THE
ADEN FORECAST
MONEY • METALS • MARKETS

JULY 2011 *our 30th year*

"NEW" ERA... WHAT'S NEXT?

The struggle goes on. It's not being resolved easily and it's resulting in more market volatility.

ONGOING TUG OF WAR

What struggle are we talking about?... The tug of war between inflation and deflation, which has been ongoing for the past few years. This alone has made the markets more challenging and full of surprises, as we saw this month.

In fact, many experts feel this has been one of the toughest times for investors, and in some ways we'd have to agree. The last time was in 2008, but that's not the case with all of the markets, just some of them.

As you'll see in this month's issue, some of our leading indicators are not coinciding with the price action. This has happened before and when it does, you have to be patient.

Eventually they'll come together, usually sooner rather than later. In the meantime, we'll just have to wait and see, and let the markets tell the story, like they always do.

INSIDE

For now, things simply aren't crystal clear, but they rarely are. Currently, the main reason is because the underlying fundamentals are increasingly unclear and that's being reflected in the markets. This is where the intensifying tug of war takes center stage.

NERVOUS OPTIMISM

Aside from the nail biting events in Greece last month, which we'll discuss in this month's Currencies section, let's first zero in on what's happening in the U.S., and the markets.

As we write, optimism has been down, then up, depending on the news of the day. This has made the markets more sensitive and jumpy...

Gold and the precious metals have been volatile but they're now showing renewed strength and holding firm. Stocks are surging, bonds are volatile, while the U.S. dollar looks like it's bottoming.

A MIXED BAG

Some of these markets are, therefore, suggesting better times ahead. Some are indicating upcoming inflation, while others are signaling a sluggish economy or recession.

It's a mixed bag. But when you recognize all of the factors already in the bag, it starts to make sense, especially considering the big picture...

About 10 years ago we saw the first signs of what we called a "new era." Gold was embarking on a major rise, and the nearly 20 year bull market boom in stocks was coming to an end. Gold was poised to outperform stocks and that's been the case over the past decade.

But this also marked a new economic era. A turning point was reached and it's resulted in a lost decade for many people.

It's been a decade that's included two recessions, the tech bust, the financial panic of 2008, the war on terror, massive spending, unprecedented debts, the real estate bust, high unemployment, the rise of China and other emerging countries, and at best, sluggish growth in the West.

The end result is that during this time, no new jobs have been created in the U.S. and the growth in wages has been lower than during the Depression of the 1930s. Home equity has dropped by about 50% and prices are back to where they were in 2000 (see **Chart 1**).

As you'd expect, the middle class has decreased and few have seen improvements in their everyday lives. Even so, there have been positive developments too, so it was somewhat surprising that nearly 50% of those recently polled felt that a depression was likely upcoming.

We know of course that the Fed has been battling these deflationary pressures as a top priority. But so far, this hasn't helped the job or the housing market, which has affected

most people.

In fact, home prices continue to decline and they're expected to fall even further before they reach the historical mean, going back over the past century.

As for the job market, many jobs have gone overseas where labor is cheaper and they're unlikely to return. This too adds to the pessimistic view.

HEAVY LOAD...

The bottom line is, globalization has not benefited the U.S. On the contrary, it's been painful and the latest cut in the economic growth forecast from an already low 1.9% annualized only reinforced this.

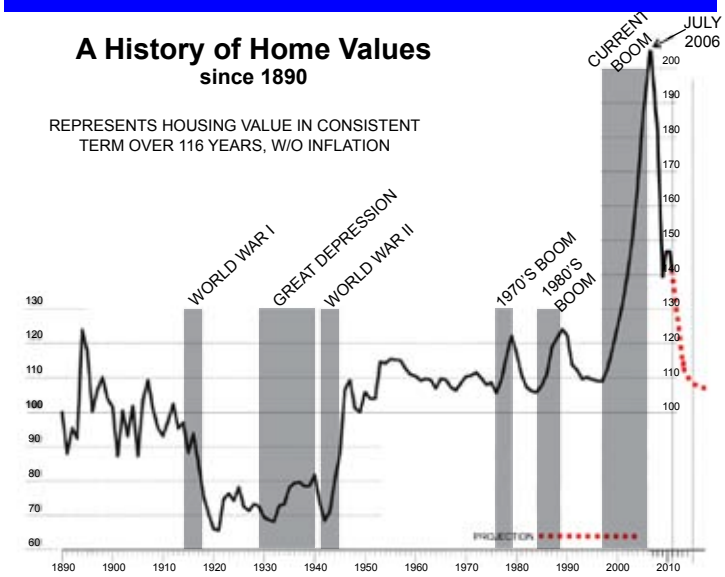
In a nutshell, many factors have caused this but one of the big ones is the debt load, which has become a real drag as it hangs overhead and continues to grow. The number now boils down to about $500,000 in debt owed by every family. Just the interest payments on the debt have become astronomical and the wars have only made matters worse.

Several years ago the estimates for the current wars were about $2 trillion and many believed that was exaggerated. But now they've grown to about $4 trillion.

Remember, these costs are piled on top of the ongoing expenses that are basically set in stone. Meanwhile, the debate rages on about where to cut, as the debt ceiling due date rapidly approaches.

At the same time, the Fed has been stimulating like mad to keep the economy afloat, but the results haven't been what they'd hoped for. Our guess is that they'll have to stimulate more in the months ahead. There's really no other choice to avoid a recession.

CHART 1



Source: 'Irrational Exuberance, 2nd Edition, 2006, by Robert J. Shiller

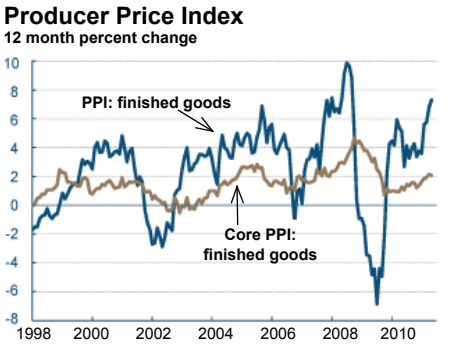
Bill Marsh/The New York Times

...PLUS INFLATION

As you know, all this stimulation via money creation has been fueling inflation. Prices are rising, as you can see on **Chart 2**.

The latest shows that producer prices soared over 7% (that's 84% annualized!). Import prices soared 12%. This is huge and we're sure there's more to come.

CHART 2



Source: Bureau of Labor Statistics

So the battle continues with inflation and deflation forces both being the reality of the day. We guess you could call it a period of "inflassion" and it's been going on for quite a while.

As a result, the Misery index is hitting new highs. It's made up of unemployment plus consumer prices and it too reflects what's happening.

Will this situation clearly be resolved one way or the other? Previously we thought so, but perhaps things will just continue on like they have been. Time will tell.

What is very clear is that this is indeed a "new" era, which isn't so new anymore. We're literally in uncharted waters and we have to be prepared for whatever comes. This big picture is more important than anything else and it will determine how this era unfolds.

For now, many are focused on China for signs of what's ahead, and with good reason.

China has been the world's economic engine. Growth has been spectacular for decades and most recently, they came to Europe's aid at a time when it was most needed. China's economy is cooling down now, but inflation persists.

This in turn is causing some problems at home. Aside from high prices, it's fed into other areas, like personal freedom, government control and so on. So it's become more important to keep a watch on developments in China as they evolve.

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U.S. & WORLD STOCK MARKETS

Bull market continues

The stock market is surging and the bull market continues.

GOOD ACTION

Following the deteriorating market action we saw in May and June, which consisted of the longest string of weekly losses since 2002, the market did an abrupt about face in late June.

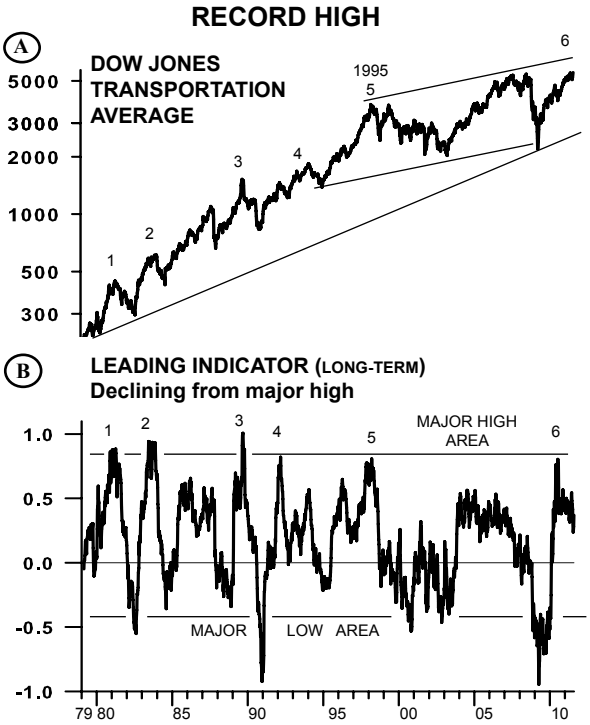
Suddenly, concerns about the economy and the Eurozone were put on the back burner. Once Greece passed its austerity plan, stocks around the world breathed a sigh of relief and up they went (see **Chart 3**). And so far, the action has been very good.

Most of the stock indices held above their major moving averages and they've now risen back above their medium-term averages, indicating they're headed higher. The Dow Industrials and the Dow Transports both broke above their June highs, also reinforcing this. Most important, the major trends are solidly up and as long as that's the case, this two year old bull market remains in force.

For now, it's been one bullish sign after another and it's happened rather quickly. By far, most impressive has been the Dow Jones Transportations. It hit an all time record high (see **Chart 4A**). And if it now stays above its old high at 5527, it'll be super bullish as it plows further into new record high territory.

If it does, there's a good chance the other stock indices will follow. Solid signs that's happening would be marked by sustained rises above 12810 on the Dow Industrials and 1362 for the S&P500.

CHART 4



CONFLICTING SIGNS

As you know, we were concerned about the stock market last month and we lightened up on our stock holdings. And despite this latest bullish upmove, we're still maintaining some caution. Why?

The main reason is because this is one of those few times when our leading indicators and the price action are out of synch. When this happens, it means that one or the other will win out, and usually it's the leading indicator. But we'll soon see how the current situation unfolds. This is clearly illustrated on **Chart 4B**.

Even though the Dow Transportations is hitting new record highs, note that its leading (long-term) indicator has been declining from a major high area (see #6 on the lower chart). This strongly suggests that the upside for the Transports is limited. In other words, this rise is unlikely to last long.

As you can see, going back to 1979, every time this indicator

CHART 3

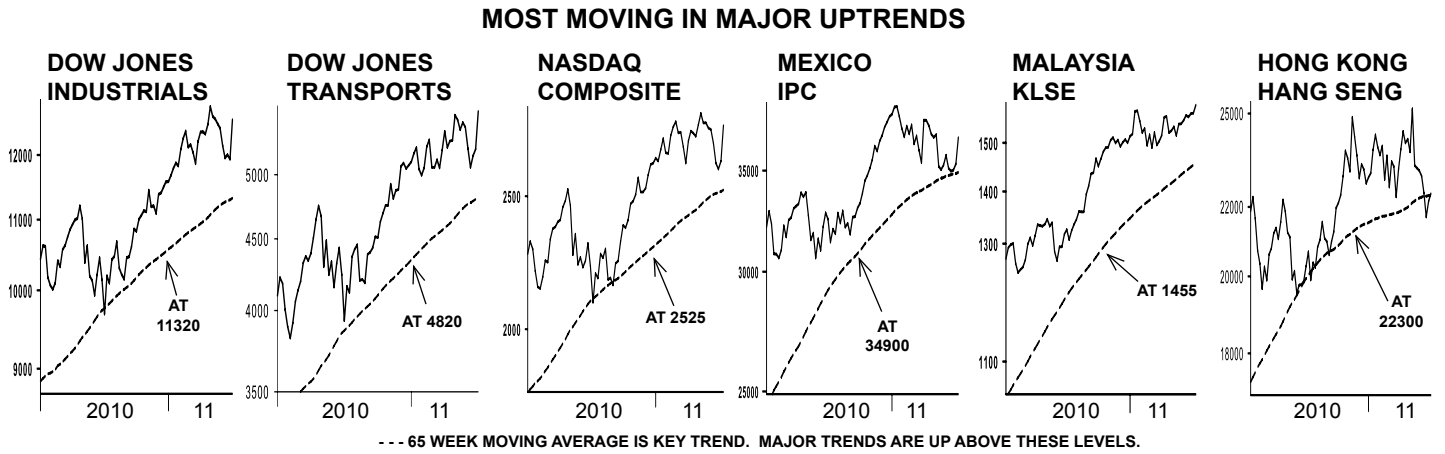
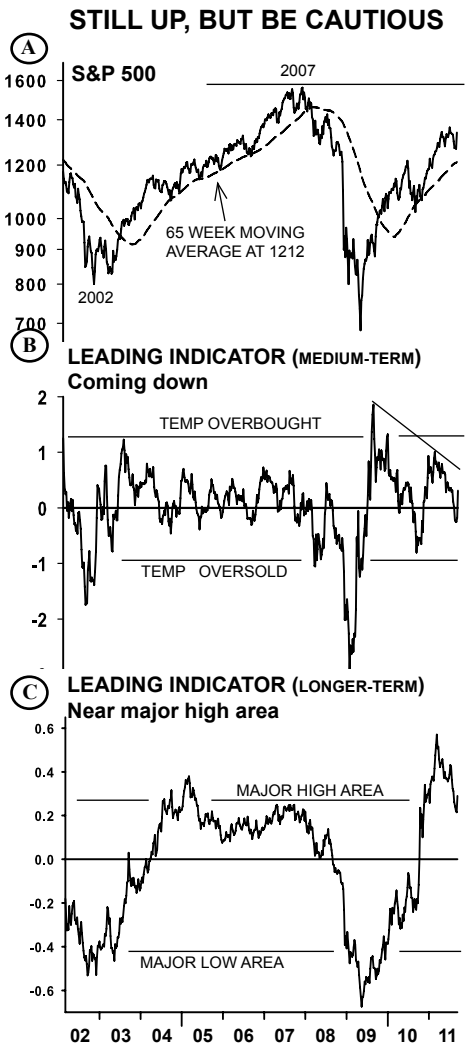


CHART 5



declined from a major high area, it preceded a drop in the Dow Transportations (see numbers 1 through 5 and the resulting declines in the index above). So naturally, this signals caution.

There is a possibility, however, that the strong price action will pull the leading indicator back up, forming a double top. And if that ends up being the case, then stocks will likely rise further in the coming months.

But to be on the safe side, we'd like to see this confirmed by the Dow Industrials and the S&P500. In either case, this indicator is telling us that risk is still high, and that's also being reinforced by the S&P500.

Note on **Chart 5**, its two leading indicators have been declining as well. So here too, this keeps us from being too gung-ho about the bullish price action. While impressive, these indicators are keeping a rein on things, at least for the time being.

FOCUS ON GLOBAL NEWS

Interestingly, this also provides a good illustration of the tug of the war that's taking place in the global economy. The stock market wants to go up because it's primarily been focusing on the good news.

It likes the fact that the Eurozone resolved its crisis for now. It likes the signs that China is still doing well. China's industrial output was better than expected, retail sales are soaring and its exports remain high (see **Chart 6**). So despite some dire warnings, China appears to be holding its own and that's good news for all the world.

The market is also focusing on the good news at home, semi-ignoring the bad. Higher retail sales, stronger confidence… it's all good.

On the other hand, the market has also been quick to react on the downside. It's still concerned about the end of QE2 and lower forecasts for growth. Jobs and housing hang overhead, but as you know, the stock market looks ahead and if it keeps rising, then it'll be a sign that better times are coming.

As we mentioned last month, this would not be unusual considering next year is an election year, and you can be sure all efforts will be made to boost the economy prior to the election.

CHART 7

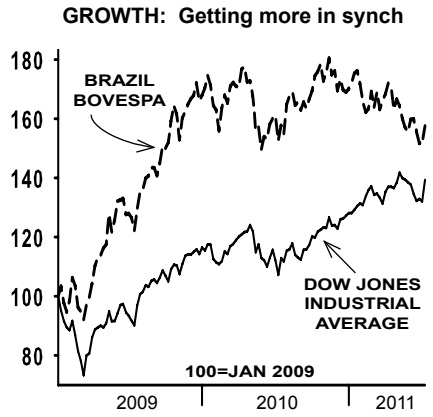
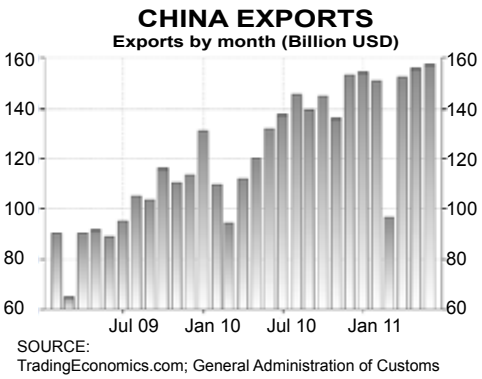


CHART 6



But considering the massive debt and the ever sluggish economy, is this possible? We'll soon find out but remember, the QE program has been good for the stock market over the past couple of years, so don't be surprised if it starts up again.

OTHER MARKETS LAGGING

Meanwhile, the emerging markets, although rising, are still lagging compared to the U.S. (see **Chart 7** as an example, showing Brazil and the Dow Industrials). As you'd expect, most of the European markets have been lagging too, recently experiencing their longest down move in 13 years, thanks to the Greek crisis.

The bottom line, half of the world markets are currently bearish and you have to be selective. If you're in the global markets or want to venture in, stick with the strongest markets. Currently, these are Germany, Indonesia, Spain and Malaysia. But overall, the U.S. market is your best bet for now.

OUR POSITIONS

Currently, we're keeping our 30% stock position, divided between U.S. and global stocks, as well as energy and resource stocks. They've been moving up and they're all likely headed higher, at least in the weeks ahead.

If you want to buy new positions, we'd stick with the strongest ones, which are always listed at the top of each sector on page 12. But if you do, remember to stay cautious.

We'll keep you posted and if we see a change, you'll be the first to know.

U.S. INTEREST RATES AND BONDS

Nervous volatility

The Fed's QE program officially came to a close on June 30, and everyone was waiting to see what would happen… What happened is that interest rates shot up.

NOW WHAT?

Is this temporary? Will rates keep rising, signaling inflation, or will they head down again, which is what the Fed wants? We believe they will head down, but…

Here too, we're going to have to wait and see, and let the markets tell us. Just like the stock market, our interest rate and bond indicators are telling us one thing and the price action is suggesting another. Again, this is unusual but the final outcome will soon become more obvious.

In this case, the end of QE2 and the easing of tensions in Greece were the triggers that pushed interest rates higher and bond prices lower. Greece alone had fueled a run to safety as its crisis intensified, pushing U.S. rates down to their lowest levels this year (see **Chart 8**).

CHART 9

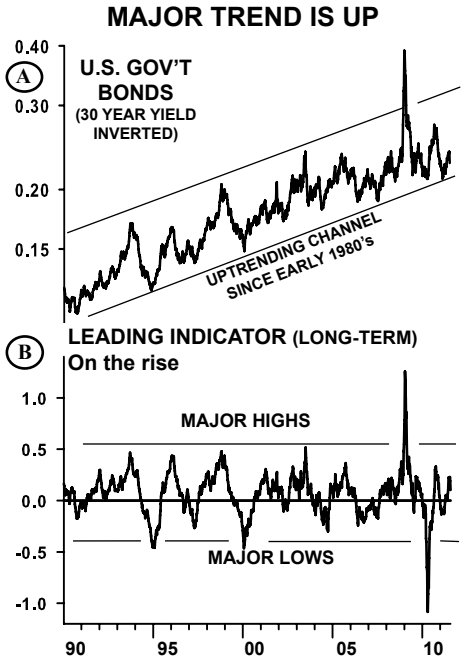


CHART 8

But once the immediate crisis was resolved, it eliminated the need for safety, signaling the AOK for higher risk investments. So many investors sold their bonds and moved into stocks, which put upward pressure on interest rates.

THE FED'S LID IS OFF

The Fed's actions, however, were even more influential. Over the past couple of years during its QE program, the Fed has bought U.S. bonds to the tune of almost $3 trillion, which amounted to about 70% of available bonds. This kept a lid on interest rates, holding them down for the past 2½ years.

When the Fed left the market, the lid was removed and it was like a pressure cooker blowing its top. Rates surged and you can bet, the Fed is unhappy about this. In fact, they'll probably do something about it, which explains the recent volatility.

Bernanke has said many times he's going to keep interest rates low for an extended period. He also said the Fed should keep stimulus going to boost the slow economy, including buying more Treasuries. Currently, the Fed is scheduled to buy about $300 billion as the principal from maturing bonds is reinvested, but will this be enough? If not, the door is open for more.

We know the Fed does not want to repeat the mistakes Japan made, which led to their lost decade or two. They've essentially said so.

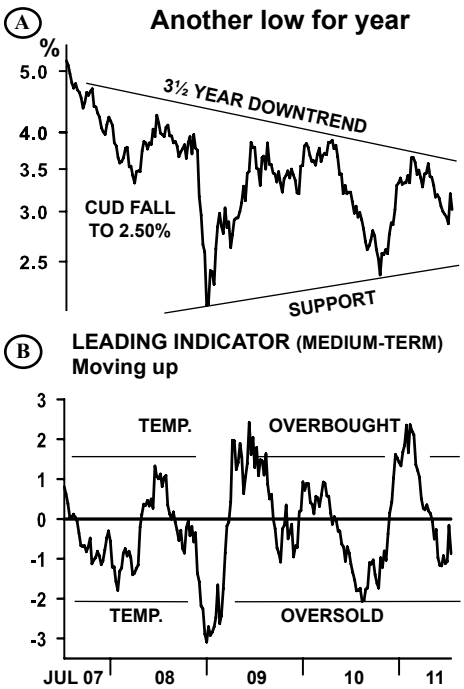
Japan has had low interest rates for ages, along with stimulus packages, but this hasn't really been effective. So they stopped and it only made matters worse.

The U.S. has already lost one decade and it'll be keen to act quicker than Japan did. If so, this would obviously involve more stimulus since there's not much else to do, especially since the Fed keeps dropping hints along these lines.

BONDS: Headed higher

And as we mentioned, our leading indicators are backing up this scenario (see **Chart 9**). As you can see on the top chart, bond prices have been in an uptrend for decades. That is, interest rates have been in a long-term decline during that time.

CHART 10



That's primarily been because of a lack of inflation, a sluggish economy and demand from foreign investors since U.S. bonds have been considered super safe for a long time.

That sentiment changed in more recent years as U.S. debt soared, along with massive spending and money creation. So the Fed had to pick up the slack, particularly after the financial crisis of 2008, which has all kept downward pressure on interest rates and upward pressure on bond prices.

At one point last year, it looked like this mega trend was changing. Commodities were soaring and inflation was picking up, but it didn't change. Instead, interest rates fell further and the uptrend for bond prices remained intact, in large part thanks to the Fed's actions.

Now, the leading indicator for bond prices is rising (see **Chart 9B**). It's bullish and it has room to rise further before it reaches the major high area. This strongly suggests, bond prices are going higher and interest rates will fall further.

The 10 year yield chart, however, is telling us... not so fast (see **Chart 10**). Its leading indicator is rising, which tells us that rates could still rise further or maintain volatility before they head lower

CHART 11

(bond prices rise).

In other words, the Fed probably will step in to turn this tide around. Or this could be signaling that the economy is going to eventually slow even more so, which would provide a positive environment for bond prices.

Whatever the outcome, it'll provide a much clearer direction as to which way the economic tug of war is headed. The markets have all the answers, and they'll tell us soon enough.

BONDS WEAKER THAN STOCKS

One chart we're keeping a close eye on for telling signs is **Chart 11**, which shows bonds compared to stocks. Since 2009, this ratio shows that bond prices have been much weaker than stocks. That is, despite the uptrend in bonds, stocks have been a much better investment. In large part, that's been due to economic growth and the Fed's bond buying binge.

But if this downtrend since 2009 is broken on the upside, then bonds will be poised to outperform stocks. This in turn would reinforce the slowing economy scenario, which would put downward pressure on stocks. If the ratio falls further, however, the economy will likely continue to plug along and stocks will remain stronger than bonds.

This just reinforces that we are indeed at a crossroads. It's a struggle between inflation and deflation and it's been ongoing. The Fed has been fighting the deflationary pressures, using all the ammunition it has. Will it succeed? That's the big question and at this point, it's too soon to tell.

In the meantime, we'd continue to stand aside in these markets and wait for the outcome. If you're a long-term bond holder, it's okay to keep them.

We were premature selling TBT and RRPIX last month but for now, we'd still avoid them and we wouldn't hold TLT either. Either way, risk is high, at least for the time being.

CURRENCIES

Greece takes center stage

It was an intense month for the currency markets. They were nervous, jittery and volatile. Boiling it all down, there were two reasons why... Greece and the slowing world economy.

GREECE: Center stage

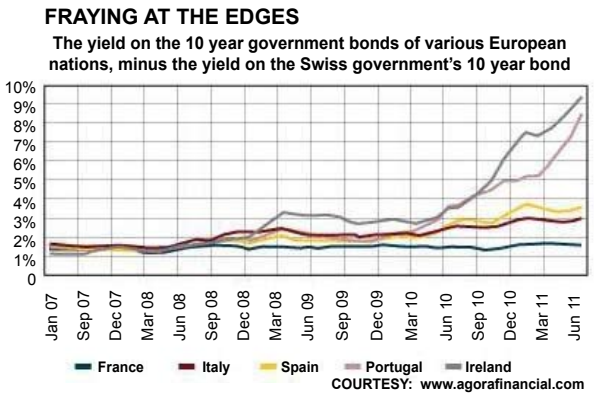
As you all know, the Greek drama took center stage and it affected most of the markets. That's been the case for a while now. But it intensified so much this month, most currencies were rattled.

The big question was, would Greece default on its debt or not?

Despite behind the scene efforts to avoid this outcome, and public statements from top Eurozone and international officials, including Obama, Merkel and Sarkozy, when it looked like Greece might default, the currencies fell.

On the other hand, the

CHART 12



U.S. dollar rose, benefitting as a safe haven. It was the place to go to avoid the possible fallout from what was happening in the Eurozone.

Many wondered, so what's the big deal about Greece? Who cares if they default, and why is everyone so fixated on this relatively small country?... What no one was saying outright was that fears of 2008 were again becoming all too real. They were looming overhead because Greece was capable of triggering another 2008 snowball effect. How?

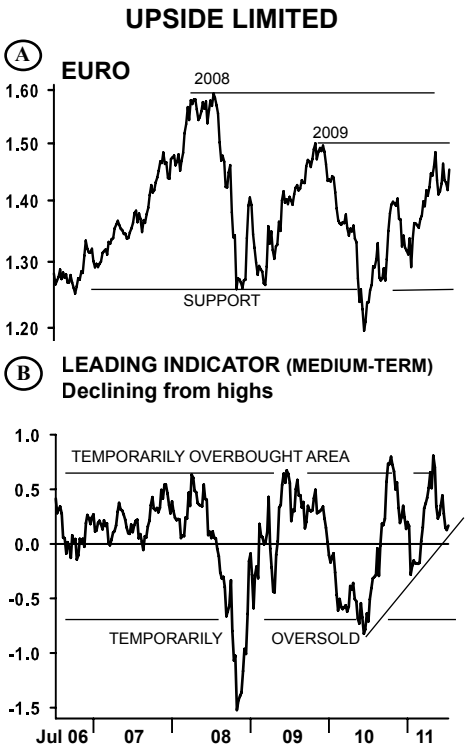
THE DOMINO EFFECT

First, a default by Greece would have disrupted most markets worldwide, probably fueling panic. Remember, contagion is still alive and well, and with the global markets more connected to each other than ever before, this would have likely happened rather quickly.

It would have surely affected the other marginal Eurozone countries who've been skating on thin ice, speeding up their downfall. Portugal's debt was recently downgraded to junk and the situation remains very vulnerable. Any upset could threaten the existence of the entire Euro 27 country community as we know it today, and the euro.

Then there's the banks. Many of the Euro banks are up to here in Greek debt, holding about 70% of this debt. U.S. banks are exposed too. Any threats to the Eurozone's stability would have hurt banks globally. Think of Lehman Brothers and the domino effect in 2008... this would have been similar, if not worse.

CHART 13



And the crisis wouldn't have just stayed in Europe. The U.S., China, Russia and most other countries are holding Eurozone bonds (debt). In fact, many of the largest U.S. money market funds have a big chunk invested in Euro banks or debt, something like 40%. So clearly, this would have become a global crisis, probably triggering a recession. That's why everyone was worried about Greece, as the currencies reflected.

But as violent riots gripped Athens in protest against austerity measures, many wondered if the government would actually go through with the spending cuts, in order to obtain more funds to avoid going bankrupt.

In the end, they did. The Greek people are unhappy but the government did what it had to do. It was in a corner and there was no way out.

GOOD EXAMPLE

What's been happening in Greece is actually fascinating and it provides an excellent example of what's likely coming in many other countries...

Don't get us wrong, we love Greece. It's a gorgeous country filled with history, and the people are friendly. But like spoiled kids, they're spoiled, like people are in so many countries, without even realizing it.

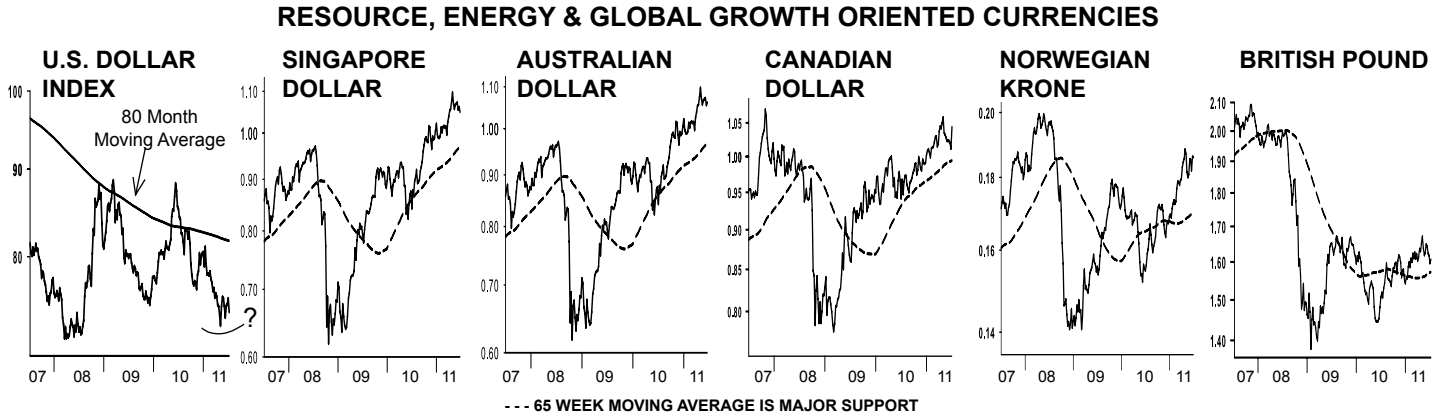
Most people expect the benefits they're getting from the government. They take them for granted, even though the government can't afford them. For example, hundreds of professions have given Greek workers the right to retire at age 50 with nearly a full pension, including beauticians and agricultural workers.

As one observer noted, is it possible that a Greek orange picker could trigger a global financial crisis? For a few tense weeks, the answer was yes.

THE EURO STAYS

Stranger things have happened. Before the crisis of 2008, few people had heard of subprime loans, yet look at what happened. And just this year, the onset of uprisings in the Middle Eastern countries started when a street vendor in Tunisia

CHART 14



set himself ablaze.

Meanwhile, the Germans are also unhappy about what's going on since they're the primary breadwinners in the Eurozone. Germans are hard workers and it's like anyone… how long can you support a deadbeat relative, especially if it's someone you're not that close to? This too is adding tensions to the mix but so far, Merkel got her way and she's determined to keep the euro intact.

As we've often said, we're living in fascinating times and it's ongoing. For now despite these latest efforts, the problems persist, as they do in many other places.

This has essentially been a band aid, put on a critically wounded patient. The Eurozone is not out of the woods. Portugal, Ireland, Italy and Spain are right behind Greece, and you can be sure this will result in ongoing tensions, and ups and downs in the currency markets.

As you know, the markets always tell the story. And if you look at how high the 10 year yields are in Portugal and Ireland, it tells us that risk remains high in these countries (see **Chart 12**).

But never mind. For now, there's relief that Greece pulled through and the euro is holding (see **Chart 13**). But like we've seen in the stock and bond markets, the leading indicator is telling a different story. It's declining and this suggests that the euro's upside is limited and it's likely topping. That is, even though the euro could head higher in the weeks ahead, another crisis may be around the corner and if it is, it'll put downward pressure on the euro and it will fall further.

The same is true of the other currencies (see **Chart 14**). They've not only been affected by events in the Eurozone but also by signs the global economy is slowing. That's been a big factor for some of the commodity currencies, like the Canadian dollar, since they rely on higher oil and commodity prices.

U.S. DOLLAR BOTTOMING?

This too has provided a boost for the U.S. dollar. Again, a slowing global economy makes the dollar more attractive because it's viewed as a safer option compared to other countries. For now, it still looks like the U.S. dollar is bottoming and the currencies are topping. Even though the major trends remain up for the currencies and down for the dollar, a temporary rebound will probably unfold in the months ahead.

This scenario will be reinforced if the U.S. dollar index holds above its record low at 71.50. If it doesn't, then all bets are off and we'll buy more currencies. But we'd be surprised if that happens. Of course, anything is possible and we have to stay open to all possibilities.

Looking at the Japanese yen, for instance, you can see that it's risen far in recent years (see **Chart 15**). But it looks to be topping, similar to what happened in the mid-1990s, prior to a steep fall.

Will history repeat? It could and if it does, the other currencies will likely fall too as the dollar strengthens. If so, it would mean trouble ahead. But again, we'll stay flexible.

Currently, we're keeping our currency position, diversified between U.S. dollars and the Swiss franc, which has held firm during this tension period, as well as the Canadian dollar. But other strong currencies, like the Australian dollar, are still fine to keep too.

CHART 15

METALS, NATURAL RESOURCES & ENERGY

The best is still to come

Gold was volatile this month. It surged up to near its record high, only to then fall sharply and head up again.

Overall, gold is looking toppy and the overdue downward correction may still be coming. If it is, gold is likely headed lower. But this is not a given.

STRONG FUNDAMENTALS

Gold remains super strong, despite this month's decline. The major trend is solidly up, which has been the case for 10 years, as the longest winning streak in at least 90 years keeps getting stronger.

Gold has not had more than a 14% downward correction in over two years. In large part that's because the fundamentals remain so strong.

Uncertainty reigns as the world focuses on one crisis after another. Gold is the ultimate safe haven. Plus, inflation is picking up steam and demand is very strong.

This has kept a solid foundation

under the gold price. But gold has also been quick to decline when the news is good, as we saw with the Greek resolution. It's also reacted quickly by rising when global concerns surface, as we're now seeing with Portugal and the jobs numbers. The result is, ongoing volatility, which has yet to provide a clear near-term trend direction.

In other words, gold has technically been trading up and down within a bullish, wide neutral range. But as you'll see, downward pressure still persists, which is not unusual, also considering that the Summer is a seasonally weak time for gold.

GOLD IN A BUBBLE?

This month's steep decline, however, spooked many investors. They feel gold is in a bubble and this bubble is in the process of bursting... we don't think so.

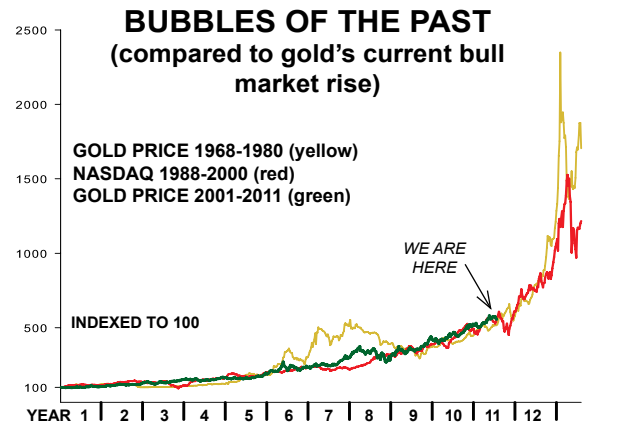
Despite gold's volatility, **Chart 16** provides a good example of what we mean. It shows that the best is still to come!

Here you can see gold's current rise since 2001, compared to gold's rise in the 1970s, as well as gold compared to the huge Nasdaq tech boom in the 1990s. In both cases, those were bubbles, but note that gold is still far from being in a bubble stage.

In the 1970s, during the last big inflation, for example, gold soared about 2,300% and silver boomed almost 3,600%.

This time around, the overall situation is far more serious than it was then and the upcoming inflation could be even more damaging due to the unprecedented causes that have already taken place.

CHART 16



But let's say the current rise ends up being similar to the 1970s. If so, then gold could eventually rise to about the $6,000 level and silver to $150 before this bull market matures.

Of course, time will tell. But as long as the major trend and the overall environment is as positive for gold as it is now, the upside is wide open.

TAKE ADVANTAGE OF WEAKNESS

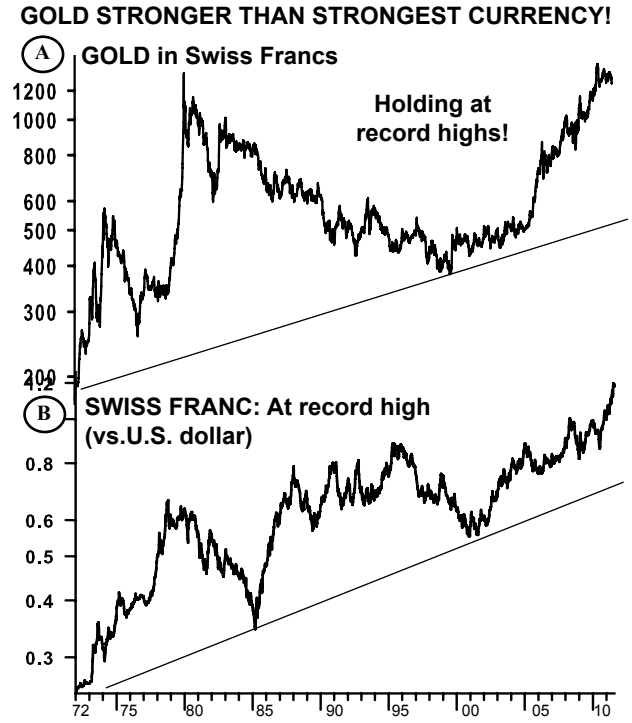
The point is, gold and silver have plenty of upside potential and they'll likely be the best investments in the years ahead.

As you'll see, any weakness during these Summer months will provide a great buying opportunity. We urge you to take advantage of weakness by averaging in over this month and next.

As we've often noted, the major trend is the most important and we recommend staying with it and holding your positions for as long as it lasts.

Remember, mega bull markets in commodities usually last at least 17 years, going back over history. So this too reinforces the fundamental factors and the technical reasons for holding gold over the long haul.

CHART 17



GOLD IS BEST CURRENCY & MARKET

In addition, gold is simply the best investment and it has been for years. It's also been the best currency. Although it's not often thought of as a currency, it is, and that's been the case for thousands of years.

The Swiss franc, for instance, has been attracting a lot of attention as one of the strongest paper currency havens during these uncertain times. **Chart 17B** shows its strength, as it reached a record high against the U.S. dollar. And it's been rising in a steady uptrend since the 1970s.

But this chart drives the point home clearly. Even though the Swiss franc has been one of the best paper currencies, gold has been better (see above).

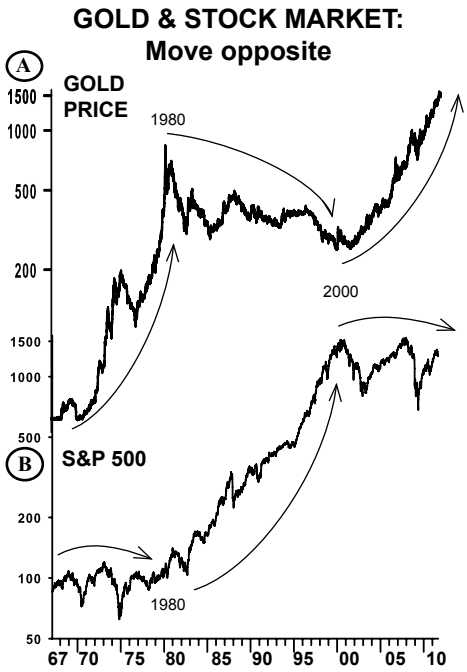
Gold is near a record high against the Swiss franc and it's holding. This means that, regardless if a currency is strong, gold has outperformed.

In this case, gold began rising clearly on its own merit in 2005. It has reached record highs against all of the other currencies as well.

A different view

Last month we showed you that gold is also the better investment compared to the stock market. **Chart 18** shows this same bottom line but in a different perspective.

CHART 18



As you can see, gold and the stock market move in opposite directions. Over the years, when gold has risen in a bull market, the stock market generally moved down to sideways. That was the case from 1967 to 1980, and again from 2000 to the present.

On the flip side, when gold declined in a bear market, the stock market had its best bull market run in 1980 to 2000.

The reason why this hasn't been so obvious in recent years is because the stock market rose from 2002 to 2007, and from 2009 up to today. But when you stand back and look at these moves on a big picture basis, you can see a mega top formation in the S&P 500 since 2000, especially compared to the roaring bull in the gold price.

This is similar to what happened in the 1970s. At that time, there were also ups and downs in the stock market, including the terrible bear market of 1973-74 when stocks dropped about 50%. But despite the rises, which were also decent, the upside for stocks was limited.

As you know, overall, we've kept a larger percentage of our portfolio in gold and silver related investments throughout the past decade. But as long as the stock market is rising, we'll also keep our position in common stocks, as well as in some of the best currencies.

WHAT TO WATCH FOR...

Okay, so let's next take a closer look at where gold currently stands, looking out to the months ahead, and what to be watching for...

There's no question that gold is super bullish (see **Chart 19A**). It's been rising steadily for over two years in its strongest C rise yet.

The leading indicator, however, is on the decline, suggesting the gold price will likely soon follow (see **Chart 19B**). But what if it holds near its current levels, like it's done since early 2010? In that case, then gold's decline will be moderate and it'll keep rising, or maybe it's already happened.

At this point though, a downward correction would be normal following such a long, sustained rise.

CHART 19

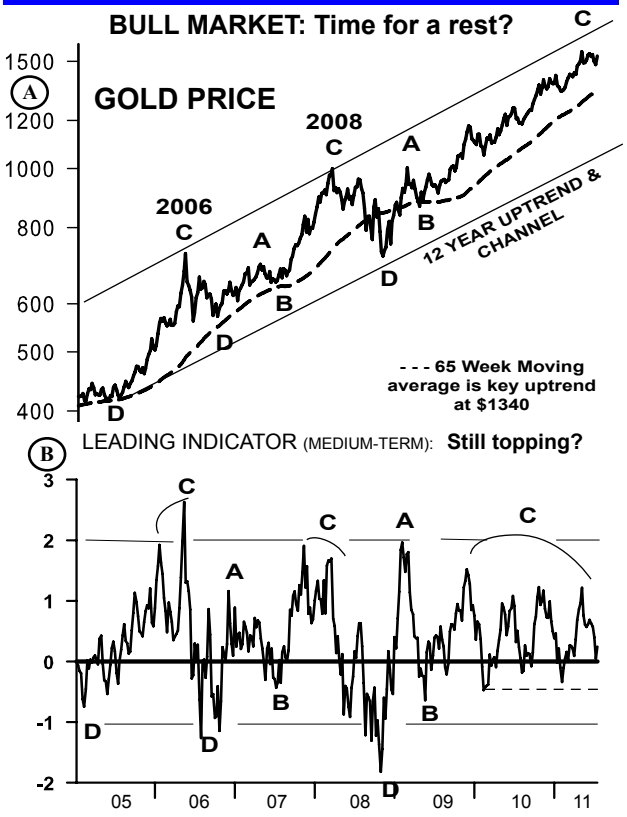
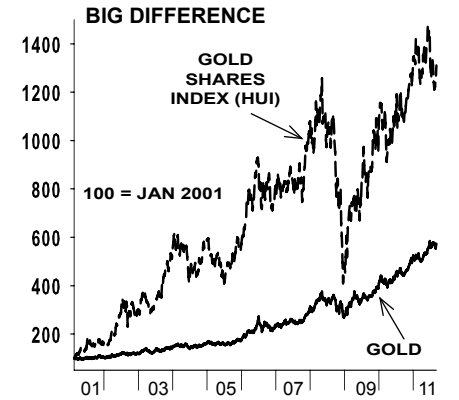


CHART 20



But this bull market has not been normal in recent years. It's been abnormally strong and here's what we're now watching...

If the gold price declines and stays below $1495, a downward correction would then be underway, which could take gold down to near the $1340 level (its 65-week moving average).

On the other hand, gold will remain very strong by staying above $1520. And if rises clearly above $1560 to a new record high, a renewed upmove would be gearing up, signaling gold is super strong and it's resisting all attempts to hold it back.

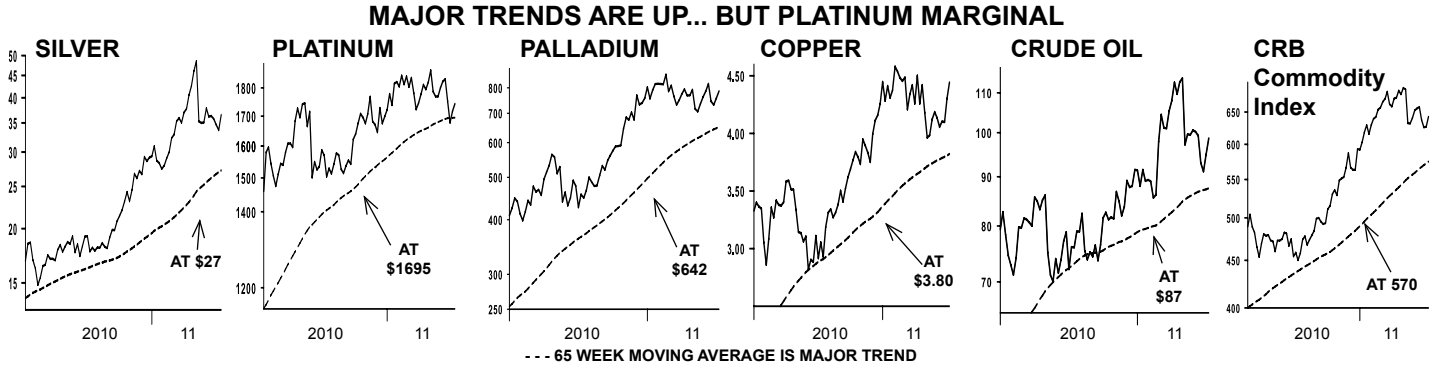
This scenario cannot be ruled out considering demand is so high. So far, buyers keep coming in as they take advantage of any weakness. While this is unusual because all markets eventually take a break, with the world situation the way it is we have to be open for whatever comes.

GOLD SHARES LEADING?

Meanwhile, gold shares have been rising and as you know, they often lead the way for gold. Some have been stronger than others, but as a group it looks like they're headed higher. So this too is bullish action.

For now, gold will likely outperform gold shares in the upcoming months. But as you can see on **Chart 20**, gold shares have been much stron-

CHART 21



ger than gold since 2001. They're also more volatile. Here again, however, if you hold on for the long-term and ride through the ups and down, it's worth the effort.

And the others?

Many of the other markets have also been volatile, especially this month (see **Chart 21**). Silver, platinum, the oil price and commodities... they've all been under downward pressure, moving up and down. Let's start with silver...

SILVER: Lagging

Like gold shares, silver has been stronger than gold since 2003, gaining over 1000% (see **Chart 22**). It's been more volatile too. Still, there's no question that silver remains strong, bullish, impressive and similar to the 1970s.

Lately, silver has been lagging and it won't really show signs of renewed strength unless it can rise and stay above $38. If gold keeps heading higher, there's a good chance it will. Plus, silver's fundamentals remain very strong.

Demand is soaring, both as an investment and because of its industrial uses. Siler coin sales, for instance, have skyrocketed worldwide. They're up 10 times compared to five years ago. Remember, silver is a lot more affordable for most people than gold is, which adds to its attraction.

Meanwhile, industry uses up about half of the silver that's available and demand here is soaring too. These factors alone will keep upward pressure on the silver price.

On the downside, a decline below $33 would signal short-term weakness. If that happens, then silver could head down to near the $27 level.

RESOURCES: Holding up

Some of these markets have been jittery about the world economy and all eyes have been focused on China. If the global economy slows down, it'll mean less demand for commodities, and that's been the big focus. China is the world largest consumer of copper and oil, so what happens in China strongly affects these markets.

Many feel China is on the verge of a big slowdown but copper and oil have recently been rising. If they keep moving higher, these markets will be suggesting otherwise.

As you know, copper is the world's economic barometer. If it rises, all is well, and it's currently bullish and firm above the $3.80 - $3.90 level.

Even though the IAE dipped into its strategic oil stockpiles this month, which is something it's only done during the Gulf war and Hurricane Katrina, it couldn't keep the oil price down (see **Chart 23B**). It too remains currently bullish and firm above $87 and $96, respectively. And if oil heads higher, the price of natural gas eventually will too.

Currently, demand remains strong throughout the metals and commodities sector. This all bodes well for these markets and despite the volatility we've seen, all looks good.

CHART 22

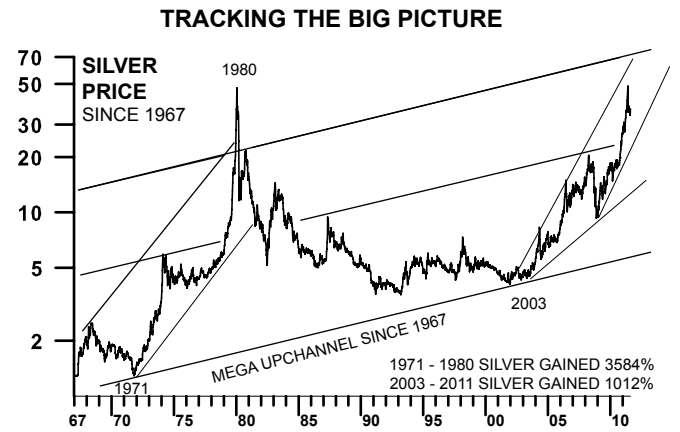
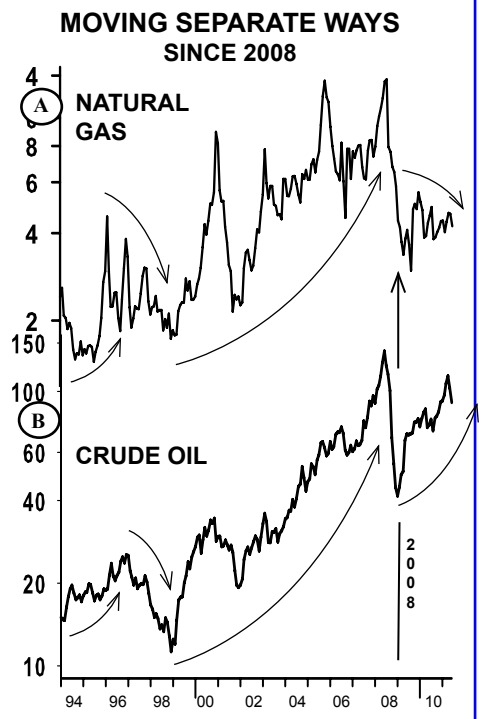
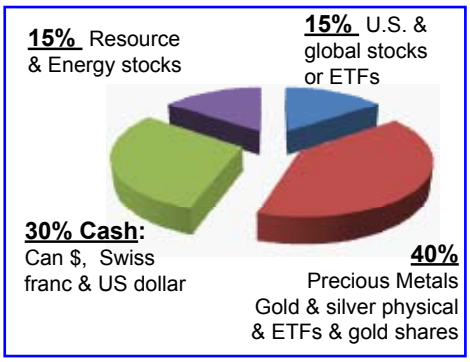


CHART 23



OVERALL PORTFOLIO RECOMMENDATION

The markets were volatile this month. All eyes were focused on the Eurozone and the global economy, and the markets were quick to react to the news of the day. The end result was surging gold and stocks, stalling currencies and volatile interest rates. Even though the major trends remain intact, we're also seeing some signs of caution. So this month we're officially keeping the positions we have, essentially divided between metals, cash and stocks, and we don't recommend making any changes for the time being.



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

Gold remains super bullish, despite this month's volatility. The major trend is solidly up but it remains overdue for a downward correction, which may still be coming. Strong demand, however, is keeping a solid foundation under the gold price. For now, here's what to watch for... If gold declines and stays below $1495, a downward correction would be underway and it could then take gold down to near the $1340 level. If so, that would provide a great buying opportunity. Take advantage of any weakness by averaging in this month and next. On the upside, gold is very strong above $1520 and a renewed upmove would clearly be underway by staying above $1560.

Gold shares are looking good and they've been leading gold, but silver has been lagging. It would show renewed strength above $38 and weakness below $33. Keep a 40% posotion in metals related investments with a heavier weight in physical gold.

To buy physical gold and silver, we continue to recommend Dana Samuelson at www.amergold.com, phone 1-800-613-9323.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The stock market is surging and the bull market continues. But despite this bullish upmove, some caution is still warranted. Even though the Dow Transports hit a record high, we'd like to see this confirmed by sustained rises in the Dow Industrials and S&P 500, above 12810 and 1362, respectively. Currently, we're keeping our 30% stock position, divided between U.S. and global stocks, plus energy and resource stocks. If you want to buy new positions, then go with the strongest stocks, listed at the top of these sectors. But remember, our indicators are not in synch with the price action and half of the world stock markets are bearish, so stay cautious.

CURRENCIES RECOMMENDATION

The currency markets have been nervous and volatile. This will likely continue as ongoing tensions resurface. Currently, the major trends remain up for the major currencies and down for the U.S. dollar. But the dollar still appears to be bottoming and the currencies topping, and a temporary rebound will likely soon unfold. This will be reinforced if the U.S. dollar index holds above 71.50. Keep your 30% currency position for the time bieng, diversified between U.S. dollars (20%), and the Swiss franc and Canadian dollar (10%). Other strong currencies are fine to keep but don't buy new positions now.

INTEREST RATE & BOND RECOMMENDATION

Bonds were also very volatile as interest rates moved up and down in reaction to QE2, Greece and the economy. After hitting their lowest level this year, rates shot up, then declined again. We know the Fed wants low rates and bond prices are poised to head higher, but until the outcome is clear, risk is high and we'd continue to stand aside. Avoid interest rate related investments, but if you're a long-term bond holder, it's okay to keep them.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

AuRico Gold *	AUQ-NYSE
New Gold	NGD-AMEX
Central Gold Trust	GTU-NYSE
SPDR Gold Shares	GLD-NYSE
iShares Comex Gold	IAU-AMEX
Central Fd of Can	CEF-AMEX
Silver Wheaton	SLW-NYSE
iShares Silver Trust	SLV-AMEX

RESOURCE & ENERGY SHARES

Caterpillar Inc.	CAT-NYSE
Ultra Oil & Gas	DIG-AMEX
BHP Billiton	BHP-NYSE
Apache	APA-NYSE
iShares Tr Glbl En	IXC-NYSEArca
Suncor Energy	SU-NYSE
US Oil Fund	USO-Nasdaq

U.S. & GLOBAL STOCKS

SPDR S&P Bio	XBI-NYSEArca
iShares Malaysia	EWM-NYSEArca
Dow Diamonds	DIA-NYSEArca
iShares Mexico	EWW-NYSEArca
Templeton Emg Mkts	EMF-NYSE
iShares S&P Glbl 100	IOO-NYSE
S&P Glbl Telecom	IXP-AMEX

CURRENCY ETFs & FUNDS

Swiss Franc	FXF-NYSE
Canadian DL Tr	FXC-NYSE

* formerly Gammon Gold (GRS)

Note: All of the shares, funds and ETFs are listed in the box above in order of strength per each section. Keep the ones you have on the list and buy new positions in the strongest ones.

Big Picture

By **Uncle Harry Schultz** July 6, 2011 Dear Reader, Euro Central Bank chief Trichet spoke the most apt words of the year: ***"Uncertainty remains elevated."*** I can't top that for accurate big pic brevity. Other understated pearls: *"Inflation will remain above targets. Pressure is upwards for inflation."* Such honesty & clarity is rare in the CB world. ••••••• Kicking the can down the street to avoid dealing with the crisis isn't an accurate simile says El-Erian, CEO of PIMCO, world's biggest bond traders. *"A proper simile would be rolling a snowball down a hill, which grows ever larger."* He added: *"U don't buy bonds if no one else is."* •• That reminds me, I told my US readers years ago to exit municipal bonds. If my now expanded readership didn't see that & still hold them, I urge U exit them now. Old proverb: *It's never too late to do the right thing.*

China is slowly revaluing its currency, so US & others tasting own medicine—via higher prices on imports (which is nearly everything we use). China costs up big, mostly via wages. Maybe stock mkts will sky—in a race to beat inflation. Pay rises underway for the skilled. Goods sent to US at ever-higher prices now. How will US consumers cope with no more cheap Wal-Mart goods? World food prices are up 36% this year; that rate better stop! •••• A revelation withheld: Breaking News that never broke: Saudis are planning nuclear energy! This shock follows news leaks & speculation by ourselves & couple others that Saudis misreported their oil reserve for decades, perhaps by 40%. Running out of oil; go nuclear. All OPEC members cheated in reserves reports (to get bigger production quotas). Peak oil lives! I see oil at a new high ere long. Prefer Brent to NY Crude.

Does it insult your intelligence? BigBiz, multi-nats, & elite-controlled media use words to reshape your understanding. Like "bad patch" or "bump in the road" instead of downtrend. Or "double-dip" to create illusion that at worst it can't go below prior low. Or Quantitative Easing instead of increasing the money supply. It's sophisticated brain washing. In fact, the "soft patch" is here to stay, for a decade at least. And take heed of ace mkt forecaster Geoff Payne who says: *"Take care of yourselves, as they don't care about you."* •••• We need a clone of F.F. Samuel Adams. ••• The ship sinketh. ☹

Hold your breath for this: *Safe Wealth Management* says: Most banks will close in the next financial crisis. The financial system will close. Many govts will effectively close. Travel may be impossible. {Credit cards unusable with banks shut}. The Net may not be working. Increase cash on hand, wherever U live. The Swiss franc has risen vs US$ by 25% in last 12 mos. Still strongest. U need food reserves. Buy physical precious metals now while it is ***possible*** to buy them {it won't be if most banks close or have restrictions}. These Swiss advisors (who also organize procurement & storage & safekeeping for actual cash & metals) have a good track record in forecasting metals, currencies, bonds, stocks over the long period I've read them. U can reach them at clientservices@safewealthconsultants.com. Fax in Switzerland: (41)-21-966-7201 & 7202.
I would add to their thoughts: prepay your subscriptions to newsletters, newspapers & mags for 2-3yrs. Stockpile postage stamps & bank checks (cks often re-circulate when banks shut). Radical talk? Yes, maybe! But are these not radical times? And the cost of ignoring it might be more than we can handle. Example:

La Banque Postale (a defacto bank*) in France has* ***lowered*** *the limits on the amounts of cash customers can withdraw per week by* ***50%.*** Looks like cash is short***.*** Other banks have delay to get cash in size. Make sure U stash enough cash to last until the 12th of Never. *"And that's a long, long time."*

••What have we learned in 2,065 years? *"The budget should be balanced, the Treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered & controlled, & the assistance to foreign lands should be curtailed lest Rome become bankrupt. "People must again learn to work, instead of living on public assistance."* - Cicero - **55 BC.** Evidently we've learned little from history. ••• •••• Will Durant said: *"The trouble with most people is that they think with their hopes or fears or wishes rather than with their minds."*

•Banks continue complaining we must not limit the size of their ridiculously high bonuses because they'll lose their traders. Oh, U poor people. Boohoo! We feel so sorry 4 U. But for humanity's sake, let them go, hire people who want to be bankers, not banksters.

Jekyll Island author G. Edward Griffin says: I think Ron Paul is doing an excellent job given the constraints under which he must operate. Ron is not able to say anything & everything that comes to his mind, like I do here, & possibly say things people don't want to hear ... fortunately I am not running for office. Ron, poor chap, he has to worry about not saying too much for fear he may go beyond the understanding or educational level of the people he wants to vote for him. That's a terrible constraint to live under. He is doing the most amazing job I have ever seen & I can't imagine anyone doing any better under that constraint."

1984 trick: "According to new ruling from US 9th Circuit Court (See http://www.executivegov.com/2010/08/ninth-circuit-court-secret-gps-tracking-is-legal) , it's perfectly legal for federal agents to secretly plant a GPS locator on your car in the middle of the night, even if it's parked in your driveway, & then use said locator to track your movements as they see fit. Even without a warrant . . .."The ruling, which sets precedent for Alaska, Az, CA, Hawaii, Idaho, Mont, Nevada, Or & Washington, holds that *'the right of the people to be secure in their persons, houses, papers, & effects against*

unreasonable searches & seizures' apparently doesn't apply to driveways*."* ☹ ••• *"Wars in old times were made to get slaves. The modern implement of imposing slavery is debt."* --Ezra Pound, US poet, Mar 25, 1943. •••• Chip Wood asks: *"Are we worse off than the Greeks? Greece is about to go bankrupt, possibly taking down the euro with it. Thanks to profligate borrowing & spending, the country's debt is a staggering **$42,888** per head. But here in the good ol' USA, our debt comes to even more: **$46,403** per person. Our govt wants to borrow several trillion $'s more, & some countries seem willing to lend it to us. We truly live in a world gone crazy."* ••••• Reader CM writes: *"There are so many problems with all this twittering, tweeting & facebooking. It's just a way of getting a load of email addresses & personal info on the masses. What possesses people to volunteer so much personal info & place themselves in jeopardy? It's stupid."* Agreed. •••

Europe is suffering needlessly by the Greece crisis. But that's almost a definition of politicians. Avoid le cause, pursue le band-aids. Failure to quickly embrace the only real solution (let Greece exit—she shouldn't have been admitted to begin with; was a fluke) means pointless pain for Greece & the EU—which could lead to EU bust-up, like a wound that goes untreated. Unintended consequences await. *FT*'s Wolfgang Munchau says current proposals are really *"a private sector bail-out."* Almost a scam. He concludes (7/5/11) *"We're not just kicking any old can down the road any more. This is a can of explosives."*

••• **Change** is the order of the day, daily. Absorb them or be assimilated by the Borg. ☺ ••• *"Give it a few months & the Fed might have to start buying Treasuries again."* - James Saft (*Reuters*). Might? U jest Jim. ••• Re Afghan: honesty at last. Dennis de Tray, 173rd Airborne Brigade, said (*FT* 6/16/11) *"The coalition has signaled to Afghans that their govt is both incompetent & incapable."* Nation restructuring is not the mission. If it were, it would be Mission Impossible. Leave should be the mission. ••• If real inflation in the real world is, on average, say 11% (as John Williams, ShadowStats reports), it means your & my assets are shrinking that much every year if we don't earn 11% on our ***total*** assets! Not just the part in gold, but total. ☹ Scary! And some claim the rate is well over 11%. Rethink your portfolio. ••• EU budget chief calls for cuts to farm subsidies. Yes! This is 25yrs overdue. Farm free-loaders get 40% of Euro budget. Lewandowski, a good Pole, wants it cut to 30%. But farmers have clout; will probably block it for another 25yrs, punishing all Europeans. Free mkts are not widely understood (on purpose) in Europe. I was once given a *'Man of the Year-Champion of the Free Market Cause'* award by the Institut Economique de Paris, May 1986. They were trying to teach the French about free mkts. I think they finally gave up & disbanded. The French like their subsidies & perks. But, they're not alone, in wanting to keep corp/govt/union welfarism. It's a major reason why reforms in banking & higher age retirement are proving difficult or impossible. In the UK & France, strikes today protest taking away some punch bowls. It's natural to try to hang on, but wisdom calls for sharing the pain in reforms everywhere. Even your kids don't want U to cut their allowance. That's why teaching morality & religion is so important. Morality used to be the general norm 100yrs ago; now it's the exception; just read the headlines. Daily frauds, 2 sets of books, cheating, loop-hole seeking, drugs, lying. Giving up the gold standard removed a behavior floor needed by all. The trickle down effect of that is ongoing, needs reversal. Meantime, hang in there, do your bit, hunker down, plan, share, linkup with God. PS: A. Holtzman (*FT* 5/19) hopes universities will provide courses in ethics to students taking finance courses. ☺. ••• *FT* headline 6/1: US/UK bank chiefs' pay rises by 36% despite patchy performances. Sigh. ☹

Defense Sec. Robt Gates is 100% half right on Euro defense weakness. But he is 100% half wrong as there is the other side of the story, which Americans don't know. Hope to deal with that nextime. ••• Re EU: *"If it **looks** like a default {duck}, we'll rate it as one."* Fitch Ratings, UK. Right! ••• *FT*'s Gillian Tett finds another duck: The state is now the dominant force in US capital mkts. Capital mkts now reliant on govt guarantees. Concludes: Adam Smith might spin in his grave. ••• EU Commission Prez Barroso wants an off-budget budget, so it can cheat like US Congress does. Keep 2 sets of books. This is what Euro Union has come to. Immorality. ••• Converting Euro debt to Euro bonds may save the Euro, say 7 ex heads of state. I've said the same for months. If not, the cost of patches outweighs the benefits sez incoming ECB Prez Mario Draghi. Agree! ••• *"Coalition is UK's best bet in age of austerity"* says Michael Portillo, ex Tory minister. It protects against a Labour win with only 38% of vote. Correct! Carry on Dave & Nick. Good luck.••• *FT* editorial says: As econ. forecasting has a poor record, **failing** to plan for **unlikely** events smacks of carelessness. Amen.

••**Potpourri** The old Brit motto—*Sell in May & go away*—wasn't so bad an idea, eh? ☺ ••• 4 of 10 millionaires don't feel rich sez *CNBC*. IMO, it's because U dare not enjoy the life style U can afford, as low profile is safer, & because assets are under threat by a broken bank system, & as society's morality is falling--thus unsafe & uncomfortable. ••• Bumper stickers blooming, eg: *Go green, recycle Congress*. – No freebies for non-citizens. – *Actually, no one owes U anything!* ••• Maxine says *"My sex life isn't dead, but the buzzards are circling."* & "Everyone seems normal until U get to know them." ••• Paraprosdokian talk: *Where there's a will, I want to be in it* -- If I agreed with U, we'd both be wrong. -- *We never really grow up; we only learn how to act in public.* ☺ -- War does not determine who is right--only who is left. -- To steal ideas from one person is plagiarism. To steal from many is research. –*Knowledge is knowing a tomato is a fruit. Wisdom is not putting it in a fruit salad.* •• On that wise note, I bid U farewell. See U next month, God willing. So far so good. ☺. Uncle Harry @ 87.9 and discounting the future.