world economy is in trouble. Since many of these markets lead the economy, they're signaling a recession is probably coming unless the Fed takes strong action to stimulate the economy… very soon. A financial shock has also become more probable.

As we showed you last month, many European countries are already in recession. The rest of the world could now follow, at least that's what the markets are indicating… but there's more…

REPEAT PERFORMANCE?

Increasingly, the similarities to 2008 are becoming almost eerie. We may be wrong, but the markets are poised for this and while we don't know what the trigger will be, it could be almost anything.

Most of you remember the subprime crisis in 2008. That seemed to come from out of the blue and most people didn't even know what subprime was. But when it hit it threatened some of the world's biggest banks, breaking some and severely wounding others. The entire financial system was on the brink and the effects are still being felt.

We remember it well. In September, 2008 we were in an isolated town in Southern Portugal with a group of business friends, celebrating a mutual friend's birthday.

When the news hit, there was one computer in the hotel and cable TV, and we were all sharing news as we heard it.

We ended up sending an alert as soon as we could. But this reinforced a code we've tried to maintain for years… one of us has to be in the office in case something unforeseen happens.

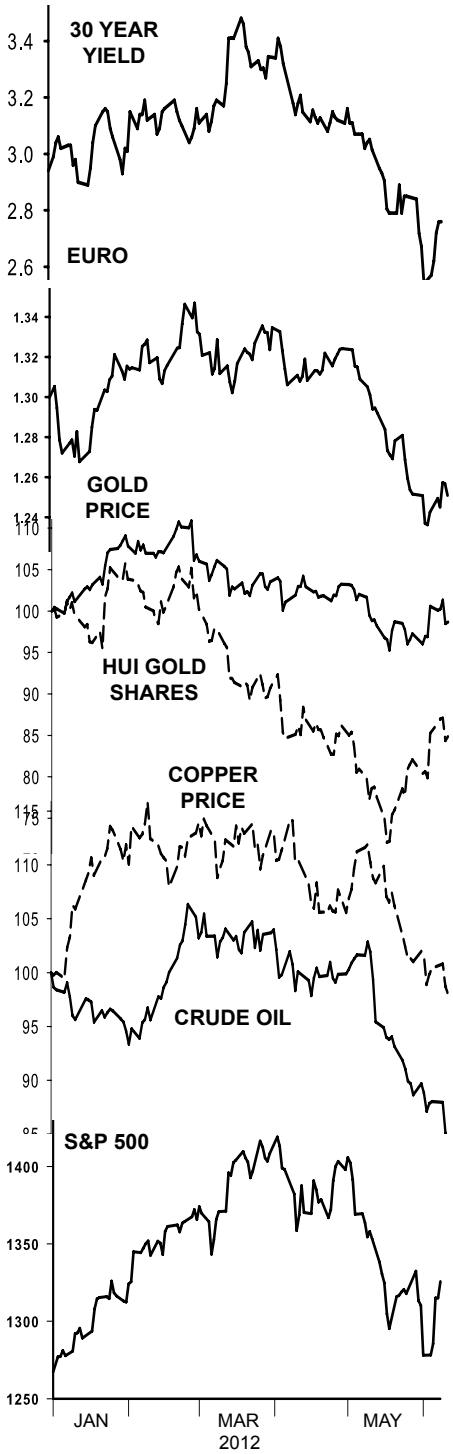
A WILD CARD?

Currently, our gut feel is that if an accident is coming, it'll likely happen this year.

Again, it could be a wild card. One example is the explosion of the derivatives markets. This too is something few people even know

CHART 1

AND THEY ALL FALL DOWN



about. Nevertheless, they're big and worrisome.

Our friend Eric Fry described this situation extremely well in a recent *Daily Reckoning* article and we'll simplify it here…

Derivatives are complicated instruments made between parties to extend credit. The combination of their complexity and lack of transparency can cause capital markets to underprice credit risk, which increases overall risk, and this contributed to the 2008 crisis.

The popularity of derivatives has skyrocketed within the financial industry. In the past 12 years, derivatives have grown 10 times faster than world GDP to the tune of $200 trillion for U.S. banks, which is three times the world's GDP!

This is a reckless accident waiting to happen and JP Morgan's $2 billion loss this month may have been the tip of the iceberg. Also worrisome is the fact that only four banks hold 94% of all the derivatives contracts outstanding.

JP Morgan's exposure alone is larger than the entire world's GDP (see **Chart 2**). This is simply shocking and if one little thing goes wrong, it could again bring the world to its knees, even more so than the subprime crisis in 2007-08.

The other big derivatives holders are Citibank, Bank of America and Goldman Sachs, all names you'll recognize from the last banking mess in 2008. They were also bailed out by the Fed at that time. In other words, the dangers continue and in this area they are huge.

FED TO THE RESCUE

With or without an accident, it seems pretty obvious that the Fed is going to be forced to produce another QE type program, sooner rather than later. And that's why the markets have recently been rebounding.

SLOWING DOWN

The economy is slowing and this is cause for concern. Even though the U.S. is blaming Europe, there's big trouble at home too. Consumer confidence, for example, recently fell to its lowest level in four months. Home prices are still falling and unemployment remains a huge problem…

There have been 11 recessions since the 1940s and in every one of them jobs bounced back and recovered once the recession ended. The current recession has been the big exception. What's wrong?

Some experts believe the debt ridden economy has reached a breaking point and it's now totally dependent on Fed stimulus. Strong deflation forces are also a reality.

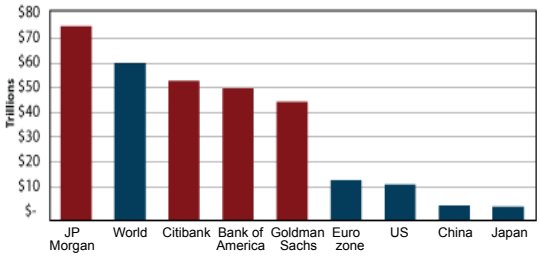
Highly probable is the likelihood that the crisis in 2007-08 remains in process. It never ended. Oh sure, it was temporarily postponed by all of the Fed's stimulus but now it's continuing on its way as the major trend exerts itself.

As you'll see next, the stock market is suggesting this is indeed a possibility. But we again want to stress that we are in uncharted territory, so be prepared and ready for whatever comes.

CHART 2

ANOTHER WORLD

The gross derivatives exposure of four U.S. banks compared to the GDP (2010) of the entire world, and to the GDPs of various nations



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U.S. & WORLD STOCK MARKETS

Turning bearish

The stock market plunged this month in its worst decline since last August. It then did an about face and it's now rebounding. Nevertheless, as we've recommended in our weekly updates, we feel it's best to sell and avoid stocks for the time being.

RUSH TO SAFETY HIT STOCKS

This all happened as the rush to safety gained momentum. Stocks were viewed as risky and they got dumped along with everything else that seemed risky, whether in fact they were or not.

But as the reassuring words began to flow, the market regained hope that the Fed would soon launch another QE program. Europe was viewed as the culprit and the U.S. economy was fine, according to Obama.

Even though the U.S. stock market is currently rebounding, it remains volatile and marginal. Most of the world stock markets are bearish and it's likely just a matter of time until the U.S. joins this global trend.

At this point, it could happen at any time. The stock market is nervous and vulnerable.

As you know, most of the global stock markets have been bearish for some time (see **Chart 3** as an example). The U.S. has been swimming against the tide but as we saw on June 1, the situation is delicate and it could change quickly.

TURNING BEARISH

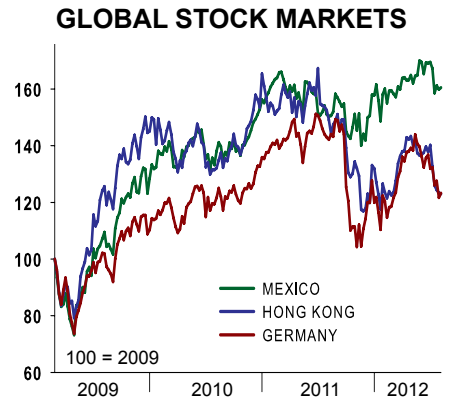
The global bear market is taking over and stocks around the world are going to fall further.

How can we be so sure? The signs are everywhere and since stocks lead the economy, this is unfortunately not good news for the world economic outlook.

Looking at **Chart 4**, for instance, you can see that the World stock market index of over 1600 world stocks, has turned bearish by breaking below its moving average.

Plus, its leading indicator is also bearish. This tells us that the global tide is down and stocks are headed lower.

CHART 3



STAY ON SIDELINES

This means you do not want to be invested in U.S. or international stocks at this time.

As we saw in 2007-08, bear markets can be vicious. So our best advice is to get out of the way. Stay in cash, U.S. government bonds, gold or money market accounts.

Safety is best, and it's a lot better than losing a big chunk of your savings or retirement funds.

CHART 4

The widely held belief that stocks always rise, that they're good for the long-term and so on is a myth. It's simply not true, so don't fight the bear. Again, it's far more important to get out of the way and we feel strongly that you'll be glad you did.

MARKET IS SENSITIVE

The stock market is currently very sensitive to the world news. It's watching events in Europe unfold, and the focus is now on Spain. It's also watching China and the U.S.

Any news that is viewed as bad is now having a strong effect on the stock market. And as we previously pointed out, the global situation is on thin ice.

The stock market is signaling a situation that's poised to get worse. An upcoming QE3 program could temporarily save the day and if it does, we'll then change our position. But for now, we'll let the market do the talking and it's saying to stay out.

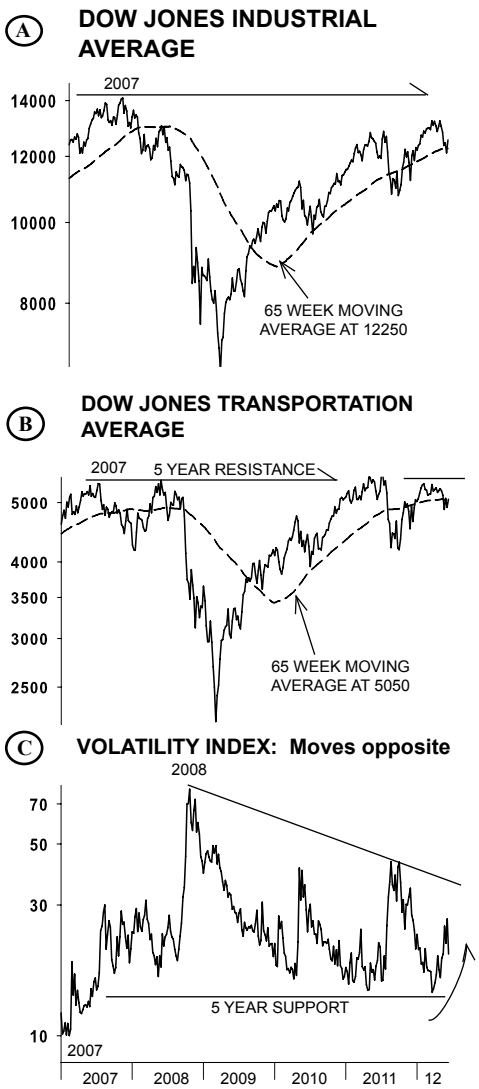
As our dear friend Richard Russell pointed out, a Dow Theory bear market was signaled when the Dow Industrials hit a new high on May 1, and the Dow Transportations did not (see **Chart 5**). This was followed by a drop in both indices below their April lows, triggering a bear market signal.

Meanwhile, the VIX index has been rising, which is not a good sign. VIX is known as the fear index and it rises when investors are nervous, which usually coincides with stock market declines.

BIG PICTURE FOCUS

Most impressive at this time is standing back and looking at the big picture. Actually, there's nothing like the big picture to help put things into perspective, especially at times like this when everyone is focused on the

CHART 5



daily news…

Chart 6 shows the S&P500 going back to 1982 on the top and its long-term leading indicator below.

If we look at the price action first, you can see that the market's essentially been going sideways or topping since 2000, after an 18 year bull market rise. Yes, it hit a peak in 2007 but it then fell steeply during the crisis of 2007-08.

At that point, the Fed stimulated like mad, which provided a nice boost for stocks in 2009-2012. Now stocks are falling, the market has turned volatile and if the Fed doesn't "do something" soon, or it's not enough, we can assume that stocks will be heading down for at least a couple of years.

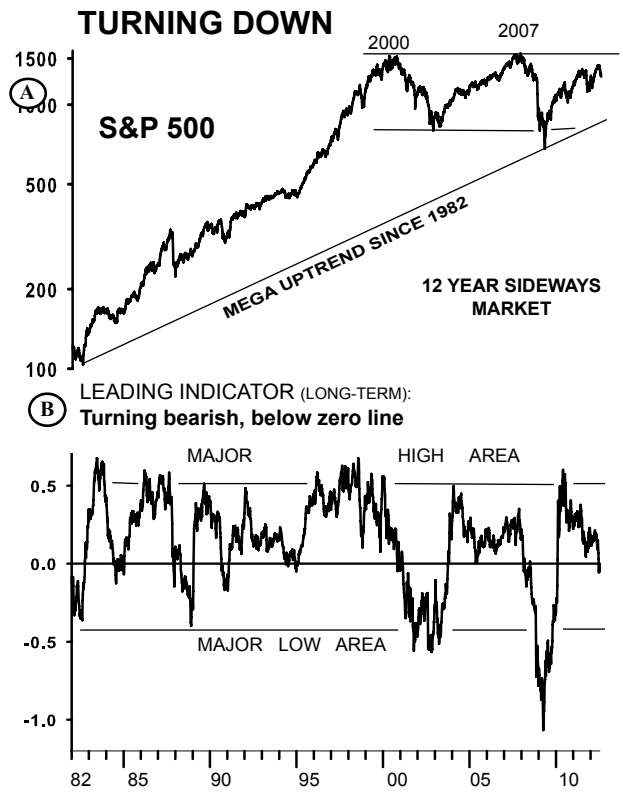
On the other hand, if a massive top has indeed been forming for the past decade, then stocks could decline for many years to come.

OUTLOOK IS DOWN, FOR NOW

For now, the outlook is down and this is being confirmed by the leading indicator (see **Chart 6B**). It has just turned negative and it has a long way to go before it reaches the major low area, which normally coincides with significant bottoms in the stock market.

In other words, stocks could fall a lot further in the months ahead. For now, if the Dow Industrials and Transportations again decline and/or stay below 12250 and 5050, it'll mean trouble. So be on guard and watch these numbers.

CHART 6



U.S. INTEREST RATES AND BONDS

Record low yields!

Interest rates literally plunged this month, hitting levels last seen in the 1700s!

HISTORY IN THE MAKING

This may seem unbelievable to some of you and it is. It's historical. It's something that hasn't happened in over two centuries, and this alone is cause for attention.

Many thought bonds were in a bubble and interest rates were way too low last year, and they were. But last Summer, the markets signaled that rates were headed even lower and bonds were going higher, so we recommended buying long-term U.S. government bonds (see **Chart 7**). It may have seemed crazy but bonds have risen 37% since then.

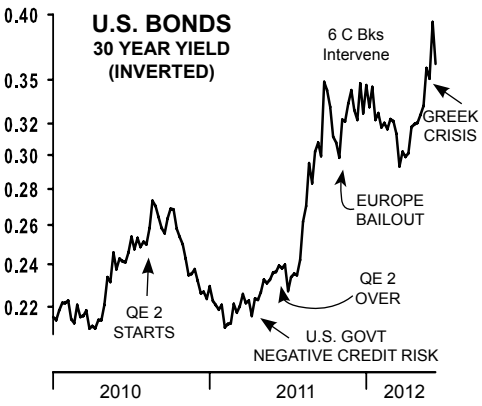
At the time it wasn't obvious why rates would fall further, but since then the world has grown far more uncertain and U.S. bonds have become the international #1 safe haven of choice.

RECORD LOW RATES: Deflationary

This has driven up demand and caused rates to fall to levels that seemed unimaginable even last year. And since bonds are a leading indicator, this also tells us a lot about what's likely coming.

Plunging interest rates are defla-

CHART 7



tionary. What's happening now is almost exactly like what happened in 2008, prior to the big drops in most of the markets, and the recession (see **Chart 8**).

In this case too, the market has spoken and we'd be foolish not to listen…

POINTING WAY DOWN

Despite rebounds along the way, interest rates are pointing the way down. We don't know exactly why but they're telling us that something big is likely coming.

Plus, as you can see on **Chart 9**, rates have plenty of room to fall further. That being the case, we'll stay with our large bond position. They're safe and it's a good place to be.

Currently, we can look at what's happening and make some assumptions, which aren't necessarily pleasant…

SLOWING ECONOMY

We know that Europe is in deep trouble, barely trying to stay afloat. Aside from Greece, there are growing concerns about the banks in Spain. And since Spain is Europe's fifth biggest economy, it may be too big for Europe to handle.

Many thought Europe wouldn't affect the rest of the world, but obviously it has in one way or another. Europe, for instance, is China's biggest importer. And its recession is affecting China too, which has been the locomotive for the world economy.

As we pointed out many months ago, what happens in Greece will affect us, and now we're starting to see some of the effects.

Like the rest of the world, the U.S. economy is slowing down. It's following the others. The U.S. stock and bond markets reflect this as well.

DEBT & STIMULUS

Will the Fed be able to save the day like they have so many times over the past few years?

They might, but they're a little late to the party. With interest rates hitting over 200 year lows, we have to assume that this time it's more serious than in 2008, the 1970s, or the Great Depression.

But the Fed has pulled miracles out of its hat since 2008. It has turned the world around by its QE efforts, bond buying and many other programs.

It's currently buying more than 60% of the bonds the U.S. produces, which essentially means the majority of the nation's debt.

How long can this continue? That's the big question.

The U.S. has more debt than any other country and it continues to grow. At some point, the world will say no more.

But for the time being, Bernanke has a high global approval rating and the Fed may be able to save the day once again, especially considering that this is an election year.

If not, and if unemployment remains a problem, then Obama's days are probably numbered. The recovery has to look at least half way decent in the Fall or he'll be voted out, joining other leaders that've already been voted out, like in Greece and France.

We'll soon see what happens. But for now, the markets are primarily focused on Europe. And as long as that's the case the U.S. is the safe haven.

CHART 8

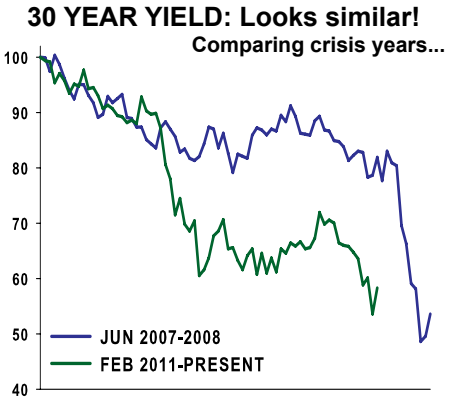


CHART 9

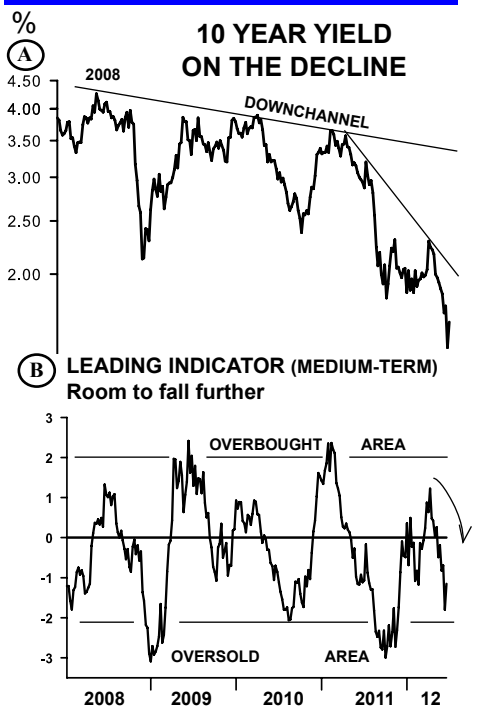
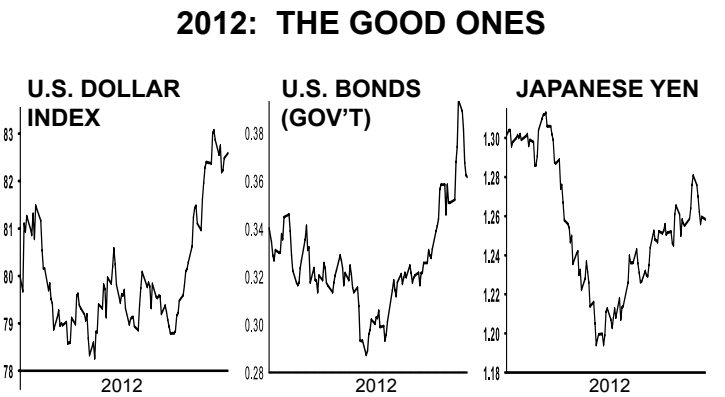


CHART 10



THE THREE HAVENS

That's also why U.S. government bonds, the U.S. dollar and, strangely, the Japanese yen continue to be safe havens (see **Chart 10**).

There's really nowhere else to go, except Germany, which is where many of the Europeans are going (see **Chart 11**).

They see Germany as a safe haven and as they pull their euros out of their home countries, that's where they're headed. This in turn is driving German interest rates down sharply too.

SPAIN: Hot seat

In Spain's case, it's a totally different story. You'll note that it's the only country where interest rates are rising.

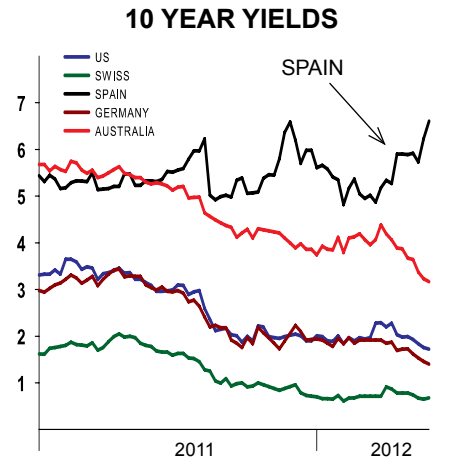
That's because the financial system is growing more fragile by the day.

Basically, investors are demanding higher rates to buy Spanish bonds. And the recent upsurge in bank withdrawls and new loans hasn't helped at all.

Currently, the world is uncertain and it's all about safety. That's keeping bonds bullish and it's why interest rates are likely going to fall even further.

So even though rates have been low for years, with the exception of near-term rebounds, be prepared for even lower rates in the months ahead.

CHART 11



CURRENCIES

U.S. dollar: Almost 2 year high

The U.S. dollar is soaring. It too is a top safe haven, which makes sense.

DOLLAR & BONDS: Rising together

As long as global investors want to buy U.S. bonds, they have to buy U.S. dollars in order to purchase the bonds. That's why both of these markets are surging together.

World uncertainty blossomed this month as the crisis in the Eurozone spread. Signs that the U.S. and Chinese economies were slowing only added fuel to the fire, affecting all of the markets, especially the currencies.

The euro simply plunged as investors began digesting the likelihood of the Eurozone breaking up, with Greece leading the way. Investors wanted nothing to do with risk and the first casualty to be thrown overboard was the euro.

GREECE: What next?

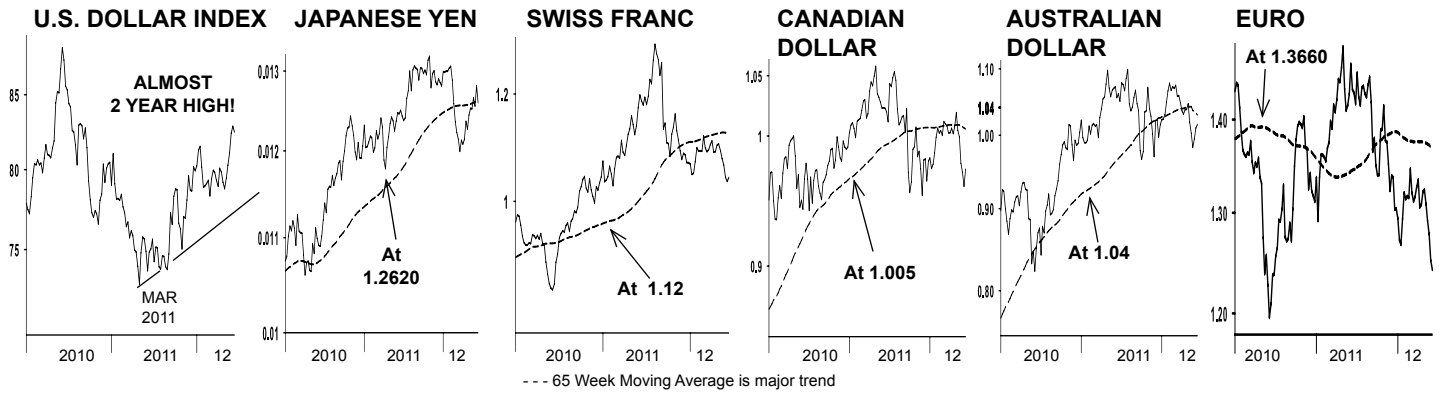
In Greece it was very different… Unable to form a new government because of a split between those who want to continue austerity measures and those who don't, it raised the possibility of a Eurozone funding cut and uncertainty ran rampant.

With unemployment at 50% and the country in a deep recession, it's no wonder the Greeks recently started a run on the banks.

They see what's happening and if Greece is going to leave the Eurozone, those who have money in the banks want to get their euros out while they can, before they're stuck with a devalued drachma instead.

So far, the banks have been able to handle it, but rumor has it that at some point they may not and

CHART 12



they'd have to halt euro withdrawals, perhaps even closing the borders.

This in turn is putting a lot of tension on banks in Spain, Portugal and Italy. Already, funds are being pulled out of Spain's banks at a record rate and contagion is in the air. Despite the new loans, the banks are essentially unprepared for this and they'll probably need additional help from the E.U.

IT'S ALL ABOUT RISK

That's one very important reason why the euro has been plunging and the U.S. dollar is rising (see **Chart 12**). As you can see, the euro's weakness continues affecting other currencies that have nothing to do with the euro, like the Canadian and Australian dollars.

But no matter… it's all about risk. And as long as risk remains high, all of the currencies will feel the pinch, except the U.S. dollar and Japanese yen.

As we've often noted, it's strange that the yen is considered a safe haven and we don't trust it. So we would continue to avoid it.

JAPAN & DEFLATION

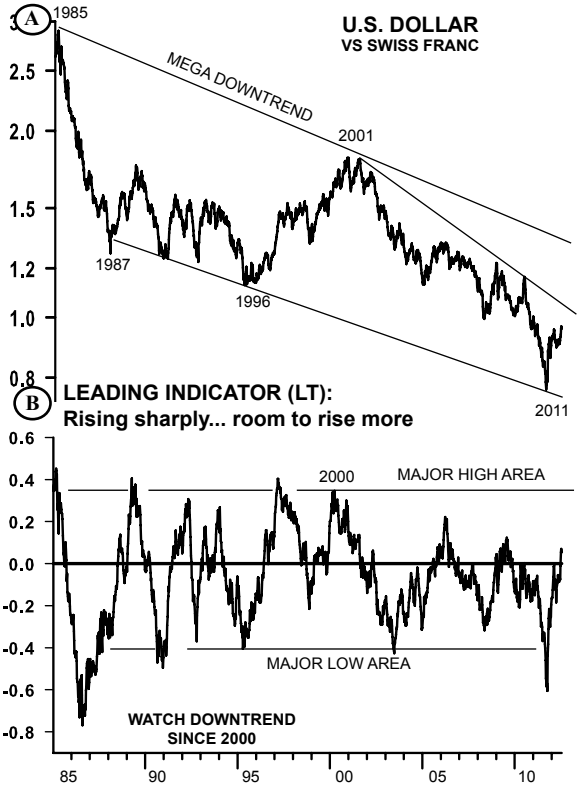
Japan has the highest debt to GDP ratio in the world. It's been in a deflation for decades but it's viewed as an attractive alternative for those who prefer the yen over the U.S. dollar.

Actually, we don't trust the U.S. dollar either. It too is up to its neck in debt and financially, the U.S. is struggling. **But at times like this, you don't argue… you go with the trend. And the biggest trend is for U.S. dollars.**

This means that U.S. investors are fine as they are, keeping cash in a money market or savings account. For international investors, you may want to seriously consider switching some of your home currency into U.S. dollars for the time being. The idea being that you will profit on this currency trade as the U.S. dollar rises further, until the time comes to move out of U.S. dollars and back into the currencies in general.

CHART 13

U.S. DOLLAR: LONG ROAD DOWN

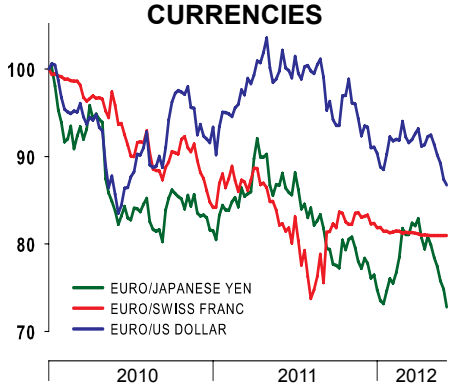


It's one way to benefit during these uncertain times. At some point, however, the U.S. dollar will head lower again. But in the meantime, take advantage of its strength.

For most international investors, we're pretty sure you can do this at your local bank. If not, you can always open an account at Everbank and buy currencies there, the U.S. dollar included.

CHART 14

EURO FALLING VS MOST CURRENCIES



U.S. DOLLAR: Big pic

How can we be so sure the U.S. dollar is going to rise further?

Looking at **Chart 13**, you can see that the U.S. dollar is rising briskly. Plus, its leading indicator is on the rise and it has plenty of room to rise further before it reaches the major high area.

This means, despite short-term ups and downs, the dollar will probably continue up to its 2001 downtrend at 1.04, which is the next resistance. If that level is broken, then it could move up to its 2008-09 high near 1.20.

Even though the dollar's been falling for 40 years, there are times when it takes a breather and rises, and this is one of those times. The same thing happened in the late1990s.

But that doesn't mean the dollar is going to stay strong for the long haul. This is basically a pause within its long-term 40 year decline. But again, it's worth taking advantage of, especially since there are few opportunities out there.

EURO: Weakest

Going back to the euro, for instance, it's weak against all of the currencies. But it's especially weak versus the U.S. dollar, Japanese yen and Swiss franc (see **Chart 14**).

In other words, avoid the euro and most other currencies at this time. Stick to U.S. dollars and U.S. bonds for the time being and you'll be fine.

DOLLAR: Mega trend is down

But don't expect this to last forever. It won't. The U.S. dollar will eventually head down again and that's nearly certain.

The dollar's fundamentals are terrible and this will become more obvious in time. The Chinese know this.

They simply have too many dollars and they are still diversifying by making trade deals in their own currency with dozens of countries, avoiding the dollar. The latest to join in were Japan and Australia.

As the Chinese President noted last year, the dollar's day has passed. And they're acting accordingly. At some point, the rest of the world will also take action, but that's not the case now.

METALS, NATURAL RESOURCES & ENERGY

Summer lows at hand?

The deflationary wave took over the commodities this month, and gold got swept into the wash. Oil fell sharply, which led the way down for the energy and resource sectors in the hard hit month of May.

Gold and silver fell to test their December lows.

But they held and the weak jobs report in the U.S. was the straw that broke the camel's back. In a key turnaround, gold bounced up from the December lows on fresh safe haven buying as QE3 possibilities came back to the table.

The psychological $1600 level was quickly surpassed. This is essentially the level that will determine if 2012 ends up being the 12th consecutive up year for gold.

For now, we are seeing some backing and filling, which isn't a bad thing... as long as the December lows hold. This is currently a very important juncture for gold, and for silver.

HELP ON THE WAY?

When the U.S. looks vulnerable, especially in the jobs area, it quickly fuels emotions and we all know how Bernanke feels about this... he will save the system at all costs. **In fact, all of the monetary policy makers worldwide are being pressured to help the ailing global economy.**

This is why the markets bounced up after their selloff. A liquidity infusion would be bullish. And gold is in there too. For now, it's looking for more liquidity to stay bullish.

BIG PICTURE IS BULLISH

The big picture continues to point the way up for gold. And the global debt crisis and record low interest rates are a bullish factor for gold.

Chart 15 shows this clearly. It shows the gold price above, with the "real" T-Bill interest rate below since 1967.

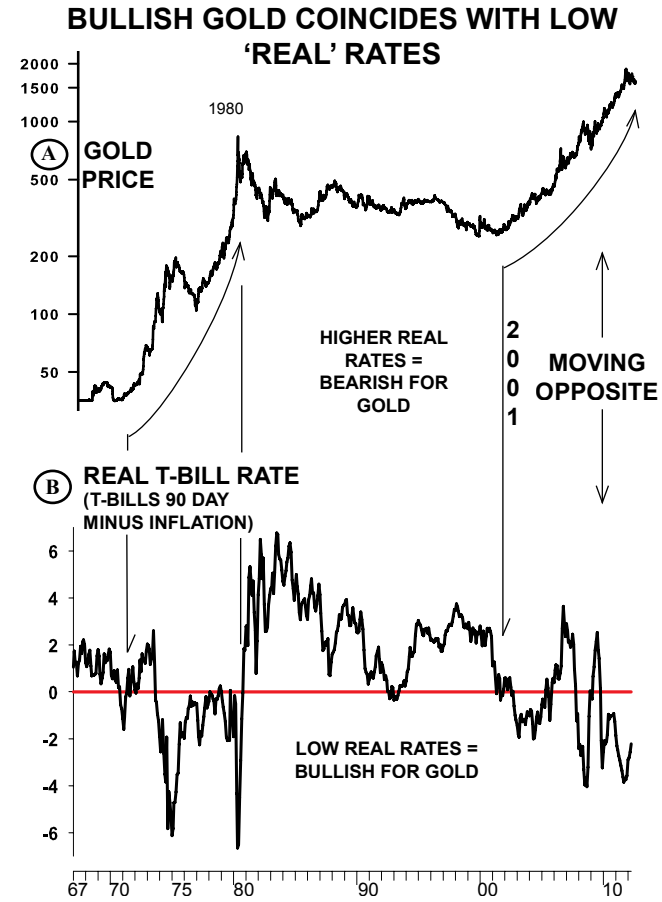
When the real T-Bill rate is negative (below zero on the chart) it means that rates are providing a negative return, adjusted for inflation.

This is bullish for gold because there's no competition. Normally, an investment that pays a higher interest has the advantage. But if interest rates aren't paying interest, and neither does gold, then there is no advantage between the two.

Note that the two major bull markets in gold happened while real interest rates were mostly negative.

Interestingly, during the 1970s rates were soaring and so was inflation. In the 2000s both rates and inflation were low. Opposite situations but the bottom line was similar... the T-Bill rate was negative because inflation was higher than interest rates.

CHART 15



- Low interest rates are bullish for gold, and gold has risen during these uncertain monetary times.

Even though gold peaked in September and it's been declining for nine months, you can see on **Chart 16** that the gold trend is still up, regardless of the currency it's traded in.

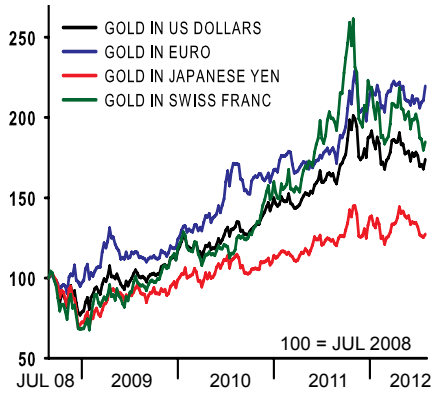
This chart starts during the financial crisis of 2008. And the gold rise since then is signaling that things just aren't right.

Plus, gold has been stronger than the other precious metals and gold shares, especially since last year when Europe started flaring up (see **Chart 17**).

- BUT most interesting is the strength in bonds. Gold gave way to bonds last year, as you can see on **Chart 18,**

CHART 16

GOLD AROUND THE WORLD



when the ratio declined.

In other words, bonds have been better than gold. That's been the case since last September when bonds rose strongly while gold declined.

Gold, however, has now reached an extreme low area versus bonds, the lowest since the bull market began. Also note that the ratio has declined to its mega trend, which is gold's major support uptrend.

This is saying that gold is poised to outperform bonds.

• Another good sign for gold has been its underlying strength as the U.S. dollar has moved higher. Gold held above its December low, for instance, when the dollar index soared to an almost two year high. This type of situation tends to lead a renewed rise in gold.

• **Demand also remains bullish.** Central banks continue to be active buyers.

They bought bullion at the fastest pace in five decades in 2011, and they'll likely purchase a similar amount this year, according to the World Gold Council. In fact, central banks continued buying during weakness this past month.

Plus, George Soros also added gold to his holdings.

GOLD TIMING: At key juncture

Gold's downward correction since September is now taking longer than it did in 2008.

The 2008 decline from March to November was steeper and gold lost almost 30%. The current decline has been mild in comparison, losing nearly 20%.

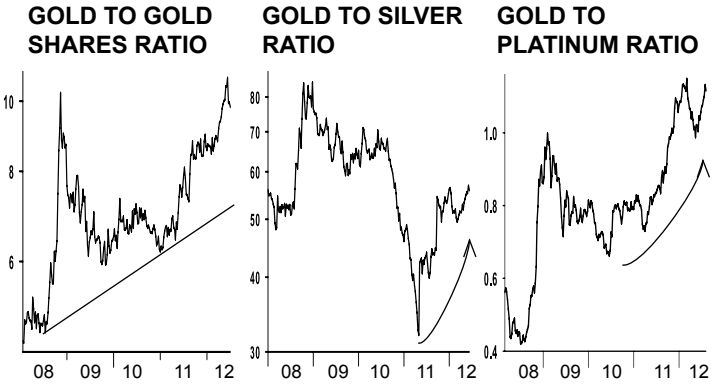
Chart 19 shows this comparison. Since the 2008 decline was the worst one in the 11 year old bull market, it again reinforces the importance of last December's low. This low is key. If it holds, all is well.

If it doesn't and gold breaks clearly below $1536 for a few days, we could see gold fall much further first, before a renewed rise again starts. A 30% decline, similar to 2008 for example, could take gold to the $1350 - $1400 level.

For now, so far so good. Plus, as you can see on **Chart 20B**, gold is near a D low area, indicating that a low is nearing.

CHART 17

GOLD: Best metal in uncertain times



But we must also be prepared for a possible final washout, in case it comes.

To refresh your memories, gold has moved in an impressive recurring pattern on an intermediate basis. In a bull market its best rise is what we call a 'C' rise when gold reaches new bull market highs.

The worst decline is called a 'D" decline, which is where gold is today... forming a double 'D' bottom. And it's why we're watching the December lows so closely.

Bear markets tend to start with D declines and if this low is clearly broken, it would be a bad sign.

Once the 'D' decline is over, however, the upcoming A & B moves tend to be a consolidation time, before another C rise takes off. So stay tuned.

20 YR BEAR MARKET REVIEW

During the mega bear market

CHART 18

GOLD AT EXTREME VS BONDS

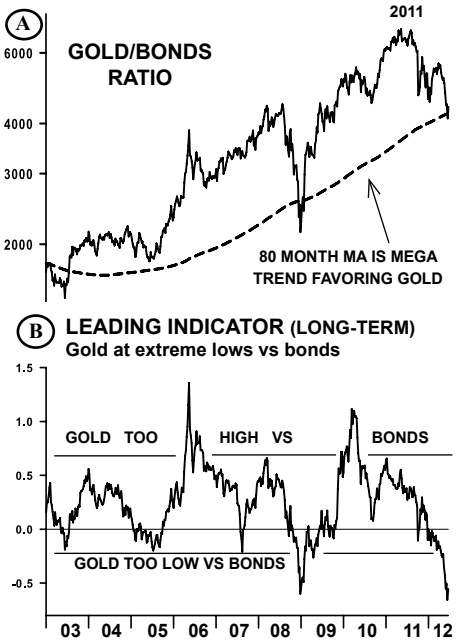


CHART 19

COMPARING CORRECTIONS

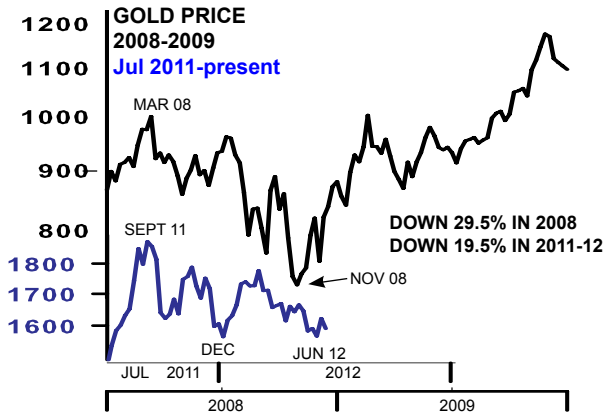
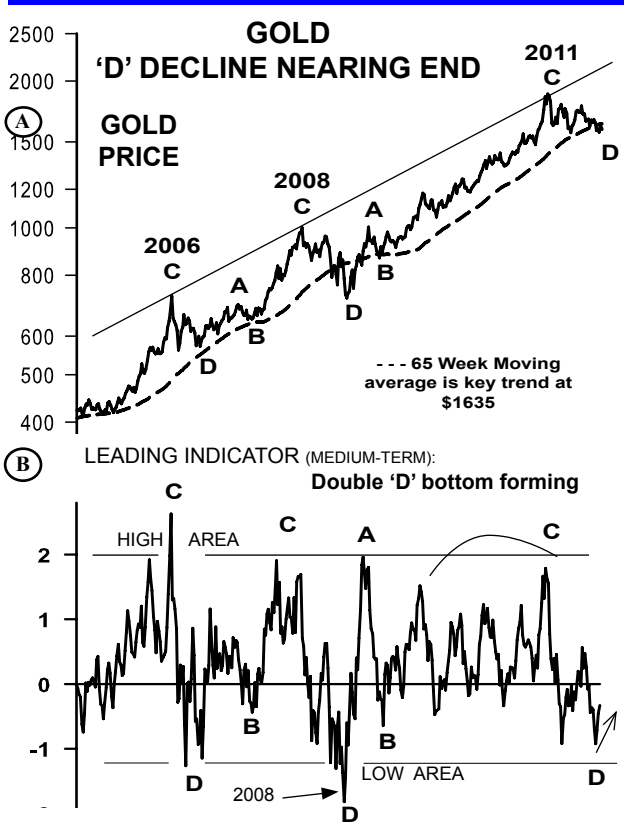


CHART 20



from 1980 to 2000, gold had three long falls. That 20 year bear market was grueling and it's still in the psyche of many investors, in spite of the bull market of the past 11 years.

But we can remember the opposite during the 1980s. The bullish psyche was instilled in the average investor even a decade after the bull market peaked in 1980.

The bottom line... it takes more than a decade to change the sentiment relating to major investing trends. This is also indirectly telling us that the next five to 10 years should be super bullish for the yellow metal!

ON THE UPSIDE: Keep an eye on...

First, of course, that gold stays above $1536, the December low.

Then once it rises and stays above its 65-week moving average at $1635, it will be in bullish territory. Gold could then rise to its next resistance at the $1700 level.

From there, the next hurdle will be the $1800 level. This will be a harder one to surpass because it's kept a lid on the weakness since November.

But once it does, gold could then jump up to its record high near $1900. And it'll be smooth sailing in another leg up in this amazing bull market when new record highs are reached.

The $2000 level is about the same emotionally as the $1000 milestone was in 2009, and the $500 level in 2005. Each one of these levels marked a stronger phase of the bull market at the time.

And when $2000 is eventually surpassed, it'll likely be THE level that causes an exploding bull market to take hold.

SILVER: Similar Situation

Silver has been weaker than gold in recent months but it's essentially in the same boat as gold. It has stayed below its 65-week moving average for most of this year, but it's also been holding above its December lows near $27.

Chart 21 shows that silver's leading indicator is on the decline, but it's also at the low area, while silver is near its key support.

If $27 holds, all is well. If not, in a worst case decline, we could see silver reach the $20-$24 level before weakness is over.

For now, silver would look better above $29 and especially above $31. A strong renewed rise would be underway above the last hurdle to overcome, which is the 65-week moving average at the $34.60 level.

GOLD SHARES: Bombed out & bouncing

Gold shares have been hit the worst. They've lost on average 30% since March. But the good news is that they are very bombed out versus everything.

They are at an extreme versus gold, the stock market, bonds and all currencies...

Gold stocks are on the bargain table and they are now bouncing up nicely, reaching an eight week high. Plus, they look poised to rise further.

Chart 22 shows that the HUI index fell to its major support, while its indicator (**B**) has dropped to a major oversold area that's coincided

CHART 21

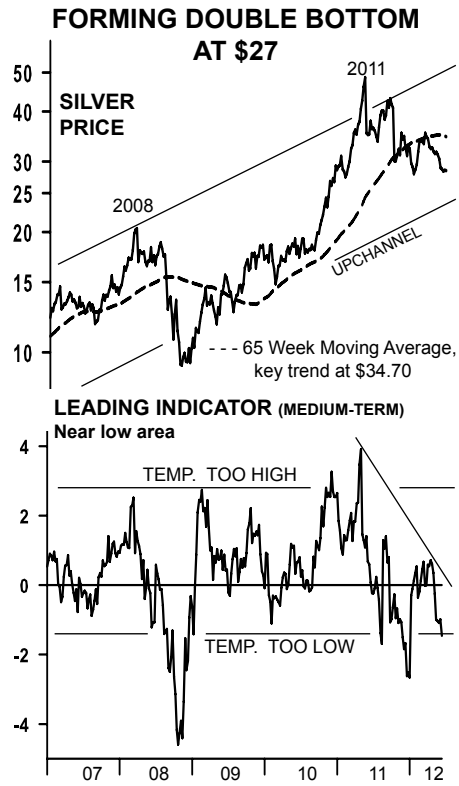
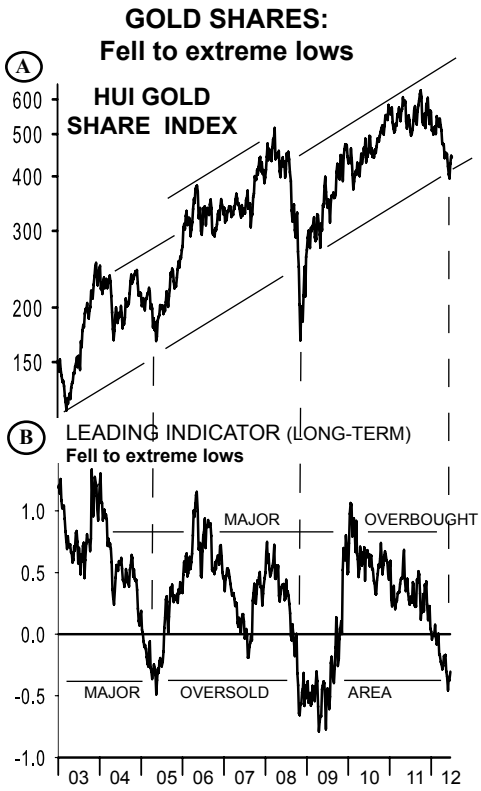


CHART 22



with important lows over the last eight years (see vertical lines). This is providing a good buying opportunity if you're not in this market.

Silver shares haven't yet bounced up as much as gold stocks have, but they're following. If you want to add to your positions, or are a new buyer, we recommend buying gold shares. RoyalGold has been our strongest, and we advise buying new positions. Silver Wheaton is also a good buy. (See our recommended box on page 12.)

RESOURCE & ENERGY

The slowing global economy, has been taking its toll on this sector.

A general bearish tone has taken over the financial world, but since this sector thrives during good economic times when consumption is high, it's been more affected.

Crude oil is the most obvious. It fell 21% in May alone and it's reaching an eight month low.

You can see this pressure on **Chart 23**. Most commodities are weakening and they're below their 65-week moving averages (MA). These metals and commodities will continue to give a bearish reading as long as they stay below their 65-week MAs.

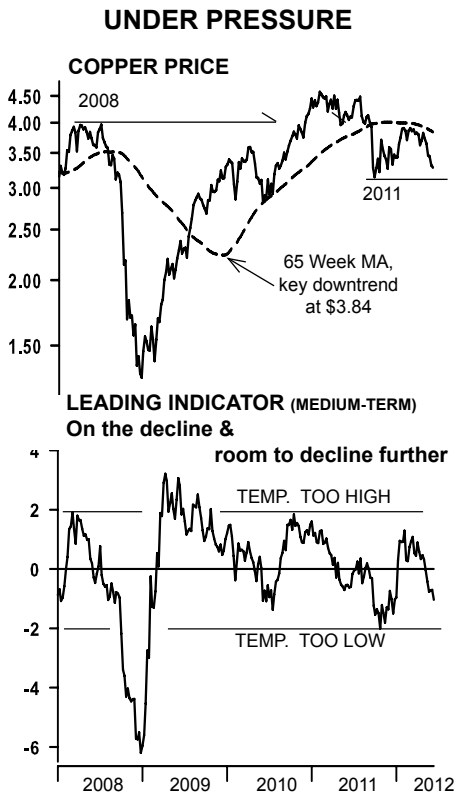
Our long-term subscribers know the importance of this MA. It identifies the major trends and since last year it's been saying that the slowdown is serious, for the first time since 2009. This weakness has also coincided with the strong bond market.

Copper is the barometer for global growth and it's also similar to the others. It's vulnerable below its moving average, but most important to watch now is the 2011 low (see **Chart 24**).

This low, like the December lows for gold and silver, is key right now.

If copper stays above this level at $3.00, the slowdown we're currently experiencing will not be all-out deflationary. But if the 2011 lows are

CHART 24



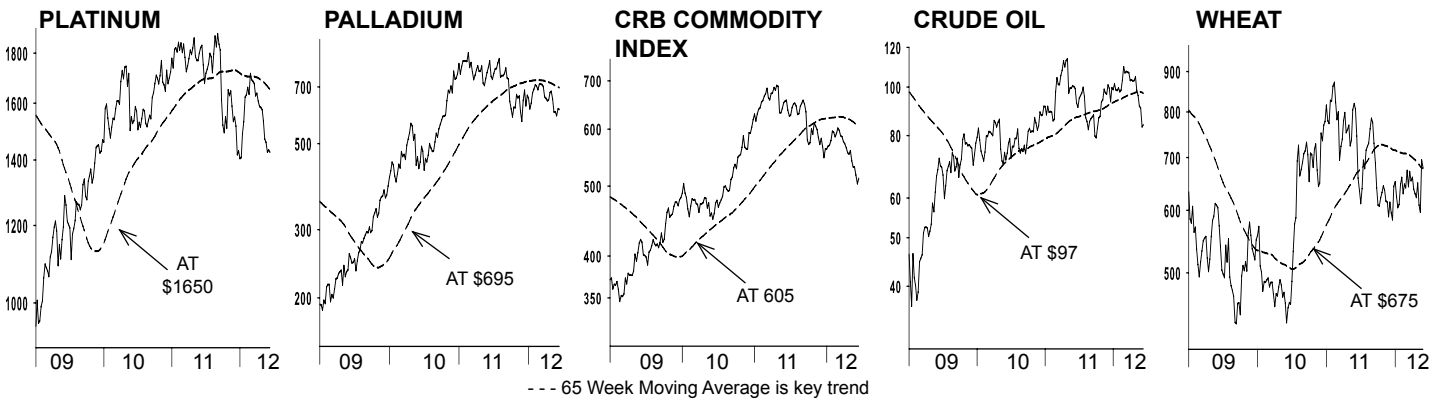
broken on these three key metals, then the bad times will get worse.

Engrave these numbers... $3 for copper, $27 for silver and $1536 for gold.

If more stimulus is not coming from the Fed or other central banks, then we could see these levels broken.

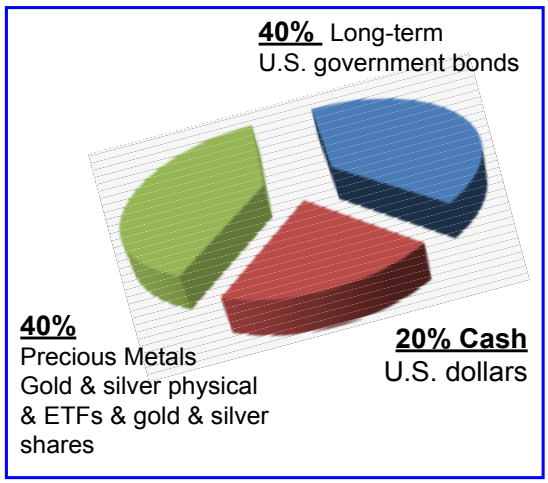
Something has to give. The world needs extra help, and considering it's an election year, it will probably get it.

CHART 23



OVERALL PORTFOLIO RECOMMENDATION

The markets have been wild. The rush to safety turned into a stampede as stocks, interest rates, commodities and currencies all plunged. The U.S. dollar, bonds and gold headed higher. The markets then reversed direction, and volatility and uncertainty rose to the surface. For now, anything is possible and you want to be on guard. The world is on thin ice and caution is warranted. Stay focused on the safe havens and beware of risk at this time.



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

Gold, silver and their shares finally found a bottom in mid-May, after declining for eleven weeks. They have since bounced up, especially gold shares, which were completely bombed out versus everything.

Gold and silver are holding above their December lows, which is a good sign, especially considering the strong dollar. We continue to recommend buying gold and silver below the $1600 and $30 levels, respectively. Gold shares are on the bargain table. Buy new positions in Royal Gold, Gold Fields and Silver Wheaton, but keep your total precious metals position to no more than 40% of your portfolio.

On the upside, gold and silver will begin to look better above $1635 and $31. The seasonally low months for gold are now here. While weakness could last longer, and lower prices are still a risk, the lows are getting closer.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The stock market has been volatile and it's vulnerable. In spite of its ups and downs, it's on the verge of turning bearish. As we recommended in our May 17 weekly update, we feel it's best to sell stocks for the time being and keep the proceeds in U.S. government bonds. Most of the world stock markets are technically bearish and the U.S. is joining this global trend. A Dow Theory bear market has been signaled and if the Dow Industrials and Transportations decline and/or stay below 12250 and 5050, it'll further reinforce that a clear bear market reversal is underway.

CURRENCIES RECOMMENDATION

The U.S. dollar is soaring. It too remains a top safe haven and we recommend keeping your cash in U.S. dollars for the time being. That goes for both U.S. and international investors. Despite near-term rebounds, tensions in the Eurozone are growing, which is keeping downward pressure on the euro and all of the international currencies. The Japanese yen is the only exception. For now, the U.S. dollar index is very strong above 80.60.

INTEREST RATE & BOND RECOMMENDATION

Bond prices surged this month as interest rates plunged to levels last seen in the 1700s. During these times of uncertainty, bonds have become the international #1 safe haven of choice. And despite recent volatility, bond prices remain very bullish and the major trend is clearly up. So continue to hold your over 10 year long-term U.S. government bonds. We bought and raised our bond position to 40% (up from 20%) when we sold stocks in our May 17 weekly update. If you bought RYGBX, TLT or TLO, you may want to sell them for the time being. In spite of short-term up and down reactions, the 30 year yield will be in a steep decline below 3%, which means bond prices will remain very bullish.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

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

* NEW POSITION

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

