THE
ADEN FORECAST
MONEY • METALS • MARKETS

JULY, 2009 *in our 28th year*

BEHIND THE SCENES

Everyone seems to be focused on the economy. Relief and hopefulness are growing. Even though most people don't actually see improvement yet, they want to believe that it's coming and you can understand why.

NOW IS THE WORST

Millions of people are out of work and they simply can't find jobs. Unemployment is at a 26 year high, it's at record highs in eight states and it's over 10% in more than 25% of the U.S. This of course has resulted in massive foreclosures and it's kept downward pressure on home prices.

Despite this gloomy picture, 90% of the economists who participated in a recent poll expect the recession to end this year. Normally, a majority this large would be a red flag that it's not going to happen. But in this case they'll probably be right, at least that's what many of the markets are telling us since they tend to lead the economy.

As you know, for the past few months we've been pointing out several of these signs. So far, they're all signaling an easing of the recession, a banking recovery and better times ahead. That goes for rising stocks, metals and commodities, a weak dollar and rising currencies, a sharp decline in the Libor interest rate, weak bond prices and, as you'll see in this month's stock market section, some improving economic indicators, both in the U.S. and abroad.

This month, however, we want to focus on the big picture because it's been a while since we've taken a look at what's happening behind the scenes, how it'll affect us in the months and years ahead, and what it's going to mean for our investments. As you'll see, the end of the recession and likely upcoming economic recovery is going to come at a very heavy price and it's best to be prepared.

MASSIVE HISTORICAL BAILOUT

In order to bail out the economy and get it back on track, a massive amount of money has been spent, which is being piled on to the debt load. In fact, the numbers are so huge it's hard to keep track and it's almost ridiculous to try.

At last count, if we were to take all of the debt and future obligations like Social Security and so on and pay them off at $1 million every single day, it would take around 200,000 years to eliminate the U.S.'s existing debt and liabilities! That's right… as mind boggling as this is, we're talking about roughly the same amount of time that it took from the dawn of the first humans to walk on earth to the present.

How will this debt be paid off? It won't. It's basically that simple. Instead, the debt will be partially inflated away as the ongoing process that's been in force for many years continues, only this time it's going to be far more intense and it'll have a wider range of repercussions. Here's the deal…

MONEY AND INFLATION

If we go back to the beginning, you can see on **Chart 1** the debt and CPI rising ever since the Federal Reserve was formed in 1913. This gave the new central bank the power to control and create U.S. dollars, and the dollar has lost about 95% of its purchasing power since then. Why?

Note that debt kept growing over the years and as it did consumer prices moved up too (inflation). That's because more money had to be created, along with the debt spending, which is essentially the cause of inflation. This built in inflation cheapened the U.S. dollar making it worth less. In other words, you needed more dollars to buy the same thing you could've bought for fewer dollars a couple of years before.

This situation first intensified in 1971 when President Nixon eliminated the dollar's last link to gold. By doing this he eliminated the last bit of fiscal discipline that existed prior to that. From that point on, the government could pretty much

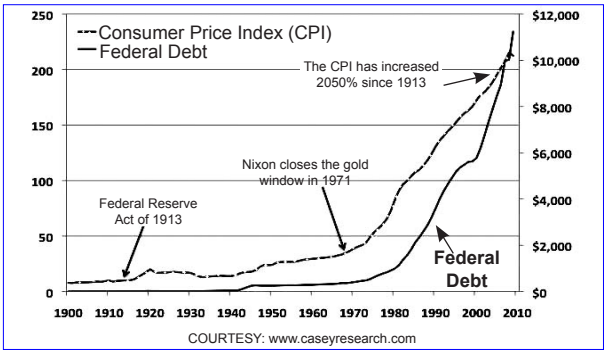
INSIDE

spend what it wanted and the Fed just created more dollars to pay for it. As you can see, debt soared and so did prices, resulting in a sharp drop in the dollar, and soaring inflation, gold and commodity prices.

Currently, this process is intensifying again but on a much greater scale. The debt and amounts of money spent after 1971 were almost miniscule compared to the amounts being spent today. **Debt has been soaring since the early 2000s,** but it's really taking off now. Nothing like this has ever happened before, not even close, and nothing can compare, so to some extent we have to rely on assumptions as to how this will all end up.

CHART 1

A 2,050% RISE IN PRICE



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DOLLAR WILL SUFFER

Some assumptions, however, are logical and nearly certain. An ongoing drop in the U.S. dollar, for instance, is inevitable. So are higher prices and a huge surge in inflation. In fact, several respected and very experienced experts believe that hyperinflation is a certainty based on the money that's already been created and spent. They also believe the dollar will be destroyed in the process, which will continue to erode savings, pensions and retirement funds.

At this point, we don't know if it'll get that extreme but this cannot be ruled out. **As the great Milton Friedman often noted, massive deficits and money supply will cause massive inflation.** Foreign lenders will then not want to buy U.S. debt and the Fed will have to pick up the slack. This is basically what's now taking place.

We know that the economic and banking crisis last year was extremely serious. The system was literally on the brink of collapse. The world had not experienced a crisis of that magnitude since the Great Depression and the repercussions were potentially more widespread than they were then. Action had to be taken. It had to be drastic, and it was.

"DO WHAT IT TAKES"

Obama and Bernanke are both very intelligent and they were not going to sit back and let the crisis unfold on its own. They were determined to avoid a Great Depression repeat, and their intentions were obviously good. But the price has been high.

As our old boss used to say, the road to hell is paved with good intentions, and that's what seems to be happening. Debt is soaring, the money supply has doubled in only three months and deficits are moving into the trillions of dollars. There's absolutely no question that the repercussions of all this will become ever more obvious in the years just ahead.

Gold, for example, will skyrocket as a result of the falling dollar and higher inflation. The same is true of commodity prices. Bond prices will collapse and interest rates will soar too. This will take time but we're as certain as day follows night that it's going to play out this way.

ERA OF TANGIBLE ASSETS

The stage has been set, and it's best to pay attention and take action based on what's going on. We'll of course guide you the best we can as this journey unfolds, but we also really want you to understand why it's happening.

The bottom line is that the era of "hard" assets is here. These investments will provide you with the best way to protect yourself and profit in the environment that lies ahead. In fact, it's already started.

This year, for example, the oil price has so far risen 50%. Copper has soared 70% and these are just two examples of what commodity related markets will be doing in an inflationary environment. These markets are looking ahead. They see a global recovery coming, greater demand and then inflation... And it's not just commodities.

The global stock markets have been surging too, capping off their best quarter in 10 years. This points to recovery as well, which will likely be followed by inflation. For now, stocks are fine but once the situation goes from recovery to a real inflation concern, we'll want to lighten up on our stocks.

Gold is up 5½% and bond prices have plunged 30% in the first half of this year. Since gold and bonds are both very sensitive to inflation, these markets are also telling us that inflation is coming. As we previously mentioned, unless something changes dramatically, we're certain these mega trends will continue in the years ahead. And for now, it looks like these markets will provide once in a generation type gains. It's sure to be a fascinating time.

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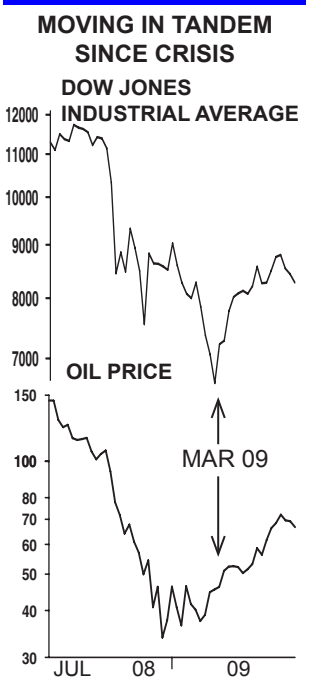
U.S. & WORLD STOCK MARKETS

Market rise overdone... for now

The stock market didn't do much this month. It was basically quiet, along with some downward pressure, depending on the news of the day.

Nevertheless, the market is still showing promise. We know it's premature and the bear market still dominates, but so far the stock market continues to show positive signs. The international stock markets are pointing upward as well. And unless we see reliable evidence to the contrary, the stock markets are telling us that the recession is going to end soon.

CHART 2



EACH STEP IS LOOKING BETTER

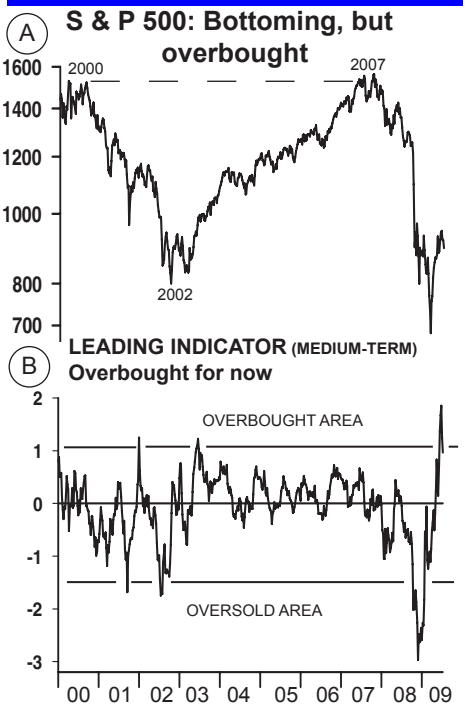
If that proves to be the case, the market will get the official green light. It'll then begin to gain momentum on its own and not based on speculation and opinions, as is currently the case.

For now, the controversy continues but once again, there were more straws in the wind this month signaling better times ahead. The Coppock index, for instance, issued a stock market buy signal and it has a very reliable 90 year track record.

Plus, consumer confidence has generally improved, durable goods orders, housing construction and retail sales were up, and the leading economic indicators index had its biggest jump in five years; it's also risen for the past two months.

It's the same story on the international front... global economic confidence has shown improvement for three consecutive months, manufacturing is up in China and industrial production is up in Asia, with Japan's jumping the most in 56 years. These, along with rising stocks and upmoves in other markets, are all signs that the global recession is easing (see the Dow and oil on **Chart 2** as an example). If it is, we're well positioned.

CHART 3



BEST SECTORS AFTER RECESSION

Based on the historical record, the strongest sectors that tend to outperform six months after a recession ends are commodity based stocks, such as energy, metals, resources, and materials like steel producers. This makes sense because it would coincide with stronger global economic growth, demand out of China and an ongoing rise in commodities.

Remember, when the recession ends it won't be obvious until a few months later. Unemployment lags so it'll still be high. That's because it takes a while for companies to start seeing profits, increasing confidence to start hiring workers again. But there will be other signs and we'll be keeping an eye out for them. So what would change our minds?

The U.S. stock markets hit bottom in March of this year with the Dow

CHART 4

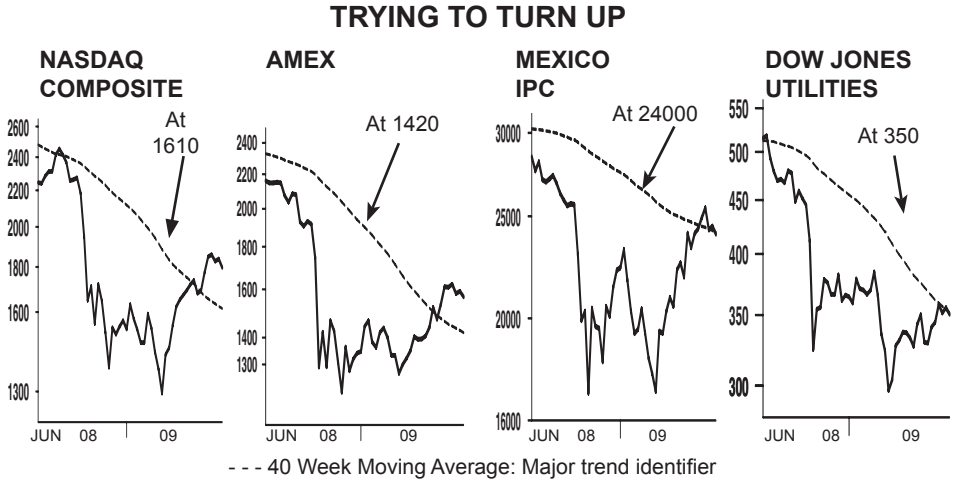
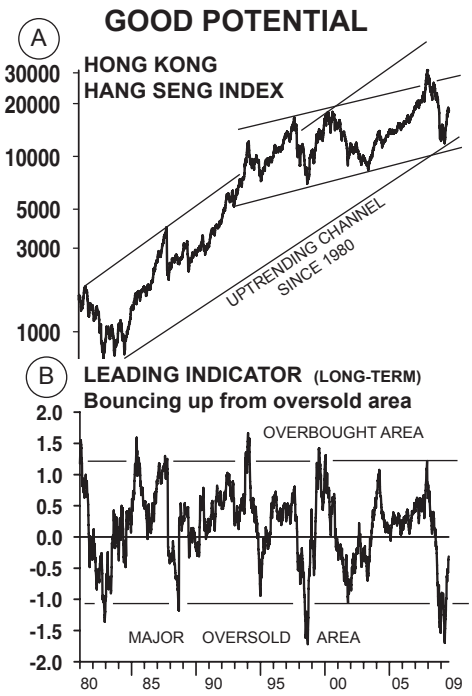


CHART 5



Industrials at 6547. Since then it has risen 34%, but as you can see on the S&P500 chart, the stock market as a whole is now temporarily overbought following its best quarter in 10 years (see **Chart 3B**). This means that it's risen too far for now and it's poised for a downward correction, before it resumes its rise.

This downward correction will be very important. If the stock indices correct normally, say forming a bigger bottom, then that'll be fine. But if the indices were to break below their March lows it would be extremely bearish and a strong signal that the recession has further to run. So this upcoming downward correction will be the deciding factor and true test as to how this controversy evolves in the weeks ahead.

Meanwhile, more of the individual stock indices have risen above their key moving averages. Last month it was only AMEX but this month, Nasdaq, the Dow Utilities and the S&P 500 all followed, and that's bullish technical action (see **Chart 4**).

If they can now stay above these levels during any upcoming downward corrections, it'll be a very bullish sign. Mexico has broken above its average too and so have some of the other international markets.

The leading indicators for all of the U.S. and world stock markets keep telling us that a major bottom occurred in March and stocks are going higher (see Hong Kong on **Chart 5** as one example out of dozens). Note that its indicator is rising from an extremely oversold area. This does not happen often but when it does, it precedes a healthy rise and that's what we think it's signaling again.

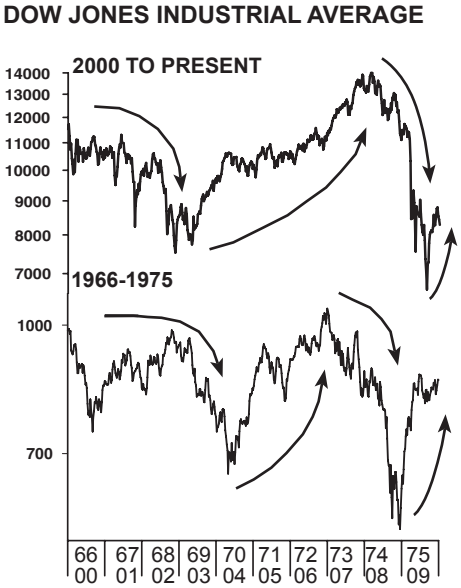
SIMILARITIES TO PAST

In fact, we've shown you the similarities of the stock market's behavior from 2000 to the present compared to the 1966-75 time period, which ended with a very sharp stock drop in 1973-74 (see **Chart 6**). As you can see, the 2007-08 stock drop was nearly identical and so was the action preceding it. It's strange but true and the behavior continues to this day, coinciding with the action in 1975 when the Dow rose 76%.

Coincidence? Maybe, but even if it is don't forget that based on the last 12 bull markets since 1932, the average bull market rise has lasted 57 months and it's gained 164%. So whatever we want to label this upmove (bull market, secular rise, bear market rebound), it does have good profit potential, at least for the time being, unless we see a big change take place in the period ahead.

Also important is that the world's monetary officials have gone all out to end this crisis. And if these measures don't work, they'll throw more fuel on the fire. There's an old saying that goes, don't fight the Fed. This is one of those times that this clearly seems to apply. The Fed is determined and so are the majority of the world's central banks. They've shown by their actions that they'll do whatever it takes to keep things together. And so far the message is loud and clear… stay with your stock positions.

CHART 6



U.S. INTEREST RATES AND BONDS

Interest rates have hit bottom

After falling for many years, interest rates have hit bottom. They're now moving higher and they're going to rise much further in the years ahead. This is extremely significant for several reasons.

RATES: Key to market moves

As we've mentioned before, interest rates are one of the most important markets in the world, if not the most important. Interest rates move the other markets, they dictate trends and they strongly influence the economy.

In fact, just about everything revolves around interest rates, at least as far as the markets are concerned. And the fact that interest rates are

rising is actually good news. Why?

The main reason is because it's yet another impressive sign that the worst recession in 50 years is coming to an end. This is in addition to other signs we've seen in recent months.

Stocks, for instance, have been rising around the world and they almost always lead an economic recovery. The same is true of rising gold and commodities. If the economy were poised to sink deeper into a hole, these markets would be falling, not rising.

Plus, silver is stronger than gold. This too is a good sign for the economy because silver is both an industrial and a precious metal. Its strength shows that silver is behaving well in its dual role, signaling that another economic roadblock has been removed.

In addition, the U.S. dollar has been declining. This tells us that investors are not afraid of risk like they were before, and that's why the foreign currencies are rising too. The sharp decline in the Libor interest rate and bond prices reinforces this as well, and other interest rates are also joining in.

CHART 8

TURNING BEARISH

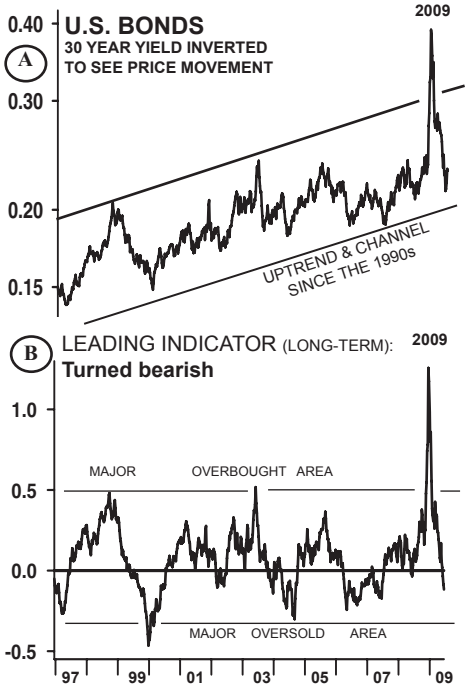
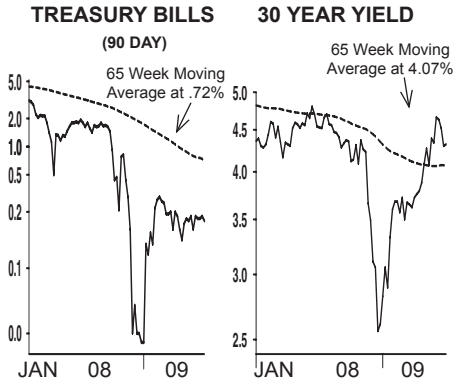


CHART 7

TURNING UP...



LONG RATES TURNED UP

Long-term interest rates, for example, have now clearly confirmed that the major trend has turned up (see **Chart 7**). This means that the era of low interest rates is over and they'll continue to rise in the months, and probably years ahead. This too is a very big deal and a strong sign that the economy is going to recover.

Bond prices had their biggest loss in 30 years in the first half of this year. But this also means that bonds are going to fall to much lower levels (see **Chart 8**). As you can see, this is being confirmed by the leading indicator since it has now dropped into negative territory.

Even as long-term interest rates moved higher in recent months, short-term interest rates remained stubbornly low and well below 1% (see T-Bills on **Chart 9**). But that'll soon be changing.

Note that the leading indicator for T-Bills has been shooting up. It's leading the way, strongly signaling that it's just a matter of time until T-Bills start moving up sharply and get into synch with long-term interest rates (see **Chart 10**). Again, this would not be happening if the economy were headed deeper into recession.

INFLATION OR DEFLATION?

Further reinforcing this is the inflation/deflation barometer, which is the comparison between gold and bonds. **Chart 11** shows this well.

Gold generally rises during better economic times, it foresees inflation and it's the inflation barometer. Bonds, on the other hand, do well during sluggish economic times or recessions, and it's a barometer of deflation. So the fact that this ratio is rising tells us that gold is stronger than bonds. It's been outperforming. Plus, the mega trend favors gold, indicating this will continue to be the case. In other words, this reliable barometer is still pointing to recovery and inflation ahead, not deflation.

As we've mentioned before, the new massive supply of bonds coming to market as a result of soaring government expenses is going to keep downward pressure on bond prices and upward pressure on interest rates. The weak dollar will do the same.

If foreign investors continue cutting back on their bond purchases, it'll exacerbate these trends. So interest rates will have to rise in order to attract buyers. That will especially be true if inflation is also rising and the dollar is falling, and we suspect that will be the case.

For now, it's important to remember that interest rates have already risen far and fast in recent

CHART 9

SHORT RATES: Ready to rise

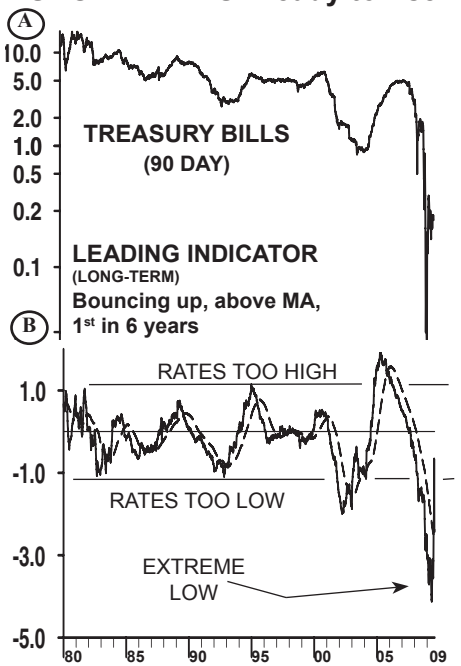
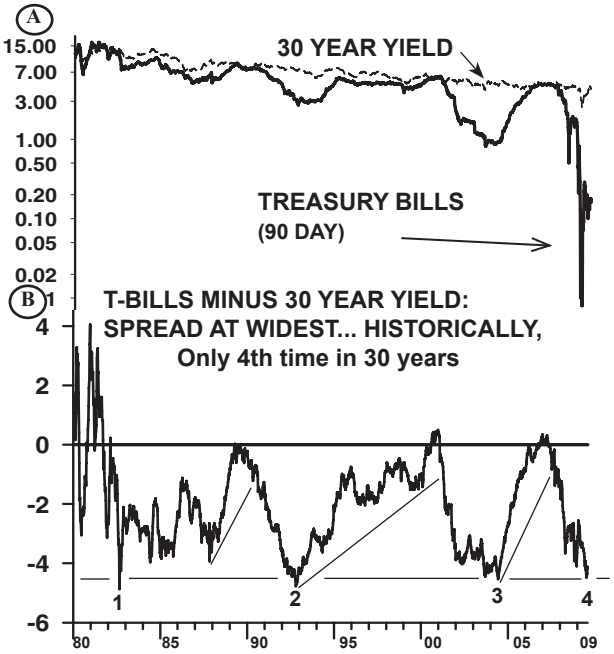


CHART 10

T-BILLS TO CATCH UP TO LONG RATES



months. They are overbought, which means it would be perfectly normal for interest rates to take a break and decline some first before they resume their upward climb. That's what we're expecting and it could coincide with some negative economic news.

TAKE ADVANTAGE OF LOW RATES NOW

We'll see what happens but if you own bonds this will likely provide a good opportunity to lighten up. In fact, it could be your last chance to do so before inflation begins to raise its head, eventually propelling interest rates much higher. There are other ways to take advantage of this too.

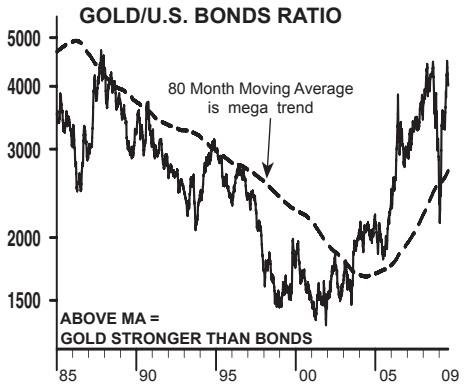
If you're thinking about refinancing your mortgage, for instance, this could end up being a good time to take that step. Remember, mortgage rates are pegged to the 10 year yield. Once rates resume their rise, probably in the months ahead, mortgage rates are going to move up along with all other interest rates. This one action could save you a lot of money in the years ahead and it's something to consider if your mortgage rate is currently higher than today's rate.

And finally, if you're looking to buy into a rising rate fund, or another instrument that'll profit as interest rates head higher, we'd hold off for the time being. These instruments should prove to be very profitable as we move into the second half of the year.

We'll be watching these markets and ideally we'll recommend buying during the upcoming period of weakness. Looking beyond the near-term, we feel that interest rates are going to provide us with one of the best trades of the decade, but not quite yet.

CHART 11

GOLD STRONGER THAN BONDS



CURRENCIES

U.S. Dollar: Feeling the heat

In the world of global finance, the U.S. dollar has been the talk of the town. Considering what's happening on the spending and debt front, the big question is, will the dollar be able to maintain its global reserve status, or not?

WORLD'S RESERVE CURRENCY: Questioned

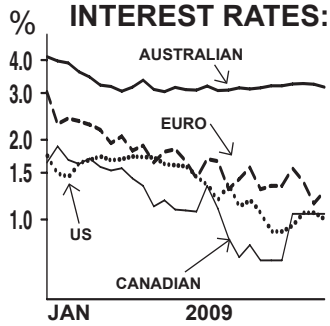
At this point, it's not up to the U.S. at all. This will be determined by the U.S.'s biggest creditors, primarily China and Japan. And increasingly, these nations and others are speaking up more often on this very important issue.

As you know, China has been talking about replacing the dollar as the world's reserve currency. It's been critical of the trillions of dollars being created and the inflationary effect this will produce. It's been critical of the fact that the U.S. deficit is now a whopping 12% of GDP, and China has issued many stern warnings that this has to stop.

Germany's Angela Merkel scolded the Fed and their money printing ways too. So has Russia, as well as other countries, and you can see why.

CHART 12

3 MONTH INTEREST RATES:



The U.S. monetary base, for instance, is basically the money that's available in the system. If it grows too fast, it'll eventually result in inflation. If it grows too slow, it tends to restrict the economy, often resulting in recession. The trick is to keep it flowing just right and that's the Fed's job.

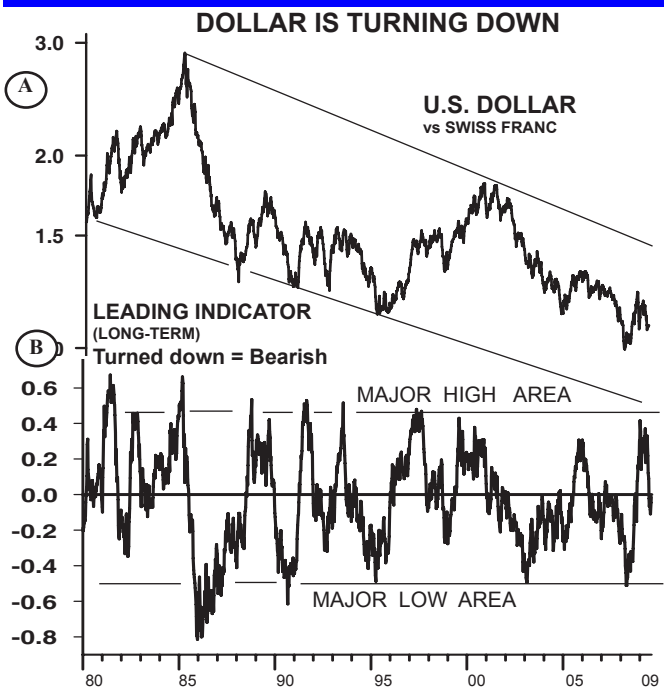
Over the past 50 years, the monetary

base has been growing by about 6% annually on average and that's generally been about right. But in recent months, the monetary base has soared at an unheard of 110% rate. This is about 18 times more than normal. So it's no wonder that U.S. creditors are beginning to take action.

China, for example, announced that it's going to buy $50 billion in IMF bonds. Russia and Brazil said they're buying $20 billion. These are attempts to reduce their dependence on the dollar. In turn, the IMF says they're going to issue $300 billion in SDRs, which is 10 times what currently exists.

Meanwhile, Russia has lowered its dollar assets to only 41% of its total reserves and increased its euro holdings. Plus, China and Russia have agreed to use each other's currencies in trade, thereby avoiding the dollar. China is doing the same with seven other countries. Japan is cutting back too.

CHART 13



ABUSING THE PRIVILEGE

As we've often pointed out, reserve status is a privilege. The U.S. has held this position for nearly 90 years and, unlike other nations, this has enabled the U.S. to print the money its debt is denominated in, knowing the rest of the world would accept and save its dollars.

Reserve status countries, therefore, have to be fiscally responsible. If not, other countries will look elsewhere and that's now beginning to happen.

As this trend intensifies, the dollar is going to fall steeply, even more so than it has over the past few decades (see **Chart 13**). And now that the dollar's leading indicator has turned bearish, it's essentially inevitable. Along with the dollar, U.S. bonds will fall too due to less demand and inflation.

But what if the U.S. gets its house in order? Won't that change this dismal outlook? Unfortunately, it can't. Why?

Very simply, the U.S. is in a real bind. With the economy still on thin ice, if it cuts back on spending and monetary stimulation, it runs the risk of the U.S. falling deeper into recession.

On the other hand, if it keeps the money spigots open like it has been, then its creditors will continue moving to the sidelines. Obviously when push comes to shove, the U.S. economy is its top priority. And if the dollar has to be sacrificed as part of the deal, then it will.

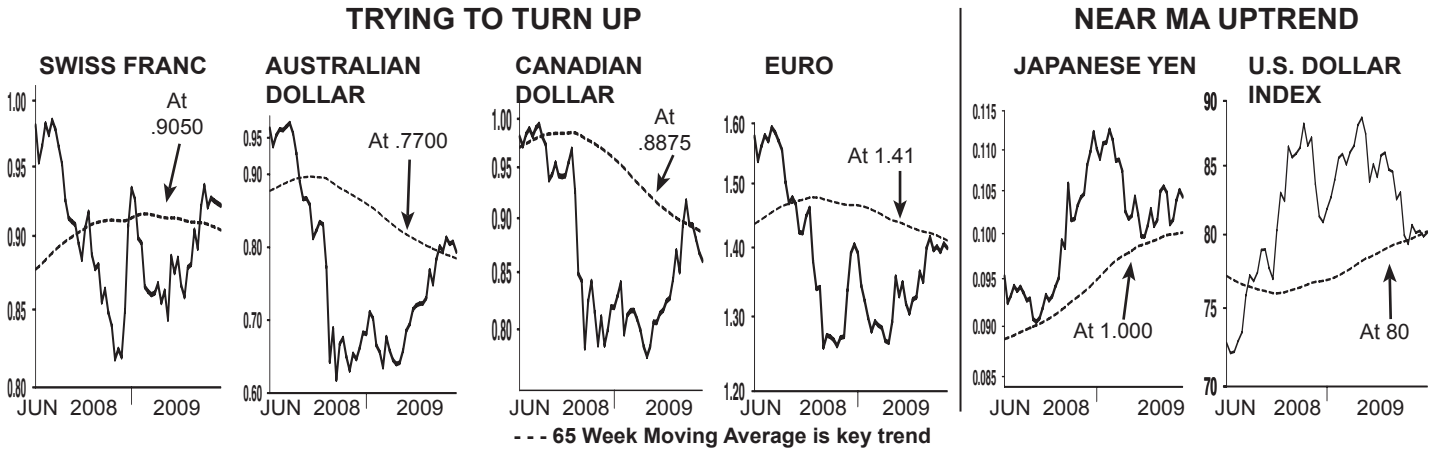
Of course, no one is going to tell you this. It's just the way it is. It's been happening since the 1970s and it's going to continue. Publically, officials will keep saying that they want a strong dollar, but remember, actions speak louder than words.

For now, the dollar will resume its long-term decline once it drops and stays below the June low at 78.40 on the U.S. dollar index (see **Chart 14**, right). That'll be the signal that a steeper, more intense drop is underway.

CURRENCIES: Good investment

When that happens, which could be soon, the currency markets will soar, and so will gold since they all move opposite to the dollar. That's why we continue to recommend keeping your cash in the strongest

CHART 14



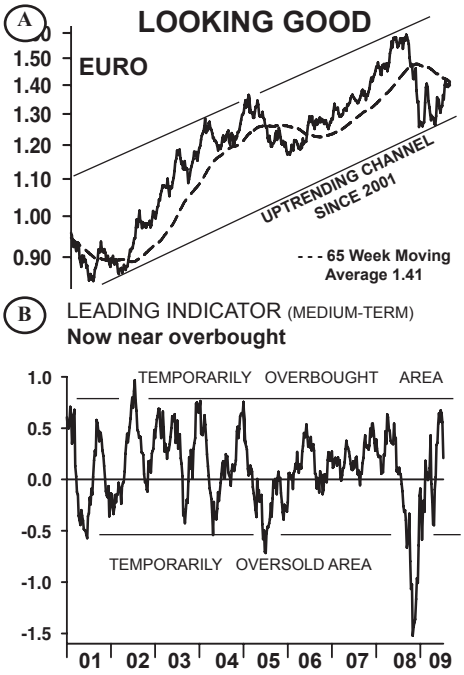
currencies, which are the Australian dollar, the euro and the Swiss franc. The Canadian dollar is fine, and the New Zealand dollar has been good too.

As commodity prices and oil head higher, the commodity currencies will continue to benefit. Higher interest rates make these currencies more attractive too (see **Chart 12**). The Canadian dollar, for instance, recently had its biggest monthly gain since 1950, thanks to rising oil.

The same is true of some of the emerging market currencies. But we're not recommending these because they're too volatile and in many cases, illiquid. Instead, it's far better to stick with the stronger major currencies.

The euro provides a good example of what we mean (see **Chart 15A**).

CHART 15



FIRST RUNNER UP

Like we've seen with Russia, as countries cut back on dollars, they'll likely increase their euro holdings. It's the next best option and it's backed by 16 countries. Plus, German business and investor confidence has been moving up for the past few months.

As Europe begins to emerge from recession, it's going to look increasingly attractive and there's little question that the euro will benefit as a result.

For now though, the euro is temporarily overbought (see **Chart 15B**). In other words, it's risen too far, too fast and it'll likely soften first before it heads higher. That'll provide a great opportunity to buy, probably at a better price. The same is true of the other recommended currencies.

METALS, NATURAL RESOURCES & ENERGY

A solid, bullish market

A few weeks ago we participated in a memorable Forbes cruise for investors, with ports of call in Italy, Montenegro and Croatia. It was a wonderful experience… informative, insightful and delightful… and we met some of our subscribers, making it even more special.

"The worst is over" was the consensus of the speakers. The variation was primarily where we go from here.

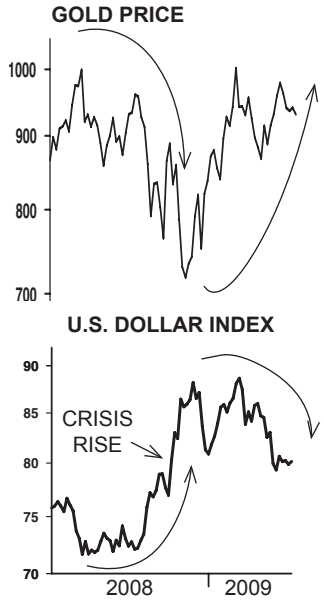
CHART 16

Seasoned investors attended this seminar, one more interesting than the next. But it was an eye opener to see how few in the group knew or appreciated gold's role as an asset class in the world of investing. And probably more important, what drives gold in the first place.

BIG PICTURE FOCUS

We focused on the big picture (you can see our display of charts on our website), and the importance of knowing where the mega and major trends are before buying. It wasn't commonly known that gold has produced consistent gains for eight years now, and if gold closes above $880 this year, it will be the ninth year of consecutive gains.

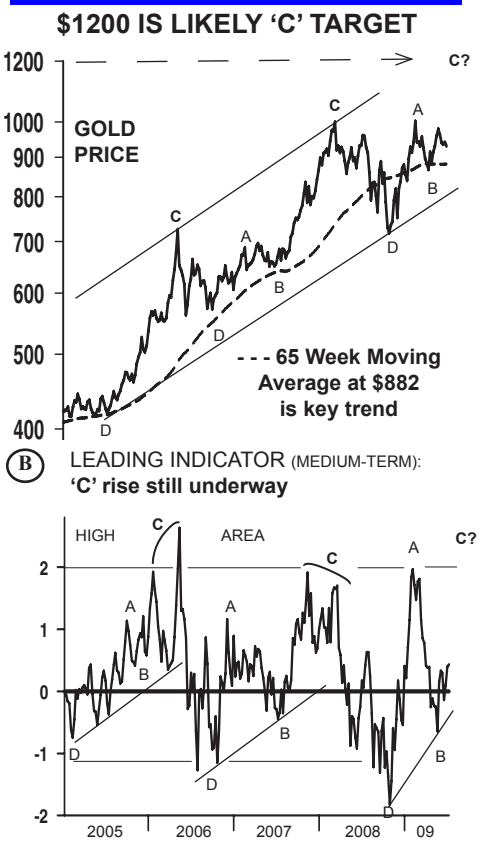
CHART 17



Plus, it was little understood that gold moves opposite to the dollar, and that it's the ultimate currency. It's not only been rising in dollar terms but it's also risen more than the strong currencies, and it's been stronger than the stock and bond markets as well (see **Charts 16** and **17**).

Gold, bonds and the dollar are the key markets to watch in order to better measure the markets and the economy. For now, bonds and the dollar are down, which means the crisis has been easing. But with gold up, we also know that some-

CHART 18



thing is not right.

Many asked us how to buy gold and silver. As you know, this can be done in banks around the world, like in Switzerland or Canada. In the U.S., you can buy with a coin dealer who will ship it to you. Exchange traded funds are also an easy way to buy.

The point is, there are many ways to buy gold and silver. In fact, our good friends from the RMB group just completed a report on other ways to buy gold. To receive the report free of charge, please go to http://www.rmbgroup.com/pdfs/exchangecertifiedbullion.pdf.

Talking to these investors about gold reinforced that the next bull market wave will have plenty of new demand from investors like these, who normally don't look at commodities or gold. These investors know things aren't right, they realize the dollar is vulnerable but they weren't sure what to do about it or how to protect their assets.

There really hasn't been that many times in history when gold and commodities were the investments of choice, which makes it understandable why many investors don't look at these markets as a normal asset class.

A GLOBAL WORLD

The emerging markets and commodity based currencies are also good markets to invest in during a commodity boom.

Recovering global trade has been evident this year based on the rising Baltic Dry index. This is a bullish sign for the emerging markets. Countries who depend on commodities for export will do very well as commodities rise. Australia for raw materials and Canada for oil are two examples.

Many countries depend on their exports for growth, and having competitive prices is important. If your goods are more expensive than others, you will sell less. That's why no country today wants a strong currency. It makes their goods expensive.

This is another key fundamental reason why gold will continue to rise in the years ahead. It is the ultimate currency. When a solid currency is lacking in the world, competitive devaluations are good for gold.

CHART 20

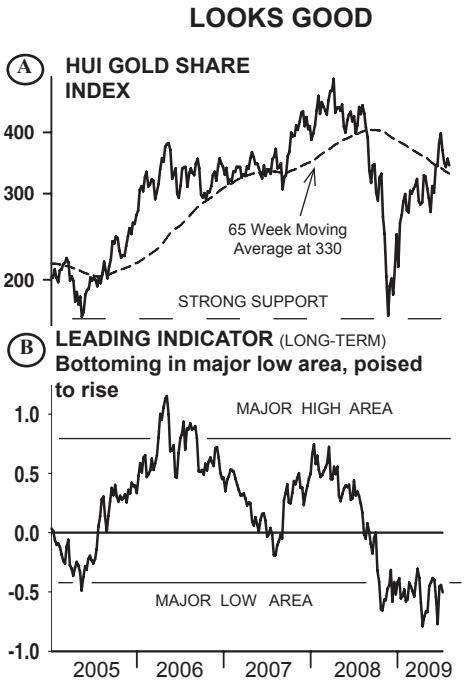
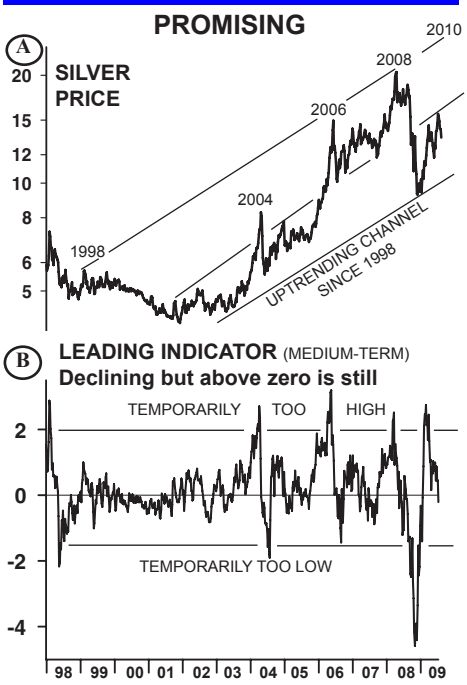


CHART 19



TANGIBLE GOODS ARE THE BEST INVESTMENT

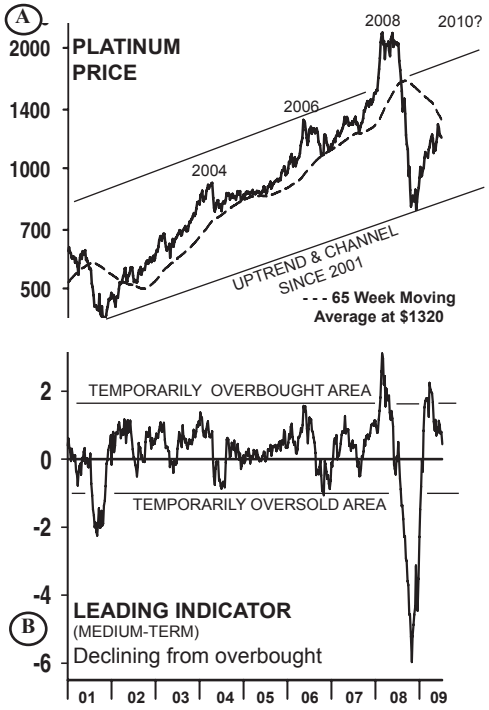
It's tiring to continue hearing about the ongoing record deficit spending, the soaring money supply, the out of sight debt and the need to save the system. Whether you agree with the spending or not, it will continue and you must protect yourself and your assets from the repercussions.

China is doing this. They know a bargain and the importance of patience. You hear how they are buying up commodities, from copper, to iron ore, to soybeans and to gold. You name it and if it's reasonably priced, they are buying. They're also trying to buy into resource companies and they have their eye on U.S. real estate. They recently announced plans to raise their oil reserves by 50% over a five year period, and so it goes.

Commodities have jumped up this year. So far, the first half of 2009 has seen oil up about 50%, copper up 70%, and nickel is at a nine month high, gaining similarly. Once again, it's a demand driven rise with China at the engine. The other BRIC countries (Brazil, Russia and India) and the Gulf states are

CHART 21

BUILDING A GREAT BASE



also building reserves. As investors, we have to do the same.

Like the Chinese, you want to buy gold and materials now and hold on for several years. Overall, we believe that 2009 will end up being the year for buying bargain investments.

GOLD: Time to buy

If you haven't yet completed your gold purchases, these Summer months are providing one of the last good buying times. That is what the big picture is telling us.

Many people ask, "if gold is so strong, why didn't it soar during the crisis?" This is a valid question, but gold actually did very well during the crisis. The dollar was viewed as the haven during the intensity of the crisis when the world seemed to be crumbling before our eyes. And when the dollar is strong, gold tends to be weak. So it was impressive that gold ended 2008 with a gain.

In fact, since gold was the strongest precious metal, while the other commodities fell sharply last year, this divergence is still adjusting, but gold has held firm all year.

It rose back above its 65-week moving average in January and it has stayed solidly above it. This strong $882 support was tested last April, but gold's been rising in a rise we call "C" since then. In fact, gold's strength has been solid because it's held clearly above $900 since May.

Gold has yet to take off in true bull market fashion, but **Chart 18** shows that it's coming. Note that the leading indicator is in a D-B uptrend and ready to rise while gold is quietly holding near the general high area.

But considering that most market sectors, like the metals, commodities and the stock market are all temporarily overbought, and the Summer months tend to be slow months, we could still see some short-term weakness. More important, however, is the bigger picture as gold is poised to rise during the second half of the year.

On the upside, gold is strong above $920 and it would show renewed strength above $950. It would be very strong above $985 and a full on bullish C rise and new phase of the bull market would happen above $1004, the record high.

CHART 22

A STRONG REBOUND RISE

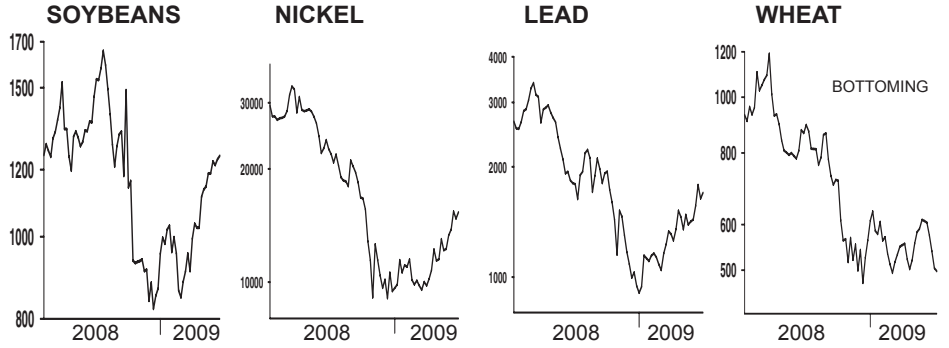
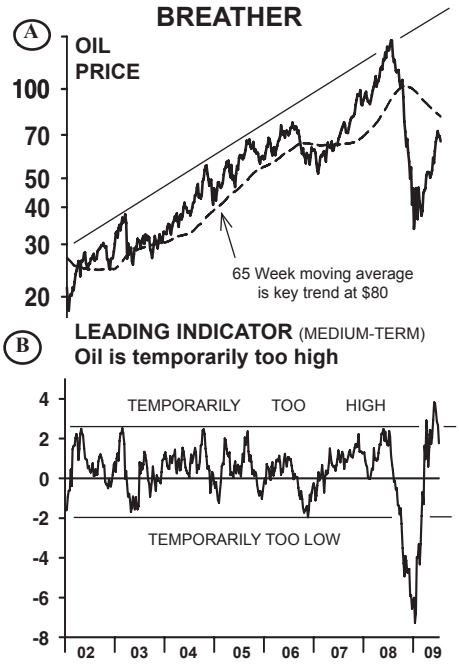


CHART 23

STRONG RISE, DUE FOR A BREATHER



On the downside, if gold weakens during these Summer months, it would happen below $920. It could then go to possibly $882, or to the April low near $868.

SIMILARITIES

Gold is getting closer to starting the next phase of a stronger bull market, and silver and gold shares will follow. But we are seeing a repetitive pattern in the precious metals group, the resource group and the stock market in general.

Take silver, platinum and gold shares, for example, on **Charts 19, 20** and **21**. All three had been rising this year with gold, but they rose more because they were rising from bombed out levels.

Silver, platinum and gold shares have gained between 30% and 40% so far this year. This has caused all three to become temporarily overbought as they rose too far, too fast (see **Charts 19B** and **21B** as examples). This means that they'll likely soften first before they head higher.

The HUI gold share index on **Chart 20** shows a good example of the bigger picture. Note how its long-term indicator (B) has been bottoming since last year in a ma-

jor low area. This tells us that a springboard base has formed and gold shares have plenty of room to move up in a major rise in the years ahead.

Keep an eye on 330 on the HUI index as gold shares are very strong above it. Platinum would turn clearly bullish above $1320, and while silver has been weak lately, it's stable above $13. Keep your positions and continue to buy the strongest ones this month and next.

COMMODITIES ARE SOLID

This year has seen the fastest commodity rise in more than 20 years. The rebound rise from last year's drop has been impressive with hedge funds also betting on rising commodities. Some say, "buy the commodities that China needs to import," like iron ore, soybeans, potash, oil, stainless steel, copper, coal or zinc (see **Chart 22**). This is certainly a good plan and we'll continue to fine tune our recommendations as the bull market in commodities evolves.

OIL: Big picture very bullish

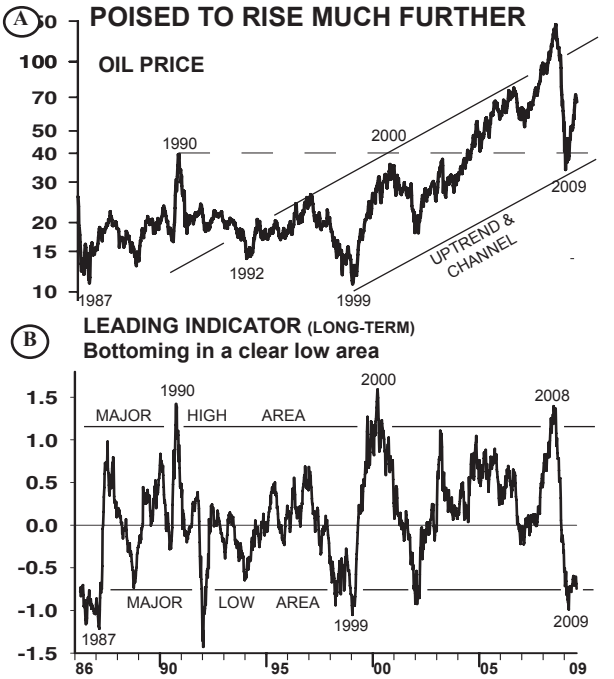
Crude oil is moving with the stock market because both are moving on signs that the worst is over for the global economy. Based on this, we want to show you the intermediate and long-term picture for oil as well. This will indirectly give you a good idea of the outlook for the global economic recovery.

First, like platinum and silver, oil's sharp rise this year is now overbought (see **Chart 23**). This means a decline would be normal at this time which, if it occurs, could coincide with vulnerable economic signs. But once this temporary excess is erased, **Chart 24** shows you the great potential oil has on the upside.

Oil fell last year to essentially its 1990 peak area. It then bounced up from the bottom of a clear upchannel and it's now holding well above the 1990 highs. This is happening while its leading indicator (B) is bombed out, the most since 1999. Each time this indicator has been at this major low area, it has preceded a good sized rise in the oil price.

This is saying that, regardless of the short-term, oil is headed much higher in a strong ongoing bull market rise. Keep an eye on $60 as oil is in a solid rise above this level. But once it closes above its June high near $73, and especially above its 65-week moving average at $80, a strong upmove will be underway.

CHART 24



Within the energy group, natural gas has yet to rise with oil, which has some concerned that oil cannot continue to rise without natural gas. **Chart 25** shows you the similarities of the two. You can see that there are times when they don't move in tandem, but it doesn't last long. It looks like natural gas will soon begin to move with oil, perhaps after the oil price corrects. Natural gas did reach a low on April 30, and it's been moving essentially sideways since then.

Copper is the barometer for global growth. It has always been known as the key metal for growth and infrastructure building. **Chart 26** shows the similarity between copper and oil. It's rising sharply from a bombed out level while the indicator has been basing at the lows this year, and it's the most oversold since 1998. This is bullish action.

Copper's rise since March is rock solid above $2.10 and it would turn clearly bullish above $2.50. Stocks in the resource sector will rise with copper, so continue to hold your positions.

CHART 25

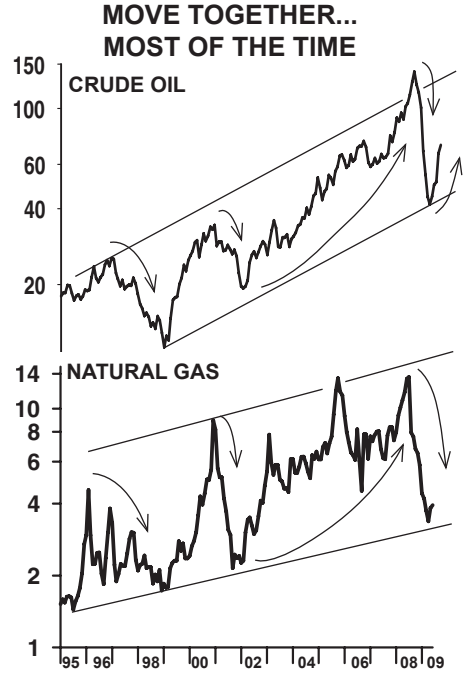
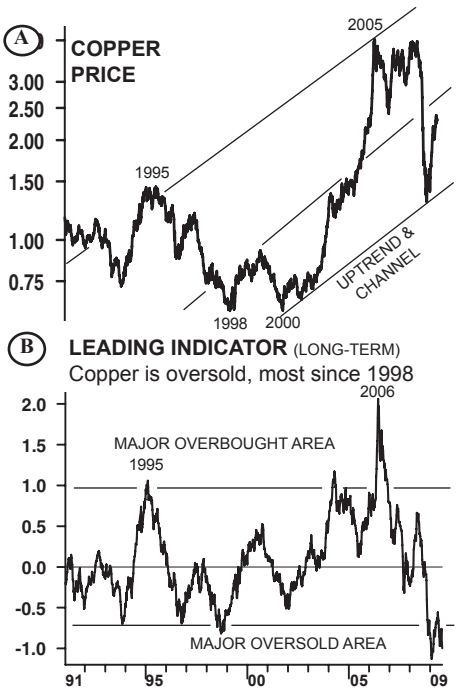


CHART 26



OVERALL PORTFOLIO RECOMMENDATION

Signs continue to emerge that the recession is easing and inflation will soon surface. The era of tangible assets is already here. Many of the markets are poised to head much higher but, in most cases, it looks like they'll decline first in normal downward corrections before they resume their upmoves. This will provide a good opportunity to buy new positions and/or to add to your positions. Continue to hold our recommended stocks listed on the right.

STOCK MARKET RECOMMENDATION

The global stock market and the S&P 500 have been surging, capping off their best quarter in 10 years. But the stock markets have risen too far for now, they're temporarily overbought and poised for downward corrections. The markets, however, continue showing promise. Most notably our leading indicators are signaling that stocks will resume major rises following these corrections. So the corrections will be very important. Several of the stock indices are now above their key moving averages. If they can stay above these levels, it'll be a very bullish sign. On the other hand, a break below the March lows would be extremely bearish. We'll be keeping you posted. For now, the Asian and Latin markets look the most promising. Keep your stocks, but don't buy new positions.

PRECIOUS METALS, ENERGY, RESOURCE & THEIR SHARES RECOMMENDATION

Gold, silver and gold shares came down this month from their early June highs. Gold has stabilized at a support level but if it closes and stays below $920, it could decline to test the $882 level. Gold's C rise is still underway as long as gold stays above $868. Considering silver's weakness, it may be leading gold short-term. The point is, don't be disappointed if we see sluggish to down metals for a while longer. But once the C rise starts to heat up, you'll want to be well positioned in the precious metals. Gold will be strong within the C rise above $950. Silver and gold shares will rise with gold once the current weakness is over. Central Gold Trust (GTU-NYSE) is disappointing and marginal. Put a stop loss at 36. If it closes below 36, sell.

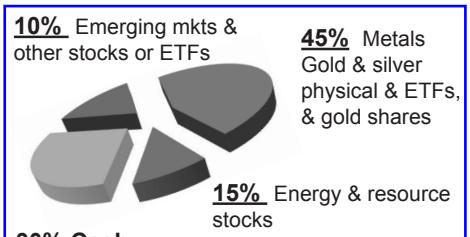
The energy and resource sector is firm. Oil and copper rose too far, too fast this year, outpacing themselves in a rebound rise. They are set to erase some of their excess but once this is worked out, the big picture shows that oil, copper and the natural resource sector in general will be poised to move higher in a sustained major rise. Keep the positions you have. For new positions, buy the strongest at the top of the list to the right.

INTEREST RATE & BOND RECOMMENDATION

Interest rates have hit bottom. The major trend for long term rates is up and they're set to head much higher in the years ahead. This will be finally confirmed once the 30 year yield rises and stays above 4.69%. It's also just a matter of time until short-term interest rates start moving up sharply too. Currently, rates are overbought and they'll likely decline some first before they resume their upward climb. As expected, bond prices have turned bearish and they're poised to fall to much lower levels. If you own bonds, upcoming strength will provide a good opportunity to lighten up. That'll also be a good time to buy rising rate funds, or to short bonds, but not yet.

CURRENCIES RECOMMENDATION

The world is becoming more uncomfortable with the U.S. dollar. It's bearish if it stays below 80 on the U.S. dollar index, and a clear decline below 78.40 will confirm a steeper drop is underway. When that happens, the currency markets will soar. First, however, the currencies will likely soften before they head higher. That'll provide a good opportunity to buy if you haven't bought yet. Otherwise keep the currencies you have. You can buy any currency you want at everbank.



OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

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

EMERGING MARKETS & OTHERS

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

RESOURCE & ENERGY SHARES

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

CURRENCY ETFs & FUNDS

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

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

The gold and silver ETFs are listed above in bold.

