THE
# ADEN FORECAST
MONEY • METALS • MARKETS

JUNE 2013 *our 32nd year*

# GO WITH THE FLOW IS BEST STRATEGY

The mail has been heavier than usual here at *The Aden Forecast*. Many of you are concerned about the future and this ranges from mildly concerned to greatly concerned.

## UNCERTAINTY IS THE ONLY CERTAINTY

Taking it all together, the bottom line is, there's confusion and feelings that things aren't right. There are also concerns about manipulation and fake market rises, along with worries the financial system could implode, taking down financial institutions and confiscating pension plans.

While some of these concerns may seem extreme, as we've mentioned before, we're in uncharted territory…

Now that doesn't mean everything is going to fall apart. But it does mean we have to be prepared for whatever comes and go with the flow based on what the markets are indicating.

That's been the case for quite a while now, and we've managed to get through it and profit. But there's no question that investing has become more difficult, the rules have temporary changed, and the markets are more volatile. Quick moving markets also mean you have to be flexible, open minded and ready to adapt to new circumstances.

## STAY DIVERSIFIED

So again we want to stress, the best way to do that is to keep a diversified investment portfolio, using the major trends as guidelines. That way you'll be well covered.

For now, we continue to recommend keeping a good portion of your portfolio in stocks because the major trend remains up, despite recent volatility. We're keeping cash in U.S. dollars while we wait for good opportunities.

We're also holding our metals, ideally gold and silver coins and bullion. And if you have real estate, that's fine too. As for bonds, we'd continue to avoid them, especially now with the decline picking up momentum. The same goes for the global currencies.

We feel this is a good mix under the current circumstances…

## DEFLATION PULLING MORE THAN INFLATION

As we've often mentioned, deflation and inflation pressures are both pulling at the markets, which explains some of the volatility we're seeing. **So far, deflation has the upper hand.**

That's why the world's biggest central banks have been stimulating their economies, buying bonds and keeping interest rates near zero. This is all a huge attempt to spur economic growth and boost inflation in order to get things rolling again.

The big challenge, however, is that this has not been a normal recovery. It's been weak and lackluster, and totally dependent on the Fed and other central bank stimulus.

In other words, the rebound following the massive 2008 financial crisis has not been a healthy one. Here it is five years later and only about half of the losses incurred during that global recession have been recovered. That's why the stimulus programs have become a crutch the feeble world needs.

## IT'S ALL RELATIVE

Taking a quick look at what's happening around the globe, you can understand why…

Despite buying over $2 trillion in bonds, the U.S. economy is barely growing by 2%, yet it's one of the stronger developed nations. Nevertheless, deflationary pressures persist and banks still aren't lending like they should.

Europe is in recession and it has been for over a year. Unemployment is a stubborn factor and here too, deflationary signs are keeping a lid on a possible recovery.

That's essentially why Japan has embarked on the biggest stimulus plan ever. This comes after more than two decades of deflation, resulting in Abenomics. That is, the strongest most unprecedented efforts yet to boost economic growth, in large part because of a large aging population and not enough young

INSIDE

workers to support them.

Many are praising these measures, but others feel they're a disaster that'll eventually affect us all. And as you'll see in this month's Currencies section, it's already starting to happen.

Meanwhile, China's economy is slowing down and that spooks the rest of the world because China has been the global locomotive. There are also concerns the Chinese real estate bubble is about to burst.

But China's economic growth is still among the world's highest at 7.7%. Plus, stories of China's collapse have come and gone over the decades, but they haven't panned out. On the contrary, China has been consolidating its power.

## VIP ATTENTION

From our small vantage point, we sometimes get a firsthand bird's eye example of what's happening around the world, and it's interesting to see it.

Just this past month, for instance, both Obama and China's new president Xi Jinping came to visit Costa Rica.

Obama was very popular, and on the international stage he represents the U.S. in an intelligent, open and friendly way. The people loved him and even the Secret Service couldn't stop the crowds from waving U.S. flags as he drove by.

A couple of weeks later Xi Jinping arrived. He was humble and gracious, and also very popular. The big difference between the two was the Chinese president gave the country loans and goodies, to be used for better highways, medical equipment, a new oil refinery, a police academy and so on… The good will was flowing.

As we've discussed in the past, this is what China's been doing in countries all over the world. In their patient way, they're winning friends, boosting economies and gaining power.

## THE POWER OF CHINA

Many African nations, for example, have been experiencing robust economic growth. Africa's top trading partner is China. It's a big buyer of its raw materials and it's been instrumental in helping to fuel growth.

China has also been active in rebuilding Iraq's oil business, and so it goes… No matter where in the world they can do business, they'll do it and it's all helped make China a powerhouse and the world's second largest economy.

China is also the richest nation in the world with nearly $3½ trillion in their reserves. In addition, the new president is embarking on free market changes, including a plan for yuan convertibility. This would make the yuan more acceptable and it would allow more flexibility for investors dealing with China.

That's one reason why the recent meeting between the U.S. and China was the most important in years. The informal California setting established a new model for relations between the two global giants, allowing more time to discuss issues that'll affect us all, in one way or another.

## WATCHING & WAITING

So the world watches, essentially on standby, waiting to see if the global economy can pull it off or not. And that's where the markets will help provide direction…

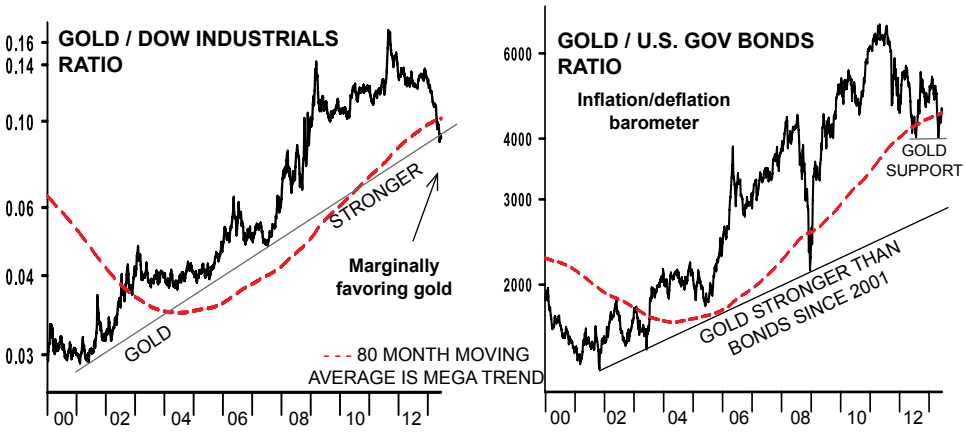
As you can see looking at the ratios on **Chart 1**, gold has been much stronger than stocks since 2001.

During that surge it gained more than 600% while stocks only gained 6%. But the mega trend may now be starting to turn down. That is, gold has been weaker than stocks over the past year, and if it stays that way, you'll clearly want to keep a larger portion of your portfolio in stocks rather than gold.

Meanwhile, the inflation-deflation barometer (gold compared to bonds) is basically neutral. But we're watching this closely and whichever way it breaks will give us a strong indication as to how the tug of war ends up, and where the markets are likely headed. So stay tuned.

**CHART 1**

**IS GOLD BOTTOMING VS STOCKS AND BONDS?**

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# U.S. & WORLD STOCK MARKETS

## Record highs in May

The stock market remains very strong and bullish. This month it again hit new record highs before volatility and some downward pressure set in.

### FAST PACE DUE FOR BREATHER

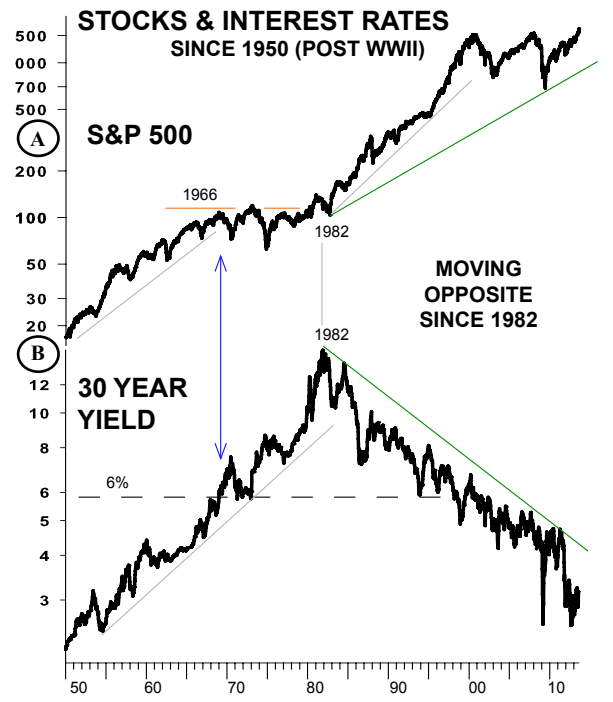
We've been recommending stocks since last August and the market has only had one downward correction since then, in November.

The stock market then surged over 20%. And following a strong upmove like the one we've seen over the past seven months, it would be normal for the market to continue pulling back some (see **Chart 2**).

As you can see, the stock indices are generally overstretched and they've risen far above their moving averages. In other words, they've gone too far, too fast and they're due for a breather.

The Dow Utility Average is already correcting downward and it often leads the others. For now, if they follow and also head lower during these slower Summer months, we'd view that as a good opportunity to buy new stock positions if you want to increase your stock allocation.

CHART 3




Even though the market has been volatile this month, most important is that the major trends remain up. By staying above the moving averages during any weakness, stocks are going to rise further.

That is, the Dow Industrials, Nasdaq and the Transportations will stay bullish above 13550, 3090 and 5480, respectively.

### ROCKY ECONOMIC GROWTH

One reason why stocks have been volatile and choppy is because of the economic news. One day the news is good and stocks move higher, then there are signs of a slowdown or economic sluggishness, and stocks decline.

The same is true when news comes out about the Fed. Since the stock market loves the Fed's QE program and low interest rates, it thrives on signs the economic stimulus is going to continue.

On the other hand, when there's talk the Fed may taper back on its stimulus, stocks decline.

The main reason why is because **the stock market has become hooked on the Fed's easy money policies**.

In fact, it's such a driving factor that no one is really sure how the economy would do on its own. But they do know the economy will likely keep plugging along with the Fed's help.

For now, since the economy remains sluggish, it essentially

CHART 2

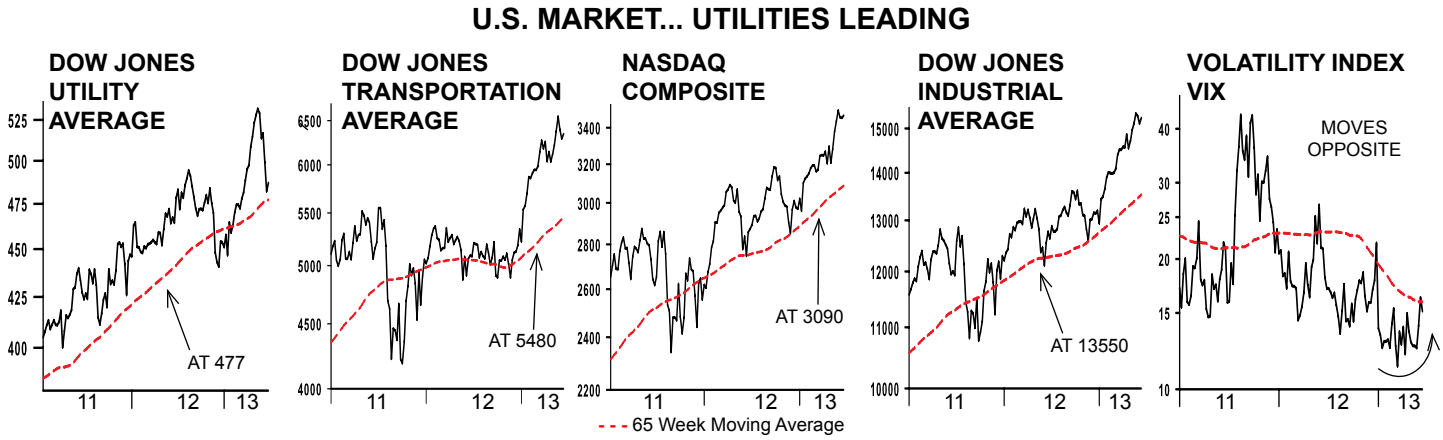
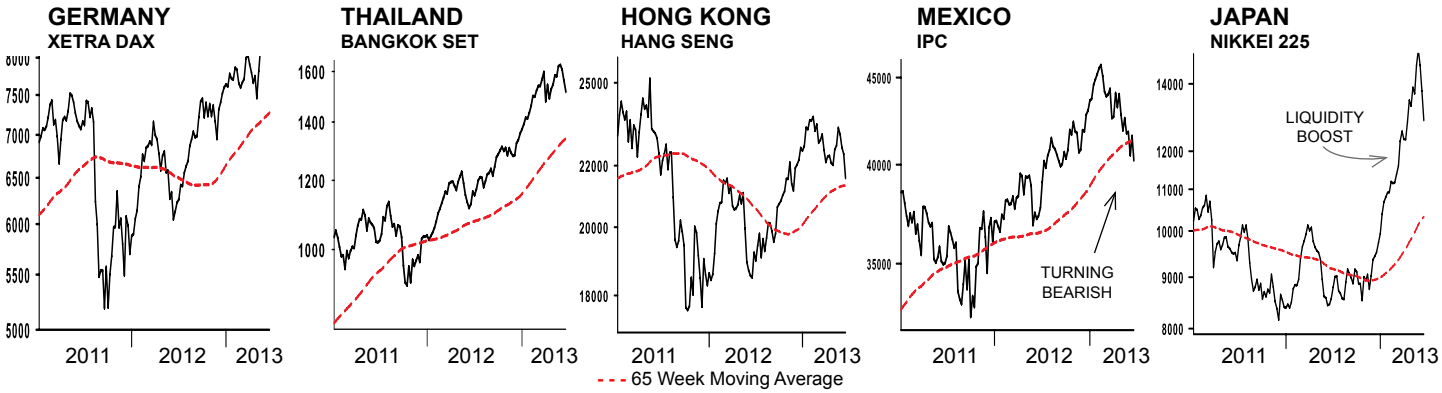


CHART 5

## FOREIGN MARKETS... VARIED STRENGTH




guarantees the Fed will keep its stimulus on track. It can't afford to cut back or stop now because it would simply be too risky for the economy, the real estate sector and the stock market.

### INTEREST RATES & STOCKS

As you know, low interest rates are super bullish for stocks and they always have been (see **Chart 3**). So as long as the Fed keeps rates low, it'll be a good sign of higher stocks ahead.

Going back to the 1950s and 60s, you'll see that stocks and interest rates rose together. But it wasn't until the 30 year yield surpassed the 6% level that it put a break on the stock market's rise.

The market then went sideways from 1966 to 1982, experiencing two big bear market declines while interest rates stayed at high levels.

But once interest rates started heading down in the early 1980s, stocks embarked on a major rise that's still in place.

Currently, interest rates are starting to rise but they're still at such low levels, they could move up to relatively higher levels before it would adversely affect stocks. We can't be sure at what point that'll happen, but we'd guess the market will stay strong even if the 30 year yield rises to 4%.

So with stocks bullish and interest rates low, we continue to advise keeping the stocks you have and plan to hold them for as long as the stock market stays bullish. Based on what the Fed has often said, that could be for another year or two.

### TECHNICALLY BULLISH

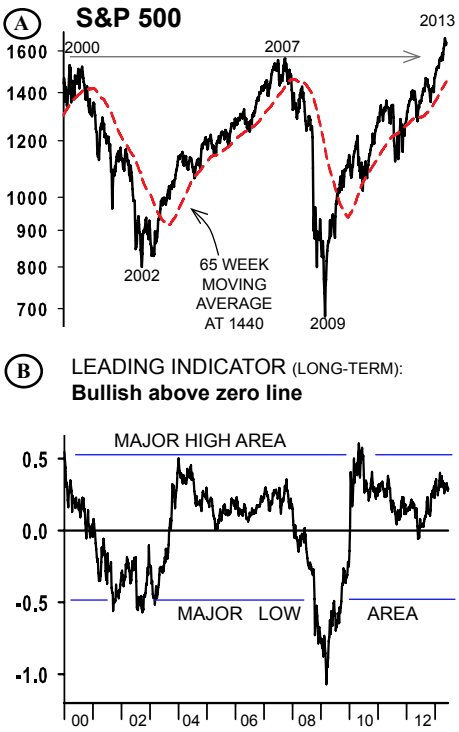
The technicals reinforce this (see **Chart 4**). Not only has the S&P500 broken out into new record high territory, but the leading indicator has yet to reach a major high area. This tells us stocks could indeed rise further.

For new buyers, we'd buy the following stocks or ETFs, ideally on weakness. These are MSFT, IYG, DIA, QQQ and XLY.

As we've mentioned before, we're keeping our stock recommendations diversified between several sectors and globally as well. Since stocks have been taking turns being the strongest, we feel this provides a good balance.

CHART 4

## RECORD HIGHS: NEEDING A REST




### MIXED MARKETS, GLOBALLY

Currently, many of the emerging markets have been struggling and they're generally lagging behind the U.S. (see Mexico, for example, on **Chart 5**). As you can see, it's turning bearish and we advised selling the Mexico ETF in our weekly update.

Other global markets, however, have been very strong and, overall, these markets are currently cheap and a good value. So we may be buying more global markets once this period of weakness is over.

Japan has been the big exception. It soared due to super easy money in Japan, but it was quick to drop on signs of a Chinese economic slowdown. Other markets did too. But Japan is in the midst of an economic experiment, so volatility and wild swings will probably be the norm and we'd stay on the sidelines in this case.

### PROTECT PROFITS

For now, keep in mind that the 10 year Treasury yield is the same as the dividend yield on the S&P500. This alone warrants some caution and it's telling us to be sure to have stop losses on our stock positions. Since the major trend is up we'd keep the stop loss about 10% below the current price. That way you'll be protected should the market head South in a big way.

# U.S. INTEREST RATES AND BONDS

## Yields at 14 month high!... bond bubble bursting?

Interest rates surged this month.

In May alone the 10 year yield jumped up in its biggest monthly rise in four years. As it did, bond prices fell sharply and it looks like bonds are going to fall further.

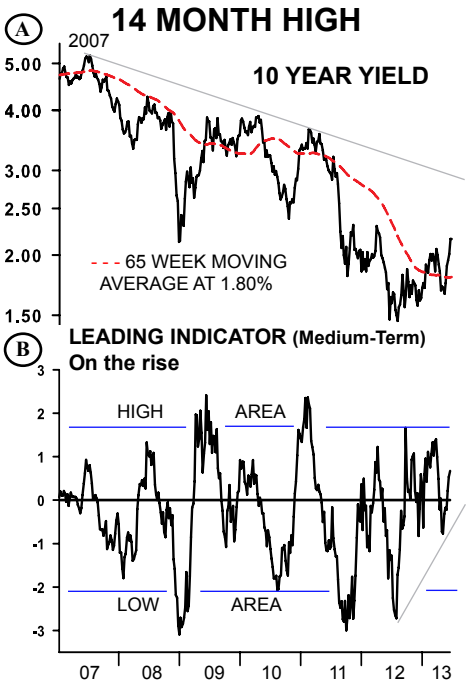
### WHY ARE RATES RISING?

Several factors drove rates higher… Most important were the ongoing hints that the Fed may soon cut back on its QE bond buying binge, which has been in force since last September.

This in turn would suggest the economy is stronger and able to stand on its own, thereby signaling better times ahead. But in fact, many weak economic signs this month contradicted the "better economy" scenario, only adding to the confusion.

Regardless of the cause, the market action was very significant, and that's what counts. The bottom line is, many experts believe the big bond bubble is finally bursting and this could be the case.

CHART 6




### EXTREMES

As we mentioned last month, interest rates have been dropping for the past 32 years, reaching near the lowest levels in over 200 years. That alone was insane, indicating rates were stretched too far on the downside.

Nevertheless, **the Fed has been determined to keep interest rates low** and T-Bills have stayed below 1% over the past four years. This has coincided with the aftermath of the worst financial crisis since the Great Depression and it's not a coincidence.

As you'll recall, that crisis pushed the world financial system to the brink of collapse. It was scary, dangerous and sad because it was triggered by extremely reckless lending policies that didn't have to happen.

But they did. So the Fed and other world central bankers have been treading on thin ice ever since. And super low interest rates have been an important component in their efforts to get their economies back on track and growing.

### FED CONTROLS S-T RATES

As you know, however, the Fed can control short-term interest rates, but not long-term interest rates. And even though the Fed has been a key influence in keeping downward pressure on long rates, this market is essentially a free market, or at least semi-free.

Bond investors are known as vigilantes and if they collectively feel rates need to go higher for whatever reason, long rates will rise. And that's what happened this month (see **Chart 6A**).

As you can see, the 10 year yield hit a 14 month high and it's clearly above its moving average. The leading indicator is also moving up and it has room to rise further before it reaches the high area, which also coincides with highs in the 10 year yield.

So based on these technicals and the market action, interest rates are likely headed higher. In fact, long-term interest rates appear to be bottoming in most of the developed countries (see **Chart 7**).

And since bond prices move in the opposite direction of interest rates, then bond prices are going to fall further. Here too, the technicals are reinforcing this.

### BONDS: FORMING TOP

The bond price has been forming a huge head and shoulders top (H&S: see LS, H, RS on **Chart 8**). This month the formation confirmed the top when the price dropped below the NL support, which is a big deal.

The rule of thumb is that once an H&S top is broken, the price tends to fall about the same distance as the top formation itself. That is, the bond price could drop to its mega 80 month MA, or near the 2008 and 2011 lows.

This means the 30 year yield could rise to about the 4% - 4½% level in the months ahead.

For now, the leading indicator is also turning down and that too is providing validity to this downside scenario for bond prices.

CHART 7

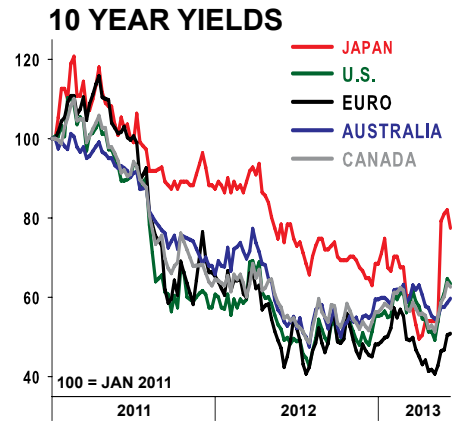
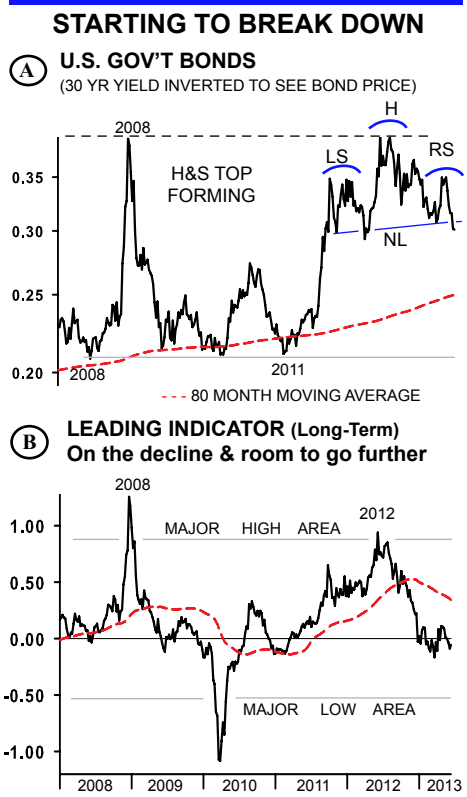


CHART 8




**So does that mean the bond bubble is bursting?**

Time will soon tell, but we wouldn't be surprised if it is. The true test will be if the bond price declines and stays below its 80-month moving average because this average has been very reliable in identifying the mega bond trends.

In other words, the average is currently at 4%. And if the 30 year yield clearly surpasses that level it would mark a very important milestone. It would confirm the bond bubble has indeed burst and bond prices are going sharply lower in the years ahead. That is, interest rates would then be headed much higher.

If the current rise stays at or below 4%, the mega trend will remain down.

### GO WITH THE FLOW

If the mega trend changes, it would be an inflationary sign. But since Japan is exporting its deflation, it's a toss-up as to how this will all unfold.

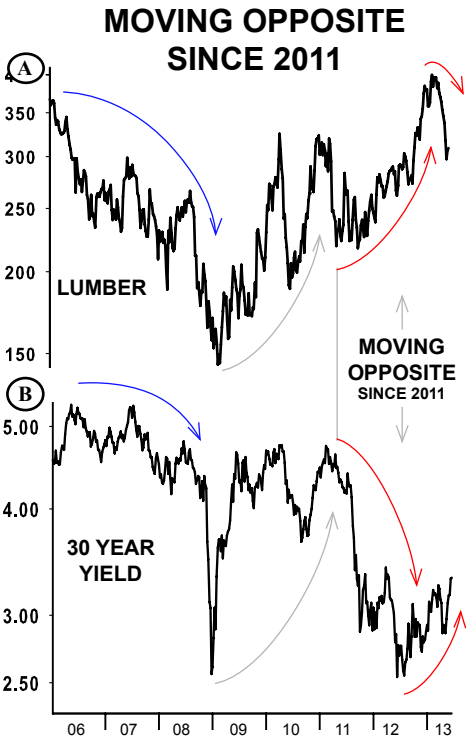
**Chart 9** provides an example of what we mean. Here you can see the price of lumber dropping, which is a bad sign for housing and the overall economy. That was certainly the case in 2007-08 as the financial crisis worsened. Lumber and the 30 year yield both fell sharply at that time.

But for now, lumber is falling and interest rates are rising. And if it stays that way, it'll be two strikes against both housing and the economy. So it really is a puzzle with many crosscurrents currently in force.

In the meantime, we haven't been recommending bonds this year. If you have bonds, however, it's still okay to keep them. But if the 30 year yield rises and stays clearly above 4%, we'd advise all investors to get out and stay on the sidelines because bonds could then drop sharply and quickly.

Currently, interest rates will continue to move higher with the 10 and 30 year yields above 1.80% and 2.95%.

CHART 9




# CURRENCIES

## U.S. dollar: Down, but not out

The currency markets have been volatile lately. They've been skittish and can't seem to make up their minds which way they want to go.

Basically, they've been reacting to the news of the day. But for the most part, pressure is still on. In other words, despite its ups and downs, the U.S. dollar remains in an uptrend.

### DOLLAR: Still a safe haven

In a world that's become more uncertain, the U.S. dollar is still viewed as a safe haven. Even though the U.S. has its share of problems and challenges, they seem to be worse in other countries (the lesser evil theory).

As we previously mentioned, China has been slowing and while it's still strong, the IMF cut its growth outlook for the next year. The Eurozone has been in recession for the past six quarters and unemployment is off the charts. Japan is stuck in deflation and it's taking extreme measures to rectify this, but no one knows how it'll work out. Meanwhile, the emerging nations are generally struggling.

**That makes the U.S. the winner by default.** It's simply doing better and/or it's being viewed as more secure, especially compared to other regions around the globe. And this has been fueling bullish sentiment.

Aside from some stronger economic signs, like the best consumer sentiment in six years, speculation that the Fed may soon cut back on its bond buying really excited the bulls (see **Chart 10**).

## BIGGER PICTURE: Bullish

As you can see, the U.S. dollar index hit a three year high last month. It's been coming down since then but as long as it stays above 80, its mega moving average, its mega trend will remain up, signaling the dollar is headed higher.

The dollar's leading indicator is also bullish above the zero line, and it has room to rise further before it's overbought. This too tells us the dollar will likely rise further.

**For now**, the dollar index has resisted near 84 and it's been lackluster. This has coincided with some weak economic signs, like sluggish manufacturing and a rise in unemployment, which strongly suggests the Fed will not be quick to cut back on its QE stimulus bond buying program.

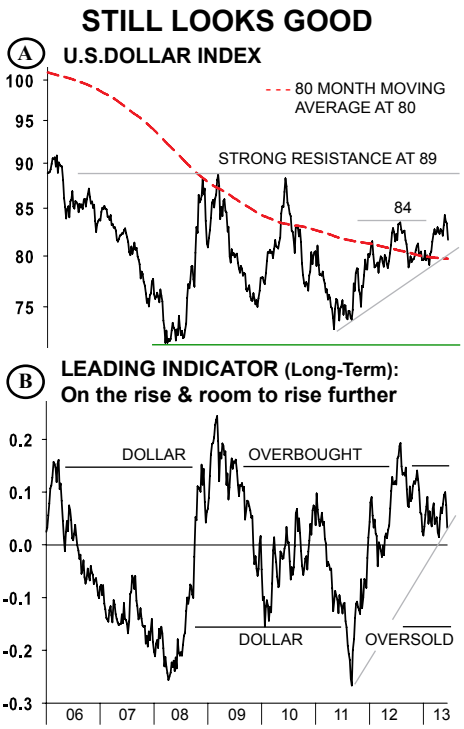
Bernanke has made it clear, several times, that he'll stay the course until the economy is on more solid ground. And since that isn't the case yet, it's unlikely he'll prematurely cut back on stimulating the economy.

It simply wouldn't make sense to run the risk of maybe pushing the economy into another recession, which could easily happen considering growth remains slow.

So despite the pressure from some of the regional Fed heads, our guess is that Bernanke will stick to his long held beliefs. That is, he'll continue to do all he can to boost the economy and keep it growing.

But regardless of what happens,

CHART 10




we'll stay with the U.S. dollar as long as it's bullish. And if the dollar index is able to rise and stay above 84, its upside target at the 89 level is likely. On the downside, the dollar index would turn bearish below 79-80, and if the indicator falls below zero, we could see a substantial fall in the dollar.

## CURRENCIES: Watch & wait to buy

Currently, we are not recommending any of the international currencies.

Looking at **Chart 11,** you'll note these major currencies are mostly bearish. The euro is currently holding up best as it tries to bottom and it may be the exception.

Many reasons are being given for these declines. The slowdown in China, for instance, has been an important factor affecting the Australian dollar because these two countries are big trading partners. This in turn has also put downward pressure on the New Zealand dollar.

Weaker commodity prices have also hurt many of the currencies.

In the euro's case, all has been relatively calm in the Eurozone. But we all know the area is still on thin ice and something could flare up again at any time.

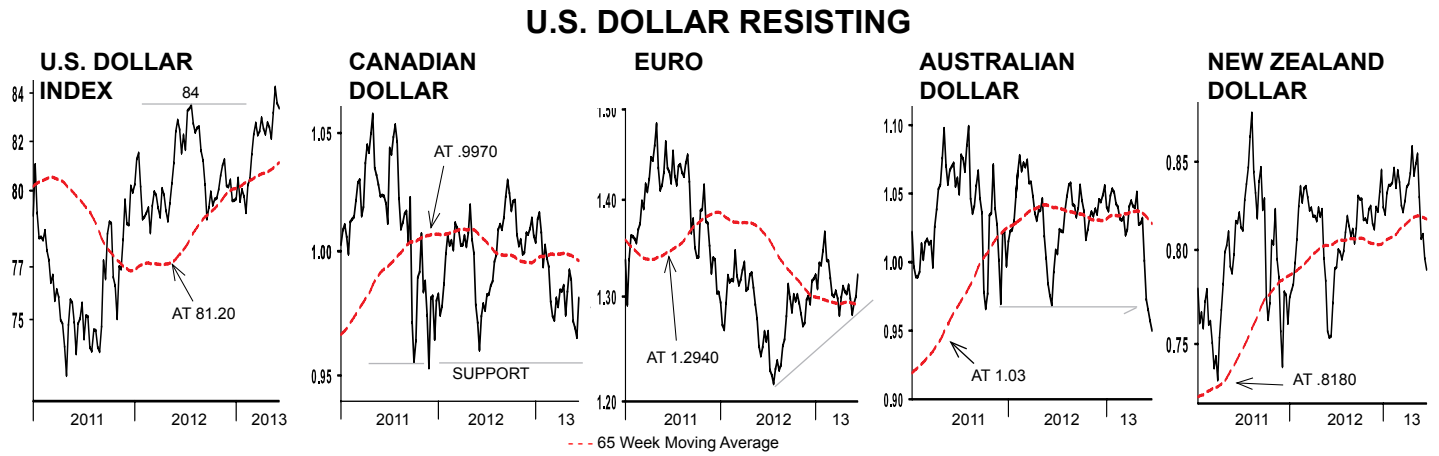
## YEN PLUNGE

Plus, it's important to keep in mind that the global currencies usually tend to move in the same general direction. Some will obviously fall more than others and some may hold out longer. But once the currencies clearly turn down, as we saw this month, the general trend will almost always take them all down, sooner or later.

In this case, the Japanese yen fell sharply earlier this year due to Abenomics and it appeared to be an isolated event. The decline snowballed, however, and now the other currencies are following.

In fact, the yen's plunge has been so dramatic, rumors are swirling that Japan has triggered a currency war for the first time in many decades, at least it looks like it could develop that way (see **Chart 12**).

CHART 11



Just in the past few months, for instance, the yen has dropped 30% against the U.S. dollar and the Chinese yuan, and it's down 37% versus the euro. This makes Japanese products a lot cheaper in the world markets, and goods from other countries have instantly become much more expensive in Japan.

In other words, this has given Japan a big trading edge. It's already boosting Japanese exports and its economy, which is picking up steam. But other countries can't be happy about this. So what are they going to do?

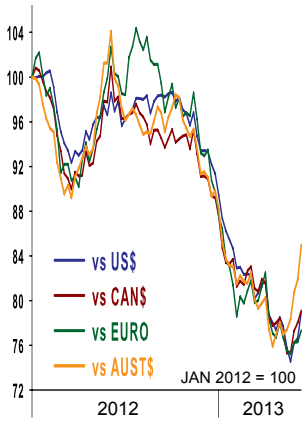
For now, the Group of Seven is publically tolerating the situation but they'll be forced to take action too. The yen's fall has been so extreme, other countries will also have to let their currencies decline in order to stay somewhat competitive. It's become like a race to the bottom as competitive devaluations evolve, and at this point anything is possible.

For now, the yen has fallen so far, so fast, a rebound rise is getting started which is normal. But we don't think it'll amount to much because Japan is determined to jump start its economy, currency war or not, and a weak yen is part of its strategy.

So again, keep your cash in U.S. dollars for the time being while we watch this drama unfold.

CHART 12

THE YEN FALL




# METALS, NATURAL RESOURCES & ENERGY

## The limbo rock... how low can gold go?

It's now been two months since gold fell almost $200 in two trading days. And while gold has essentially been base-building since then, it's held above the April lows. But the rippling comments about those April days continue to affect us.

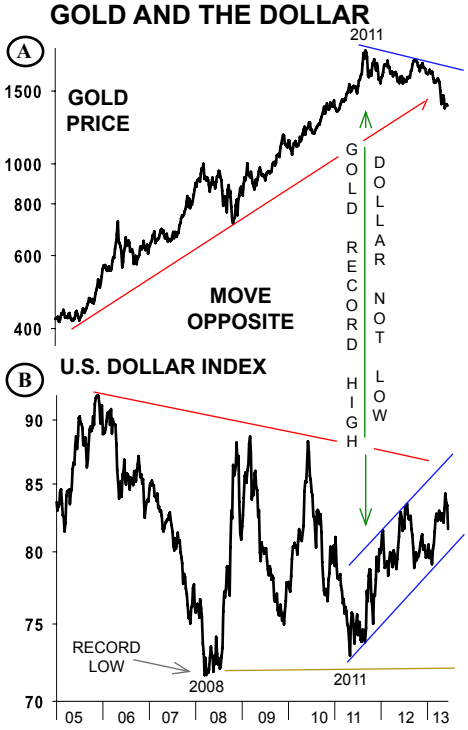
The bottom line is uncertainty. It continues to be the driving force because just about anything is possible. These uncertainties stem from unprecedented money policies that've been ongoing for several years.

**Nothing has really changed** since many threw in the towel on gold's 12 year old bull market in April. Do you really think the financial problems have gone away? Is the debt not a problem anymore, even though it continues to climb to considerable heights compared to GDP?

Do you really think the Fed will end its money creation smoothly?... Will Japan?... Will the ECB? These are the big unknowns and they're unlikely to end well.

CHART 13

GOLD AND THE DOLLAR




### SCRAMBLE TO BUY PHYSICAL

With this backdrop, it really shouldn't be a surprise to see how gold investors reacted when gold plunged in April. Some say gold was manipulated and almost assuredly violations occurred. We'll really never know for sure, but one thing is certain, the huge demand to buy gold during the drop was impressive and very telling for the future.

CHART 14

GOLD & STOCK MARKET: Meeting again


That is, what will happen to the paper gold market when gold becomes very hard to come by?

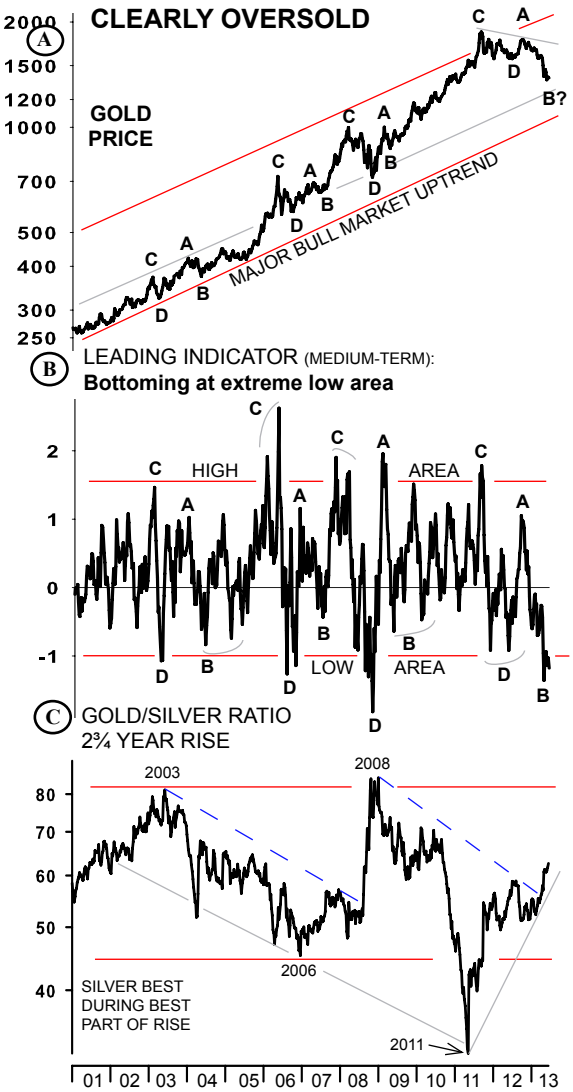
In the days following the April 12 and 15 gold plunge, for example, the Chinese Gold and Silver Exchange nearly ran out of bullion, the U.S. Mint ran out of small Eagle coins, and there was a substantial premium over the paper price for the physical gold that was available. In fact, it took the U.S. Mint one month to resume their coin sales.

**Large interests jumped in to buy gold at the cheaper price.** Demand soared in Russia and India, while Asian central banks' demand hit a record.

In India, gold purchases were so strong, the Finance Minister complained that India's hunger for gold was widening the trade deficit. Their purchases have outpaced the 2011 record levels, which prompted raising gold's import duties to combat this, but so far it's had little effect.

CHART 15




## PHYSICAL IS BEST

Call the plunge a manipulation or not, the lesson from this is that paper gold is not nearly as reliable as physical gold, when push comes to shove.

Eric Sprott of Sprott Asset Management, for instance, believes that when the "zero hour" arrives, a default on Comex or the London Bullion Market Association will come. He believes the odds of this happening are 100% when gold supply can no longer meet up with demand.

If you are simply told that you'll get dollars, but not the gold, from paper sales, it may be fine, but at that point you won't know what state the currency markets could be in.

In sum, he explains how the gold market hasn't changed its supply fundamentals in 12 years. But since 2000, we've had much more demand... This has come from central bankers becoming net buyers, to a fourfold growth in annual gold coin sales in the U.S. and Canada, to China's consumption quadrupling, while India's consumption has grown by 30%.

**The main point is, some caution is warranted regarding paper gold.**

ETFs are not even a decade old and they've become an issue. We want our subscribers to have more of their precious metals in the physical form... in bullion or coins and buy the best known ones. It's still okay to keep some paper gold, but recognize the risk you could be faced with.

There is a feeling of "closing the gold window" today. Safety has gone up a notch and the "test run" in April was a good lesson.

Meanwhile, we continue to recommend accumulating gold during weakness and now during the seasonally slow Summer months.

**There's just too much uncertainty in the world today to ignore gold.**

Gold is our insurance against financial bubbles and crashes. Many say the deflationary pressures that have taken hold are not a good environment for a rising gold price. This, in part, is true. Gold generally tends to rise during inflationary times.

But as you know, the U.S. and other major countries are doing all they can to avoid a deflationary spiral down. The unprecedented monetary programs set in place by the Fed, the European Central bank and the Bank of Japan are telling us they are all taking extreme measures to fuel inflation.

The markets have grown accustomed to this liquidity and it's been dictating the markets. The "will they continue, or won't they" concern has been moving the stock markets, the bond markets, the currency markets and the commodities markets.

CHART 16


They are not free markets moving on their own merits. They're basically addicted to stimulation and investing with the flow has never been so important. Go with the trends.

## THE DOWNSIDE LOOK

When gold broke below $1536 last April it quickly touched the $1321 level before closing at the $1361 low.

Now gold is having a hard time staying above the $1415 level, which is well below the $1536 base it had up until April. It takes some time to recuperate a fall like that, especially as we enter the Summer months.

Considering June tends to be the worst month for gold, when more gold bottoms have taken place, we could still possibly see the April lows violated.

On the downside, if $1320 is clearly broken, then the only rival to that decline would be the 1976 drop. The $1200 area would be the next stop and ultimately, the $1000 level in a worst case scenario.

CHART 17


Will this month be another one for the June books?

Interestingly, the gold decline from Sept 2011 to last April was just a few weeks shy of the same time frame it took for gold to fall from January 1975 to August 1976. The percent decline has been less this time around, but gold isn't out of the woods yet.

If gold breaks down another 10% or so from the April low, it would end up being similar to the fall in 1976. Otherwise, we only have the long bear markets to compare gold to in the 1980-2000 period.

**We're getting closer to the time of truth!**

Many are talking about what the likely price of gold may be at year end. We know gold has already declined almost 20% this year using the April lows. But if it rises in a traditionally good intermediate rise in the Fall and during the fourth quarter, we may just see gold end the year near break-even ... or even with a gain for 2013!

Now wouldn't that shock the gold haters to see gold end another year with a gain for the 13th time!

## GOLD & THE DOLLAR: Tend to move opposite

We know the U.S. dollar has a strong influence on the gold price (see **Chart 13**). And their relationship tells us a lot about the next direction for both.

For example, when gold reached its record high in Sept 2011, the dollar index did not fall to new lows. This indicated the dollar was bottoming and it was ready to rise. The dollar has indeed been on the rise since then while gold has been under pressure.

When gold fell in April to a 2+ year low, it wasn't until mid May that the dollar index rose to a 3 year high, while gold formed a double bottom.

This tells us gold is holding firm, in spite of the stronger dollar, which is a good sign for gold. The dollar is now coming down from that high, which is another positive for gold. The rebounding yen from bombed out levels has been a strong influence on the dollar's recent weakness.

## GOLD TIMING: Gold oversold

For now, we don't think a stronger gold price is too far away. Whether it's in June, July or August, we'll likely see an intermediate low in gold during these months. Gold is already clearly oversold, and any more weakness will take it back to the extremes.

CHART 19

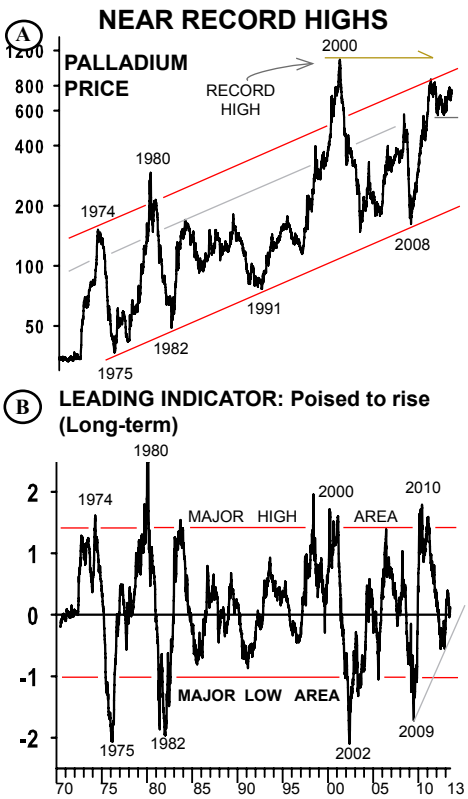



CHART 18


Gold's decline from last October to April was unusually weak. It broke down clearly against the stock market for the first time in several years (see **Chart 14**). This was an extremely weak gold decline we call B. It fell harder and lasted longer than any B decline since 2001.

**Chart 15A** shows this, along with our favorite timing indicator. Gold has now fallen to the mid-channel line of the major upchannel, while the leading indicator has dropped to a level that is mainly reserved for D declines, at extremely low levels (see **Chart 15B**).

This alone says the downside is limited, any further weakness will likely be short lived, and it'll be a time to take advantage and buy.

But here's a twist... Since this decline has already lasted 1 year and 7 months and it's lost almost 29%, you could say it may be a long drawn out D decline. The percentage decline matches the 2008 D decline but the time involved this time around has been much longer.

We'll see what happens because

it's premature to tell. The main difference would be if a C or an A rise is upcoming. The difference between these two in a bull market is that C rises are the strongest intermediate rises when gold reaches record highs.

'A' rises, however, are milder. While they can be super strong, they normally recoup about half of the previous decline. This means we could then see a rise to possibly the $1700 level.

**The bottom line is... the time of truth will be seen this year.** We're most likely looking over a shallow valley, and if gold has any life to it, the upcoming intermediate rise will tell the story.

Another positive for gold is its oversold situation in euro terms as well. **Chart 16** shows gold fell to its bull market uptrend, while its long-term indicators dropped to an extreme low. This tends to precede substantial rises in the gold price.

Gold is clearly oversold in terms of most currencies.

## THE OTHER METALS & SHARES

**Silver** has been much weaker than gold ever since reaching their peaks in 2011. Silver's surge was out of whack, and it's been working off the excess since then.

The gold/silver ratio has been rising, favoring gold (see **Chart 15C)**. It recently reached an almost 3 year high, as gold is holding up better than silver.

Silver is more volatile and it tends to outperform gold during the best part of bull market rises. But it also tends to weaken more than gold during declines.

Silver has been coming down for over two years now. It's approaching the $20 level, which is a solid support, as you can see on **Chart 17**. This level could easily be tested and perhaps silver will even dip below it.

But the leading indicator, **B**, is at an extreme low area showing that silver is unlikely to fall much lower than the $20 level.

Silver closed at its 2010 levels this week, and it's been pulled down by the sluggish copper price. But once a renewed rise gets underway, silver will be well positioned to outperform gold.... not quite yet though.

**Gold shares** are truly bombed out and they've been starting to form a base near the lows this past month. **Chart 18A** shows that the HUI gold bugs index fell to the lower side of the 15 year up channel, while its indicator, **B**, dropped to levels last seen at the 2000 lows.

Bargain basement sales are here. For now, keep the shares you have but let's wait to see how things unfold before buying more.

**Palladium** has been the best performing precious metal and it's bullish (see **Chart 19**). The biggest shortage in three decades is a good reason why it's been strong.

Palladium is used in catalytic converters for autos, and economic growth is spurring record car sales. This large deficit will continue to give a boost to palladium.

**Chart 19** shows that palladium has been in a mega uptrend and channel since the 1970s and it's holding closer to the top side. Interestingly, palladium peaked in 2000, and only now in recent years has palladium risen to approach this record high. With the indicator, **B**. poised to rise further, it's saying palladium is strong and bullish, and you should stay on board, or look to be buying if you're not in the market. The $670 level is major support.

CHART 20


**Platinum** also looks good. It's cheap versus gold and it too is not that far from its 2008 record highs, (see **Chart 20A).** Most interesting is the ratio, **B**, because it clearly shows how weak platinum has been compared to gold.

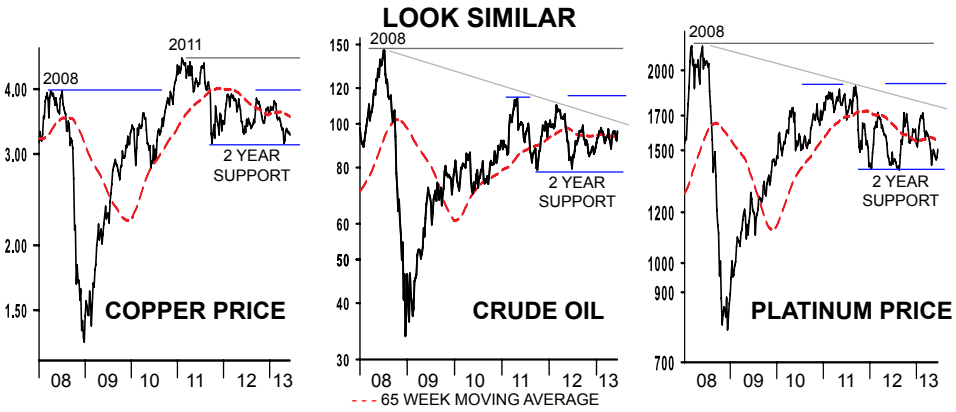
The ratio has now fallen to lows last seen in the 1990s and it's formed a downside wedge. This suggests the ratio is poised to soon rise, favoring platinum over gold.

Platinum outperformed gold during the lions share of the bull market, but that quickly ended in 2008. Platinum caved in with the financial crisis, and it's failed to surpass its 2008 high since then.

Platinum now looks promising. Unlike gold, platinum is holding above its 2011 lows, just like crude **oil and copper** have been doing (see **Chart 21)**. All three have been moving in a sideways band for over three years now and they are good barometers for the global economy.

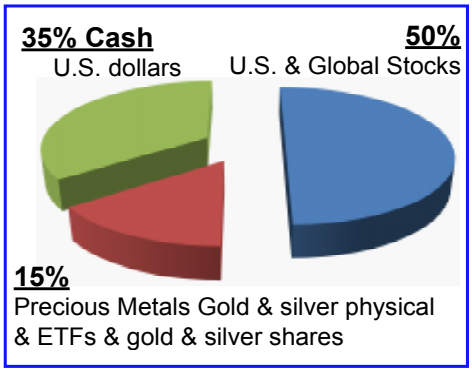
A mixed, yet firm picture is what these markets are signaling and that's indeed what we're seeing on the global stage.

CHART 21



# OVERALL PORTFOLIO RECOMMENDATION

The markets have become more volatile. This means being flexible, open minded and ready to adapt to new circumstances is most important. The best way to do that is to keep a diversified investment portfolio, using the major trends as guidelines. For now, we still recommend keeping a good part in stocks, despite recent volatility. Keep cash in U.S. dollars for now, but avoid bonds. Also hold your metals and shares ideally gold and silver coins and bullion. Under the current circumstances, we feel this is a good mix.




## PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

It's been two months now since gold fell almost $200 in two trading days. While this level was tested in mid-May, gold and gold shares have essentially been base building since then. Pressure is still on the market and silver has been the weakest, getting closer to its major support at the $20 level. The Summer months tend to be seasonally slow months and we could still see some weakness before an intermediate rise gets started. If $1361, and especially $1320 are clearly broken on gold, we could see even more weakness. Use weakness to add to your positions. Gold shares are basing in a bombed out area. Keep your positions. If you'd like precision buying, please consider our weekly trading service, GoldChartsRUs.

Buying physical gold is a safer way to keep your gold and silver, but keeping some paper gold for the sake of convenience is fine too.

The resource sector remains vulnerable. We're watching from the sidelines for now.

## U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The stock market remains very strong and bullish. This month it again hit record highs before volatility and some downward pressure set in. For now, stocks have risen too far, too fast and they're due for a breather. If stocks head lower in the weeks and months ahead, it would provide a good opportunity to buy new positions if you want to increase your holdings. Most of our stocks are holding up well, and the top 11 have consistently been the best. For new buyers, we'd buy the top five in the "Stocks and ETFs" rundown on the right, on weakness. Otherwise, continue to hold the stocks you have. This month we sold Mexico iShares (EWW) and American Electric Power (AEP) in our updates. If you're still holding these, sell them.

## CURRENCIES RECOMMENDATION

The currency markets have also been volatile lately. The U.S. dollar index hit a three year high, but it's been coming down since then. The mega trend, however, will remain up by staying above 80. This month we advised selling the New Zealand dollar and we're not recommending any of the global currencies at this time because they're mostly bearish. Keep your cash in U.S. dollars for the time being, as long as the dollar index stays above the 79-80 level. We're watching the euro because it's holding up best.

## INTEREST RATE & BOND RECOMMENDATION

Interest rates surged this month in their biggest monthly rise in four years. Bond prices fell sharply and it looks like bonds are going to fall further. Is the bond bubble finally bursting? It could be. A top has formed and the bond price could now fall to near the 2008 and 2011 lows. But a mega trend change will not be confirmed until the 30 year yield clearly surpasses 4%. As you know, we haven't been recommending bonds. If you have bonds, however, it's still okay to keep them unless the 4% is clearly broken. If that happens, all bond investors would want to move to the sidelines.

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

### OUR OPEN POSITIONS

#### GOLD & SILVER ETFs AND SHARES

| | | |
|---|---|---|
| Palladium | PALL-NYSE | |
| Silver Wheaton | SLW-NYSE | TSX:SLW |
| New Gold | NGD-AMEX | TSX:NGD |
| SPDR Gold Shares | GLD-NYSE | HKE:2840 |
| iShares Comex Gold | IAU-NYSE | |
| Central Gold Trust | GTU-AMEX | |
| Central Fd of Can | CEF-AMEX | TSX:CEF-A |
| iShares Silver Trust | SLV-NYSE | |

#### STOCKS AND ETFs

| | |
|---|---|
| Microsoft | MSFT-Nasdaq |
| DJ US Fn SVC iShrs | IYG-NYSEArca |
| Dow Diamonds | DIA-NYSE |
| PowerShares Nasdaq | QQQ-Nasdaq |
| Cons Discret SPDR | XLY-NYSEArca |
| iShares S&P Glbl 100 | IOO-NYSEArca |
| Energy Select SPDR | XLE-NYSEArca |
| DJ Trans iShares | IYT-NYSEArca |
| Johnson & Johnson | JNJ-NYSE |
| Germany iShares | EWG-NYSEArca |
| DJ US Telecom | IYZ-NYSEArca |
| Procter & Gamble | PG-NYSE |
| Vietnam ETF | VNM-NYSEArca |
| Agribusiness Mkt Vec | MOO-NYSEArca |
| Coca Cola | KO-NYSE |
| Wal-Mart | WMT-NYSE |
| Hong Kong iShares | EWH-NYSEArca |
| US Global Res | PSPFX-NYSE |
| Templeton Emerging | EMF-NYSE |