THE
ADEN FORECAST
MONEY • METALS • MARKETS

JULY 2012 *our 31st year*

STAY DEFENSIVE

The markets are looking better this month compared to last month. This alone has brought some sense of relief but the overall situation is still vulnerable.

HELP TO THE RESCUE

You've probably noticed that when things seem about as bad as they could be, and the world seems on the brink, which was the feeling last month… that's usually the time when action is finally taken.

In this case, it happened again. The Fed stepped up to the plate first, promising low interest rates in the years to come and extending its Operation Twist program.

This would keep the monetary stimulus going in order to help boost the economy. The Fed does this by selling short-term Treasuries and buying long-term bonds.

But as our dear friend Chuck Butler noted, "I never saw the effect the $2.3 trillion in Quantitative Easing, and $400 billion in Operation Twist, had on the economy, other than stock market increases. So why do it?"

KEEP IT COMING...

The markets seemed to agree. They were disappointed Bernanke didn't do more, especially since he was warning the U.S. economy was facing significant threats from the financial troubles overseas.

In addition, Moody's cut the ratings for 15 mega global banks, including three of the four we mentioned last month that are involved in the derivatives markets.

So the markets turned down again until the Europeans stepped up with their united bailout plan to help the Eurozone banks, which eased the immediate crisis, not only in Europe but worldwide as well.

Keep in mind, China exports 40% of its goods to Europe. And Germany, the Eurozone savior, also exports the same amount to the other European countries.

As the situation intensified, it became increasingly clear that a Eurozone collapse would be extremely negative for all of the world. And that's why the markets moved up strongly on the news. They were relieved because it eased a lot of global tension.

Currently, the markets are waiting for more. Even though China, Europe and Britain all eased their monetary policies, the markets were unimpressed. They want more stimulus from the central banks, which will further calm global tensions and renew confidence.

Our guess is that it'll be coming sooner rather than later and the markets have been subtly hinting at this since around June 1.

JUNE TURNAROUND

At that time most of the markets started to turn around. Stocks, interest rates, some of the currencies and the metals, for example, started basing and/or rising (see **Chart 1**).

And even though these turns are still quite subtle, the markets often lead the economy. So these could be the first signs that bottoms are forming.

While it's still too soon to tell, so far, so good and this is an important leading indicator we're keeping a close watch on.

The point is, the world knows something has to be done.

Not only are the banks in trouble but unemployment has become a massive worldwide problem, especially in Europe (see **Chart 2**).

The young have been particularly hard hit, resulting in what's become a lost generation. In some countries youth unemployment has been holding steady at 50%.

In the U.S. alone, the average family's net worth dropped almost 40% between 2007 and 2010, according to the Fed.

Net worth went from $126,400 in 2007 to $77,300 in 2010, indicating that the recession has taken a heavy toll, essentially wiping out

INSIDE

18 years of savings and investments.

So it's no wonder consumer confidence keeps falling, along with real estate prices. In a nutshell, it's been a difficult, uncertain and vulnerable time.

In Europe, the situation has been even more difficult. The point is, if another global recession were to begin from these already low levels, it could truly be devastating.

The Fed knows this and so do the other central bankers around the world. They know the world needs more stimulus, despite the $6 trillion they've already poured in to keep the world economy afloat since 2008.

Plus, there's an election coming up. And you can bet that'll influence what happens to the economy. In other words, it's unlikely to fall apart at this point, at least not if Obama and the central bankers have their way.

A DELICATE COURSE

Of course the chance of an accident is still a wild card that also has to be considered. As we discussed last month, the derivatives market alone is massive and it's an accident waiting to happen.

Don't forget that the 2008 crisis actually started with Iceland, a small country most people don't pay much attention to. Then the subprime crisis hit, again something most people had never heard of.

And all along, the ratings agencies kept their AAA ratings on the faulty banks, right up to the bitter end. It was a lesson to remember, one we haven't forgotten and we hope you haven't either.

CHART 1

THE BOTTOM LINE IS...

Yes, things seem to be looking better and there are some signs of improvement, but as you'll see in this month's issue, **we're by no means out of the woods yet.**

This tells us to keep our guard up and do the best possible under the circumstances. Again, hope for the best but be prepared for the worst, just in case.

Once we see bluer skies ahead it'll be another story. For the time being though, **we'll keep our portfolio the way it is.**

That is, evenly divided between precious metals investments and long-term U.S. government bonds. Our recommended cash portion will also remain in U.S. dollars.

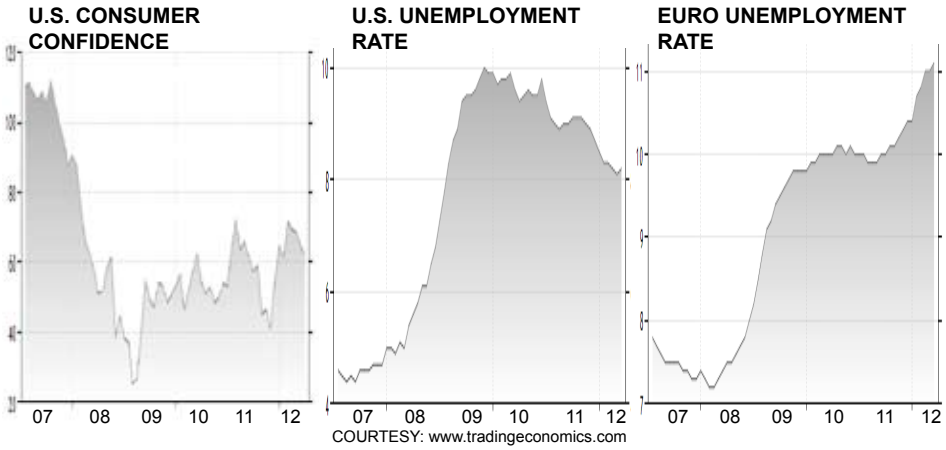
Although stocks have been rising, we're still avoiding them for the time being. They're actually marginal and they could go either way, but we're open.

Overall, however, we feel the opportunities are much better in bonds and metals related investments.

If you are a new subscriber or you want to add to your positions, we would go ahead and buy new positions in the metals at this time, primarily in gold and a few select gold shares (see page 12).

Other than that, sit tight and let's see what happens. It's sure to be an interesting second half of 2012 and we're ready.

CHART 2



Editors:
Mary Anne Aden
Pamela Aden

www.adenforecast.com

info@adenforecast.com

Published monthly by Aden Research. Also includes access to a weekly update $250 per year (U.S. dollars only). Send all customer service or market related questions to Aden Research, Dept. SJO 874, P.O. Box 025331, Miami, Florida 33102-5331 or E-mail info@adenforecast.com Questions will be answered in future issues. The Editors may have a position in the securities recommended and may change such positions without notice. This publication's sole intended purpose is to provide investment-related information and opinions to subscribers. FREE WEEKLY UPDATE, Thursdays at 8 P.M. (Eastern time). You can access it through our website, http://www.adenforecast.com. To receive the market update by fax every week $160 per year for U.S. subscribers and $260 for subscribers outside the U.S. FASTER NEWSLETTER DELIVERY OPTIONS: Downloading from the website, no extra charge. Fax only, $65 more per year for U.S. subscribers and $170 more outside the U.S. Make checks payable to Aden Research, S.A.

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

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

U.S. & WORLD STOCK MARKETS

Mixed markets

The stock market has been rising and it's looking a lot better than it did last month.

ONGOING VOLATILITY

Does this mean the coast is clear? No. The market remains volatile. It gets excited at any signs of good news, like more monetary stimulus, better economic signs and so on. But it's also quick to react on the downside when the news is disappointing (see **Chart 3**).

This up and down action makes it a tough market for investors. It's actually more of a trader's market, at least for now.

Meanwhile, on the financial news shows, all day long, you'll hear commentators explaining why this or that is happening. Every shred of news is overly dissected. It could be the jobs report, the day's events in Europe, a comment by Bernanke and what it might mean, or just about anything.

But little of the chatter is really important, other than providing a barometer of the day's sentiment.

FOCUS ON BIG PICTURE

The big picture is rarely mentioned and as you know, that's what's most important. The action in the market speaks for itself. It consists of the opinions and actions of millions of investors all over the world. That's the real story.

Since the stock market leads the economy by several months, you'll see it there first. So what's the market currently telling us?

CHUGGING FORWARD

It's telling us that it wants to go up, but it's still uncertain and nervous, and then it stalls. Plus, many of the world stock markets remain bearish, which is a drag on the overall stock market scene.

The U.S., Mexico and Malaysia have been leading the way up. But in a good overall bull market rise, all of the markets would ideally being going up together.

This means, caution is still warranted. Even though most of the U.S. stock indices are above their moving averages, they haven't really broken up and out in a convincing way.

TRYING TO STAY BULLISH

Looking at **Chart 4**, you'll see the Dow Industrials, for example, with its two leading indicators.

Note on the top chart that the Dow has essentially been sluggish since last year. Currently, it's still trading within a sideways band, which is now between 12950 and 12300.

CHART 4

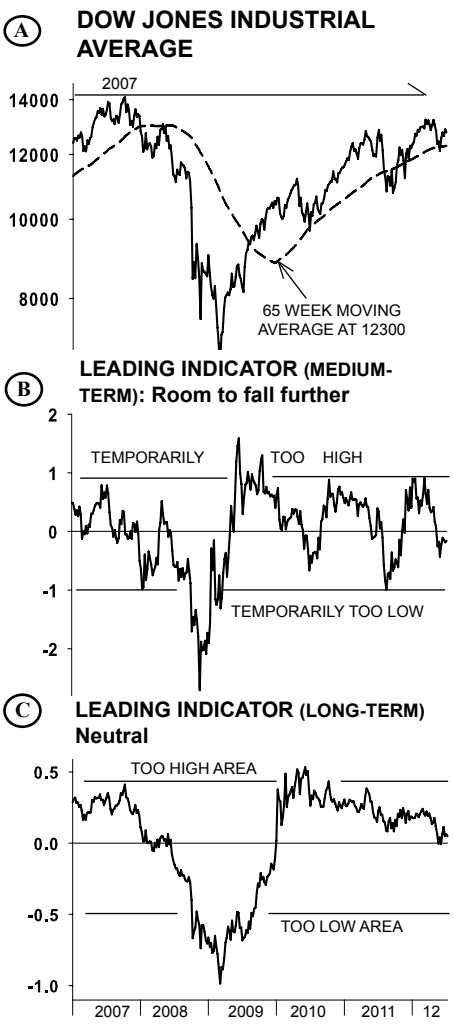


CHART 3

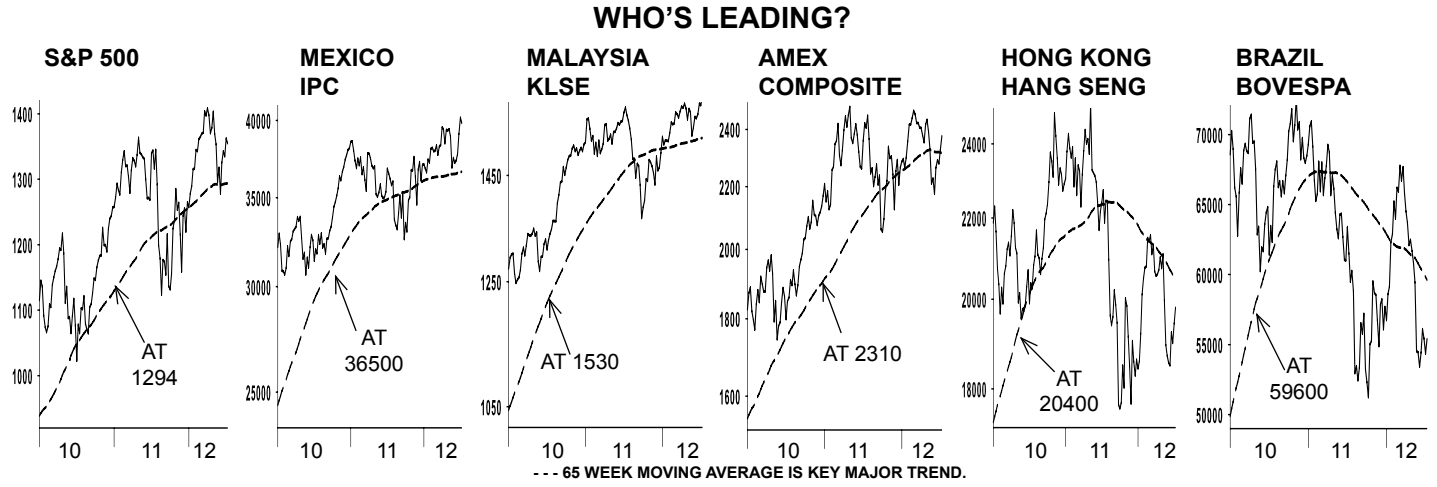


CHART 5

A couple of weeks ago, the Dow temporarily broke out of its band on the upside, but this proved to be temporary. For now, a significant break out either way will determine its next trend direction.

Until this happens, the Dow will basically be neutral with a slight bullish bias. The leading indicators are reinforcing this (see **Chart 4C**, which is also neutral).

As for the medium-term indicator, it has room to fall further before it's too low, meaning a further decline would not be unusual. In other words, nothing is clearly defined, trend wise, based on the technicals.

U.S. MARKET: Strong

Nevertheless, the U.S. markets are stronger than most of the other world stock markets and this is clearly illustrated on **Chart 5**.

Here you'll see the ratios comparing the S&P500 to the Hong Kong stock market and the Mexican bolsa market. A rising ratio means the S&P is outperforming Hong Kong. That is, the percentage gains are greater.

In recent years, the action has been about even between the U.S. and Mexico, which has been one of the strongest world markets. But two or three strong markets aren't enough. We need to see more of them turn bullish.

Currently, these stronger markets could be leading the way up for the others. If so, it would suggest that a lot more monetary stimulus is coming, which would boost the global economy and stocks too.

On the other hand, if the weak stocks markets drag the stronger ones down, we'll have to assume that stimulus and/or the economy will continue to disappoint. This would be reflected in declining stock markets as well.

STOCKS NOT EXPENSIVE

Many feel stocks can't go higher because they're already too expensive based on the price/earnings (P/E) ratio. But looking at the very big picture since 1900, you can see that they're not (see **Chart 6**).

A fairly priced P/E ratio is about 15, which is essentially where it now stands. The P/E is well below the extreme highs seen in 1929 and 2000. So there is room here for stocks to go higher.

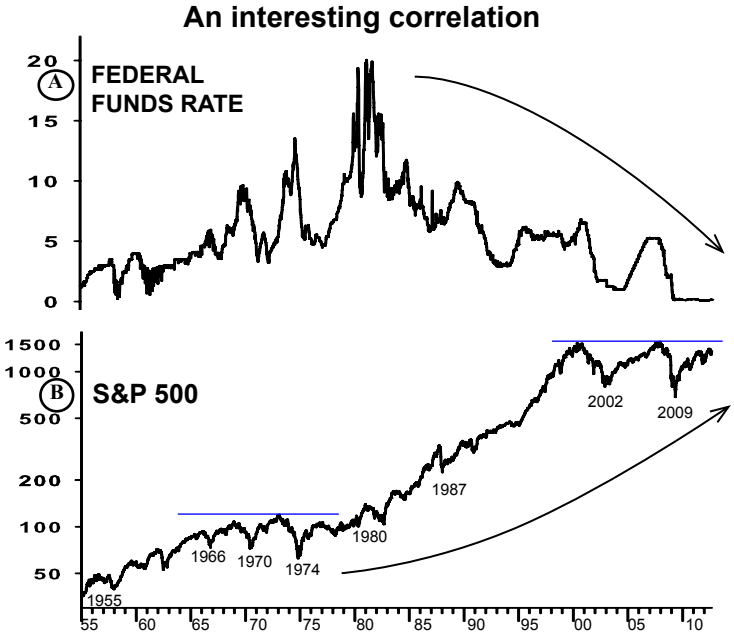
CHART 6

Another positive is low interest rates (see **Chart 7**). Stocks have been sweeping upward since 1980. At the same time, interest rates have steadily dropped. Low interest rates provide a good environment for stocks, usually.

But as you know, stocks haven't really gone anywhere since 2000, despite the ongoing decline in interest rates (see horizontal line on **Chart 7B**). This roadblock is obviously a concern. It's either a sign of a massive top, or at least it's coinciding with a long stagnant period of sideways action, similar to the sideways action in the 1960s -70s.

Looking at the big picture, the best we can reasonably expect are smaller bull market rises, assuming the Dow Industrials rises and stays above 12950 and 13300. If so, it could then rise to its roadblock resistance near 14000.

CHART 7



WATCHING FROM SIDELINES

If it does, it'll be a rise worth taking advantage of and we'll likely recommend buying some of the stronger stocks. If not, we'll stay on the sidelines, like we've been doing and play it safe.

On the downside, a sustained decline below 12300 (confirmed below 12100) would be a renewed bearish sign and you'd clearly want to avoid stocks at that time if you haven't already.

U.S. INTEREST RATES AND BONDS

Low rates around the world

Interest rates have been dropping sharply since last year. The decline accelerated this year and rates are likely going even lower.

FOLLOWING JAPAN

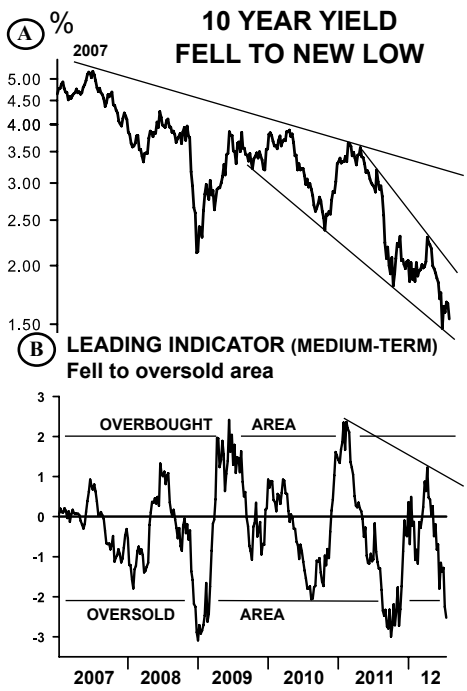
We know this may seem strange to many of you. After all, interest rates are already near the lowest levels in centuries, and they have been for a while. So really, how much lower could they go?

All we have to do is look at Japan. And as time passes, it's become increasingly obvious that the U.S. and the rest of the world are following Japan's deflationary example.

To refresh your memories, Japan's interest rates have been near zero for the past 11 years. And despite economic stimulation, different programs and much more, deflationary pressures persist.

Super low rates haven't helped Japan overcome these pressures. And since the rest of the world is following this same path, we have to assume the outcome will probably be similar in the U.S. and other countries too. At least, that's been the case so far.

CHART 8



CRISIS - CRISES

As the *Economist* pointed out, super low interest rates, "are a sign that people either expect years of stagnation, deflation or they're terrified of imminent disaster. Whichever it is, something is very wrong with the world economy. That something is a combination of faltering growth and a rising risk of financial catastrophe." (The CBO also warned the U.S. is facing a crisis.)

They concluded that in many ways, the fate of the world economy depends on Angela Merkel. It certainly seemed that way when she surprised the markets by backing a European permanent bailout fund, which she'd previously opposed.

The signal was... the euro stays together.

The markets loved the news and the demand for safe havens eased. So it wouldn't be unusual to see bond prices take a rest for now as interest rates move up from their oversold area (see **Chart 8**).

If so, this will likely amount to just a normal rebound but the major trends will remain in place. That is, down for interest rates and up for bond prices (see **Chart 9**).

THE HELPING HANDS

The main reason why is because the fundamentals are still the same. Of course the European united bailout has helped, but it's also going to mean more money and more debt. It's not a fundamental resolution of the debt crisis.

The bottom line is that Spain was considered too big to fail. A friend who just returned from Spain told us that housewives, working people and middle class folks were on the streets asking for food, which was shocking compared to just a year ago when she was last there.

FED: U.S.'s biggest bond buyer

So on the heels of Bernanke's Operation Twist monetary stimulus extension program, Europe reinforced that it too wants to avoid a deeper crisis.

As you know, the Fed has vowed to keep interest rates low through 2014. Plus, the Fed has bought billions of U.S. government bonds. It's become the U.S.'s biggest bond buyer, meaning it's financing a huge chunk of the U.S. debt.

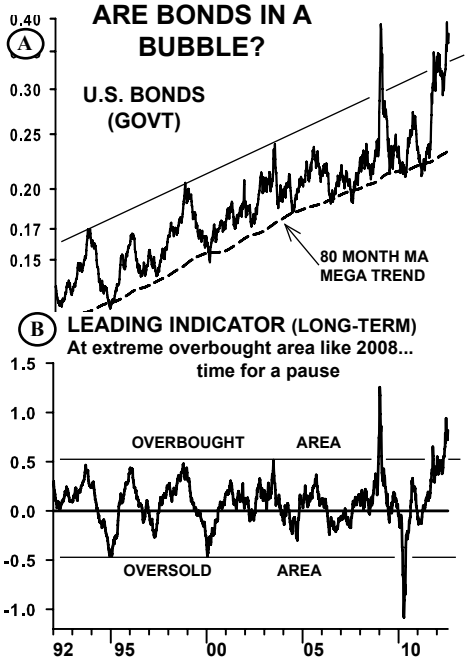
In three years, for example, its bond holdings are almost six times greater than they were in 2009.

BONDS STILL GOOD INVESTMENT

Is this healthy? Of course not. And as the *Economist* noted, that's one good reason why interest rates are so low in nearly all of the major countries (see **Chart 10**).

For now, bonds are still the best bet in this environment. Specifically, U.S. government bonds, which

CHART 9



have been the world's #1 safe haven.

That being the case and since bonds remain bullish, we continue to recommend holding long-term (over 10 year) U.S. government bonds.

As you can see, bonds have not only been strong but they've been even stronger than gold (see **Chart 11A**, which shows the ratio comparing bonds to gold). That is, the percentage gains have been greater in bonds since last Fall.

Interestingly, however, this may soon be changing. Note that the ratio itself is resisting at a major downtrend that's been in force since 2003. Plus, the leading indicator is too high, which is similar to what happened in 2008.

This all suggests that gold will probably start outperforming bonds in the months ahead. That doesn't mean bond prices will necessarily break down. They could maintain their strength, but gold will likely be stronger.

Currently, we're holding both gold and bonds. But at some point, we may be lightening up on our bonds in favor of more gold, depending on how this unfolds. In any case, keep your bonds for now.

CHART 10

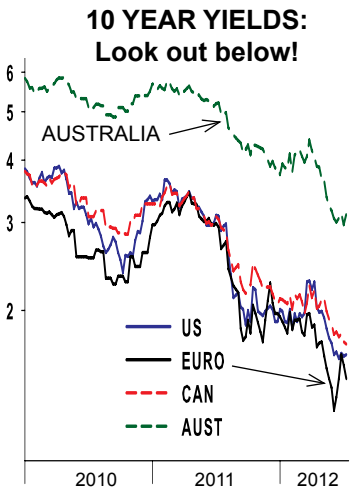
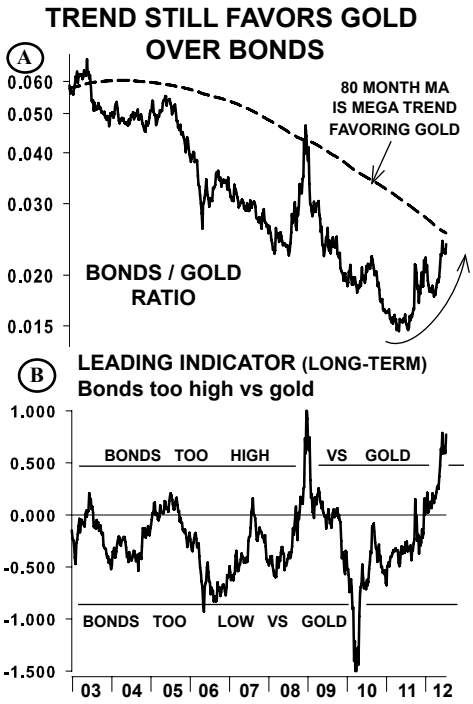


CHART 11



CURRENCIES

U.S. dollar: Upward bound

The U.S. dollar remains strong, hitting a two year high. At the same time, the euro is weak and the other currencies are mixed.

The situation in the Eurozone was heating up this month, coming to a head... Not only were Spain's banks in trouble, but Cyprus needed a bailout too.

The leaders had to do something and they did, which calmed some of the markets (see **Chart 12**).

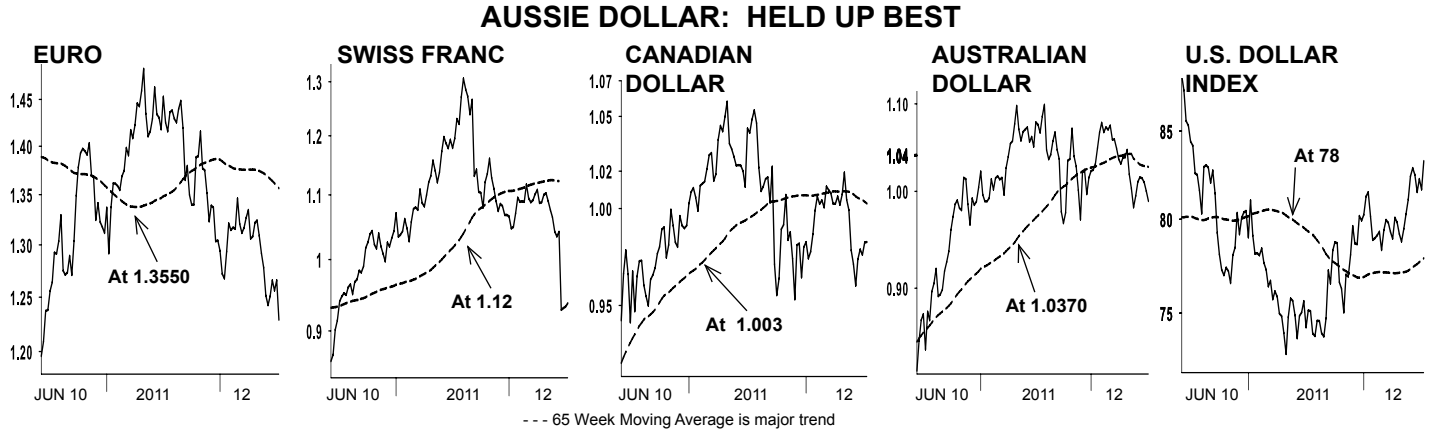
BRIC COUNTRIES

Since Europe has been in the spotlight for so long, we haven't talked much about the BRIC countries lately (Brazil, Russia, India and China).

Like the rest of the world, their economies have been slowing down, their currencies are generally weak, with China being the exception, and they haven't been able to pull the global economy out of its slump as many had hoped (see **Chart 13**).

But these countries aren't to be underestimated. We all know about China's booming growth over the past few decades. We also know they have the world's largest

CHART 12



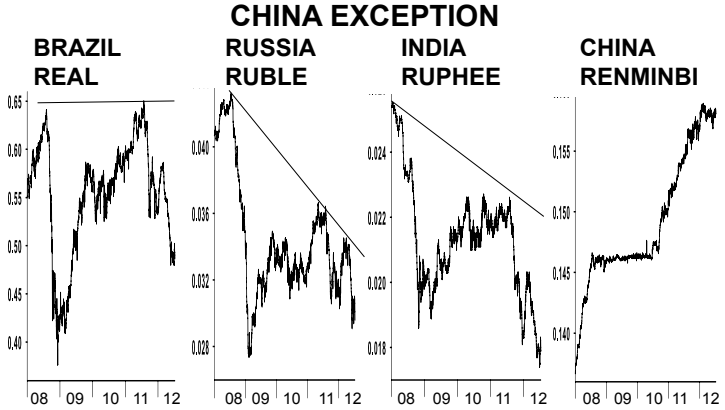
cash reserves and they're the U.S.'s biggest foreign lender. Brazil, however, isn't far behind.

Their economy has surged over the past decade and they've become the U.S.'s third largest foreign lender.

Experts predict the BRIC nations will become major world powers, and among the largest economies over the next few decades.

So even though they've been affected by the Euro crisis and they've been sluggish lately, we'll want to keep a watch on these overall dynamic countries.

CHART 13



SAFE HAVENS: THE ODD COUPLE

Meanwhile, the U.S. dollar and the Japanese yen continue to be the safe havens of choice. We understand the U.S. dollar's appeal. Even though it's deep in debt and the economy is slowing, the U.S. is the largest economy in the world and its bonds are considered the safest.

Japan though is another story. Its debt is off the charts and their interest rates have been non-existent for years. In any case, Japan has been a safe haven, but cracks in the foundation are starting to show…

Chart 14 shows the Japanese yen going back to 1973. As you can see, it's been trading in a huge uptrending channel since then.

CHART 14

Currently, it's resisting at the top of this channel, essentially at its 1995 record high. This is providing super strong resistance and it'll be hard for the yen to break above it.

Does that mean the yen's days as a safe haven are numbered? It could be.

The IMF says the yen is overvalued and the fact this is happening at the same time many of the other markets are turning is unlikely to be coincidental.

U.S. DOLLAR & INTEREST RATES

Okay, what about the U.S. dollar? The U.S. dollar still holds its crown, for the time being.

But as we've shown you many times before, the U.S. dollar has been dropping for over 40 years (see **Chart 15B**).

The exceptions were when interest rates hit double digit levels in the early 1980s and during the tech boom of the 1990s.

Other than those two cases, the U.S. dollar has declined, especially when interest rates were declining, like they are now.

SAFETY FIRST

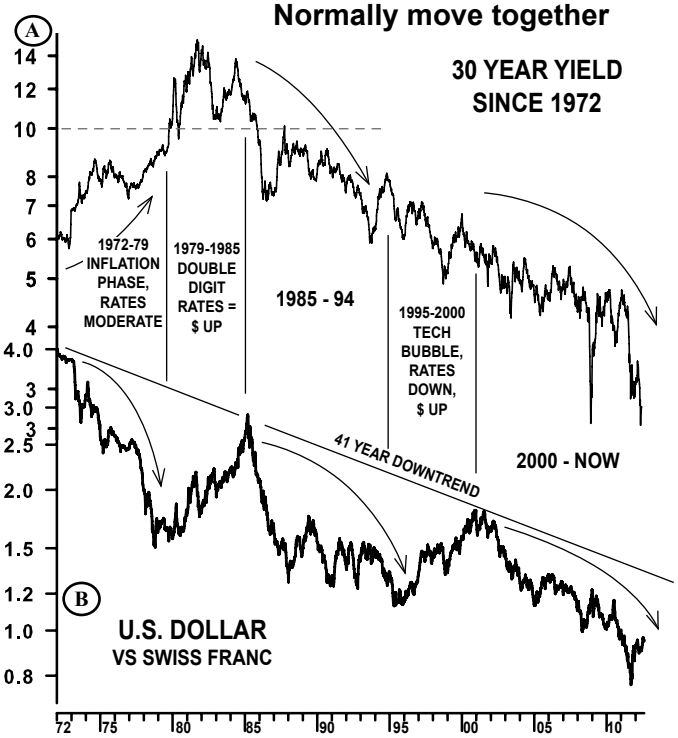
This time, however, the dollar became the safe haven due to the uncertainty and vulnerability in most of the world. So despite low U.S. interest rates it didn't matter.

Investors just wanted safety. And as long as that's the case, the dollar will likely stay strong. But if there's a change in sentiment for whatever reason (i.e. more economic stimulus, better economic signs, improving confidence and so on), then the dollar could decline as the currencies move higher.

For now, we recommend staying with your dollars, but we're seeing some subtle signs this may not be the case for long.

Time will soon tell, but stay put for the time being.

CHART 15



METALS, NATURAL RESOURCES & ENERGY

Lows in the making

The markets have become demanding (or should we say, desperate). In spite of the stimulus by four central banks, and the Eurozone bailing out their banks, the markets want more.

More interesting, the gold price has held above its December lows. It's holding firm, in spite of it all and especially considering the Summer months are seasonally slow months for gold.

It's also not breaking down while the dollar strengthens. This in itself is a bullish sign. It seems to be telling us that more stimulus is coming.

GOLD & THE DOLLAR

Gold's relationship to the dollar and its subtle moves, tell us a lot about the direction of both. **Chart 16** shows this well.

As you know, gold and the dollar tend to move in opposite directions. This is normal because gold is the ultimate currency and the dollar is the reserve currency of the world.

This dynamic changed with the 2008 financial crisis. That is, this relationship on a bigger picture basis changed.

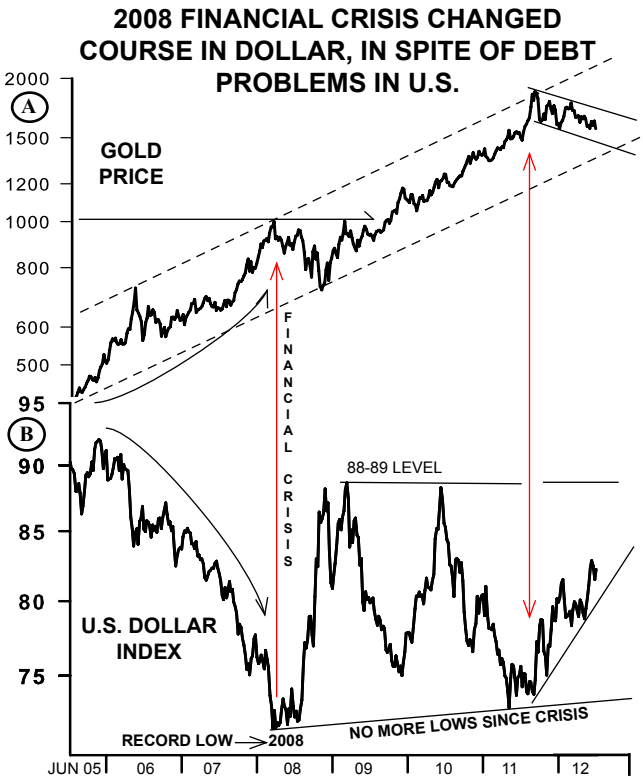
First, it started when the dollar shot up as the safe haven during the heat of the crisis. But more important, the dollar has not reached a new low since then.

That is, the dollar index remained above its 2008 lows while gold shot up, reaching new record highs. **Gold has almost doubled in price since the crisis, yet the dollar has NOT reached a new low.**

The dollar formed a higher low last year when gold hit its record high above $1900. This told us that the dollar was strong and it was poised to rise. And in fact, it's been moving up since September in a strong rebound rise.

Now the opposite is happening. The dollar reached a two year high this past month, yet gold did not fall to new lows. The verdict is still out, but this shows gold's underlying strength.

CHART 16



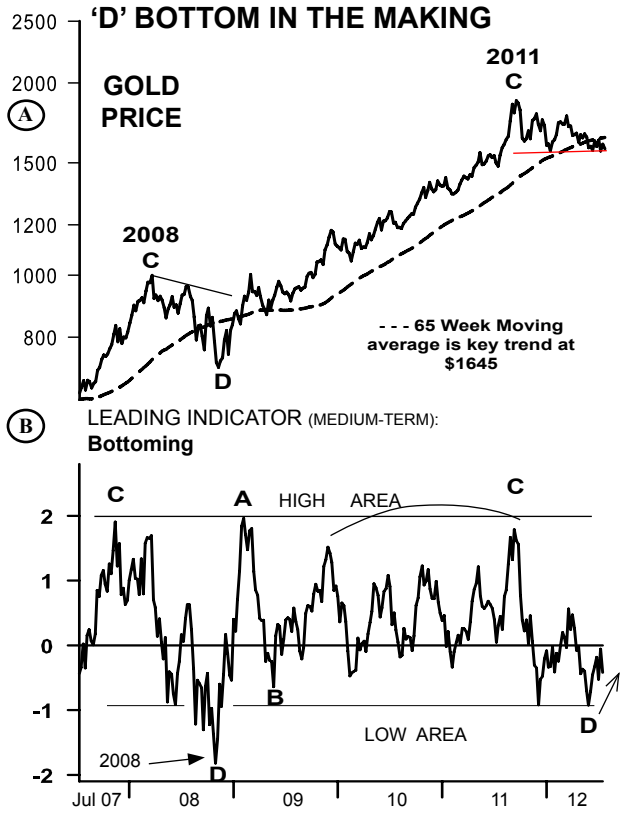
We'll keep an eye on gold's December lows this month, because gold's correction is not over yet. This means gold could still decline further in its current intermediate decline to possibly the major uptrend, while the dollar index rises to possibly the 88-89 resistance level.

SUMMER: Likely bottom

The June months tend to historically see the most lows for gold. The next popular low month is August. So again, we'll be watching the $1536 lows carefully during these lazy days of Summer.

Chart 17 shows a closer view of the intermediate pattern in gold... the A-D moves. The declines we call D tend to be the worst declines in the bull market. When a bear market begins, for instance, it usually begins with a D decline.

CHART 17



The prior one in 2008 was the worst in the bull market, when gold lost almost 30% in 2008. So far, gold had given back almost 20% since September, while its indicator has been forming a double D bottom (see **Chart 17B**).

We'll soon see if one more washout happens before a renewed leg up begins. Keep an eye on $1536. This is the key. If it's broken, we could see gold, in a worst case, slip down to the $1400 level.

On the upside, if gold breaks above $1650 and stays there, the worst will be behind us. Then $1700, $1800 and $1900 will be the next stepping stones in the renewed rise. Record high territory would confirm the making of a strong leg upward.

HOW HIGH?

How high is anyone's guess. It all depends on the explosive stage in the bull market. That phase is still to come and **Chart 18** provides a good example of this.

As you can see, gold has been moving within a mega upchannel since 1970. The gold rise since 2001 still has a ways to go before reaching the top side of this mega uptrend.

Note on the top chart that gold moved into the upper side of the mega channel when it burst into record territory in September 2009. This was just six months after QE first started in March 2009.

When gold reached the $1900 record level last September, the leading indicator (below) rose to the normal high area and it's been declining since then, now approaching the uptrend and zero line.

This is the meat of the matter… the bottom line. The indicator is telling us that even though gold has risen in a clear consistent bull market for 11 years now, it has yet to reach bubble explosive levels.

Those moves would be more like what we saw in the 1970s. In those days, the full bull market rose 2300%. The current bull market since 2001 has only gained 660%… a far cry from the 1970s level.

Chart 19 shows this comparison well. You can see that today's bull market hasn't yet begun to move in bubble explosive conditions.

It's getting closer though and the timing suggests we could see the start of the bubble phase by next year.

There really is no fever like gold fever, and the fever hasn't started yet. For example, for this bull market to gain 2300%, we'd see a $6000 gold price, which would blow the gold price well above the mega upchannel.

Today, however, the mood is down. Many are discouraged by the decline of the last almost 11 months. It's really not because of the 19+% decline, it's the length of time that's taken the enthusiasm out of the bull market.

But don't be discouraged. If this sluggishness lasts another month or even two, it's fine and new positions should be

CHART 18

CHART 19

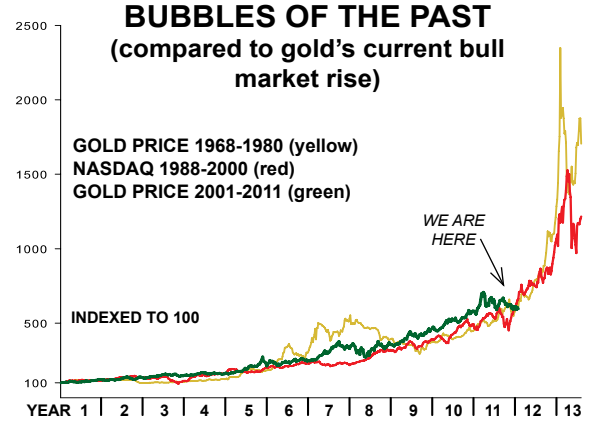


CHART 20

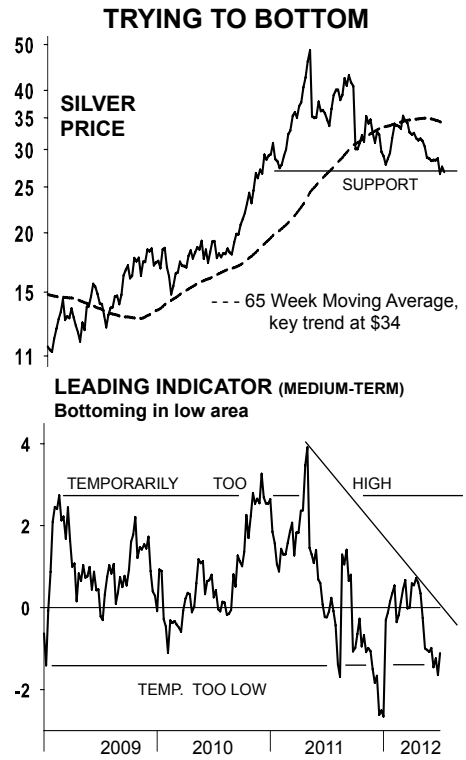
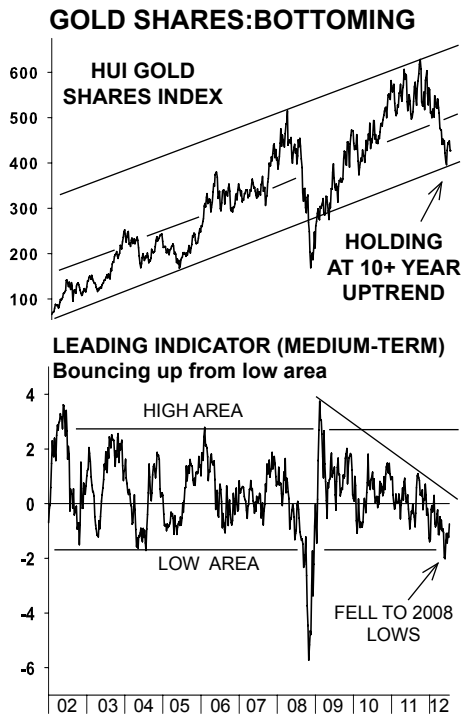


CHART 21



bought on weakness.

Buy on weakness and hold... a good strategy.

2011-12 LOWS ARE KEY

Most interesting today is that most of these metals related sectors, if not all of them, are in a situation similar to gold. Be it silver, platinum, palladium, crude, copper, gold shares and even corn, you name it, and their 2011-12 lows are the key.

Crude oil fell sharply this month, but it was silver that was closest to clearly breaking below its lows. **Chart 20** shows that it barely held on, but it held at the lows. It's been declining for over a year... almost 15 months... yet it's been stubbornly holding above $26.

Certainly silver has fallen more than gold. It's down 45% from its April 2011 high, but silver is also more volatile and its swings are much wider. It rose more and it declined more.

But silver is oversold and it seems to be bottoming in this low area. If silver slips to an extreme in the short-term, take advantage of the lows and buy.

It's actually at a good buying area now for any new positions.

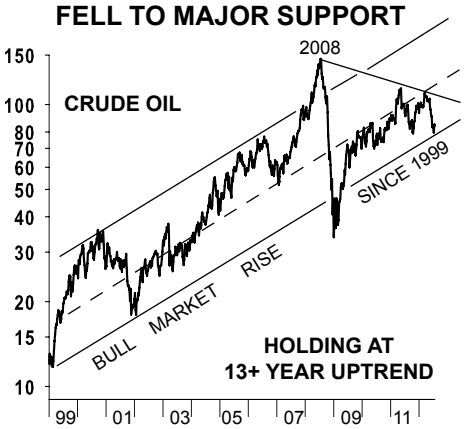
Gold shares and crude are both holding at their mega bull market uptrends (see **Charts 21** and **22**). In oil's case, it's also at the same level as its 2011 lows. The $76 level on oil seems to be rock bottom for now.

Gold shares are bombed out versus everything. They got beaten up this year and they're trying to bottom in an oversold level. The downside is limited.

Oil has been in a clear and consistent uptrend since 1999 If $76 holds as we suspect, and oil breaks above its 2008 downtrend at $108, a renewed leg of the bull market will be underway, and we could see the record highs tested once again.

Commodities were hit the most with the slowing global economy and the crises. And they will continue to be influenced by it. This means, a rising oil price will either reflect higher demand (better economy), or a war in an oil sensitive country.

CHART 22



You can see that most of these sectors are below their 65-week moving averages (see **Chart 23**). This means pressure is down and it has been this year. It won't change until these moving averages are again broken on the upside.

GOLD IS STRONGER THAN STOCKS

Gold is stronger than the stock market. You wouldn't know it this year since the stock market has been rising since last October, whereas gold has been in the doldrums.

But looking at the ratio of the two

CHART 23

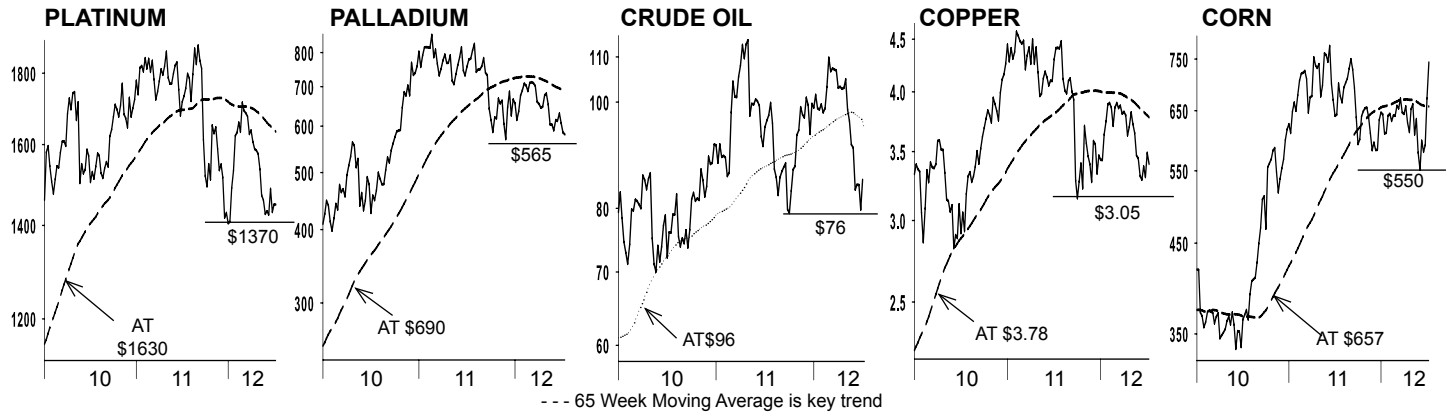
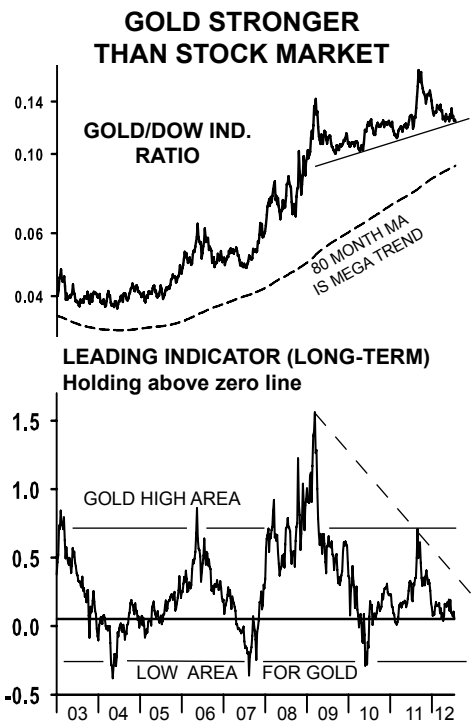


CHART 24



on **Chart 24**, you can see the mega trend favors gold. When this ratio rises, gold is stronger than stocks. Its strength changed course since the 2008 crisis. But the ratio is still solidly above its 80-month moving average.

In fact, even if we see stocks strengthen more than gold in the coming months, as long as the mega trend stays on course, gold will continue to be the better investment.

You already saw on **Chart 11** that gold is bombed out compared to bonds, yet the mega trend favors gold.

Both stocks and bonds are saying... stay with your gold.

DEMAND IS STRONG & POTENTIAL STILL WIDE OPEN

Demand for gold has been strong, and even during the correction of the last 10 months it's still strong... especially with central banks. In fact, one way smaller central banks are protecting themselves is by buying gold.

We saw this clearly this year when countries like Philippines, Mexico and Turkey were buying tones of gold. Last year, for instance, we saw the largest central bank buying in 50 years, according to the World Gold Council.

Even so, central bank buying today is still lower than it was in 1980 at the gold peak. During the past 12 months, central bank buying accounted for about 20% of supply. Remember it was only a few years ago when central banks were NET SELLERS of gold.

The most glaring sale was when England sold a good part of their gold reserves at the lows in the gold price.

It all boils down to trust. "In gold we trust." This is the slogan to keep in mind in today's extreme uncertain world.

It almost seems too simple to say that long term gold holders will reap the best reward by simply buying on weakness and holding for several more years.

But this is what the central banks are doing, and all of us who believe that gold is money. Chuck Butler recently refreshed this thought by saying it's much more than a medium of exchange. It's also a store of value and it acts as a unit of account.

We are in times when preserving capital is most important. It's great to make good profits, but keeping your capital is what most concerns us.

CHINA: Solid gold demand

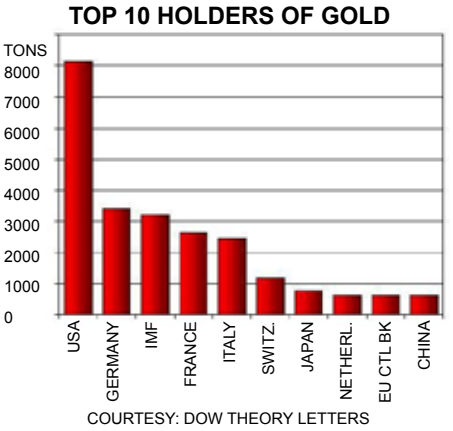
We have been telling you over the years about the progress and changes that China has made to allow gold into their economy and as an investment for its people.

They have been encouraging their people to buy gold for themselves. Last year they started a gold exchange called Pan Asian Gold Exchange (PAGE), which allows investors to buy or sell gold in their local currency accounts.

We also know that China is a big gold producer and they are keeping all of it. But nevertheless, their gold reserves are very small compared to the rest of the world.

Chart 25 shows the comparison of the top 10 gold holders, courtesy

CHART 25



of our dear friend Richard Russell. We believe it's just a matter of time until China adds more to their reserves. According to ICBC, they see gold investment demand in China advancing by 10%.

China seems to have a big long term plan to take over the reserve currency status of the world. They want their renminbi to eventually replace the dollar as the global reserve currency. And in order to do this, one major step is to have it backed by gold.

This will mean a lot more gold purchases from China, and ongoing strong demand.

China is the most important player in the global gold market.

Demand in China totaled a record 255.2 tons in QI 12, according to the World Gold Council. They also said China's gold buying may expand 13% in 2012 to 870 metric tons... while this is down from 1000, it's still certainly in the right direction.

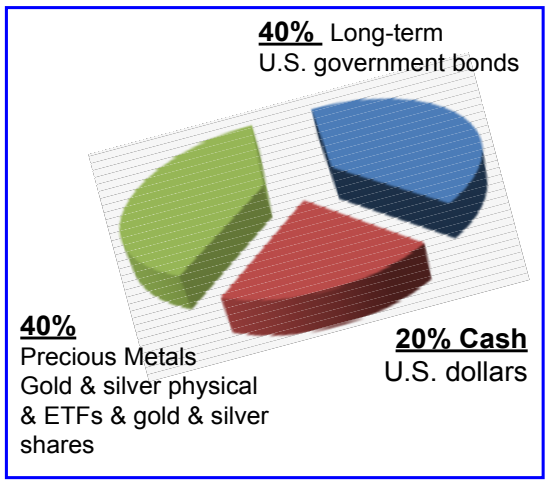
The world is sick, and it's going to take time before any type of normality develops. We have to stay defensive and invest accordingly.

We'll continue to work hard to keep you on the right side of the trends. For now, the 2011- 2012 lows are the key.

As our dear friend Harry Schultz correctly says, we don't have free markets, we have Fed and central banks induced stimulation moving the markets. One day this will change, but not now.

OVERALL PORTFOLIO RECOMMENDATION

The markets are looking better this month, but they're not yet out of the woods. So far, the monetary stimulus has not been enough and the markets want more. They're not convinced and they're still concerned about the global economy. Some of the markets appear to be bottoming but it's still too soon to tell. For now, we're keeping our portfolio unchanged. It's a good balanced mix, which is doing well in this environment. Meanwhile, we're watching to see how events and the markets unfold. Anything is still possible.



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

The metals' markets appear to be bottoming. Gold is holding above its December low, despite the strong U.S. dollar, which is a good sign. Gold will now remain firm by staying above $1550 and its main support, which is still at $1536. It'll show renewed strength if it can rise and stay above $1625 and ultimately $1650.

Silver nearly broke below its low but it's holding above it. It too will show renewed firmness by staying above $26. Most of the metals sector is in a situation similar to gold and silver. Their 2011-12 lows are currently the key. Gold shares continue bottoming and they're bargains. Buy new positions in Royal Gold (RGLD), New Gold (NGD) and Central Gold Trust (GTU).

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The U.S. stock market is looking better but it remains volatile, uncertain and vulnerable. Many of the global stock markets are still bearish, which is an overall drag on stocks in general, and caution is warranted. Currently, the Dow Industrials is trading in a neutral band between 12950 and 12300 and a significant break either way will determine the next trend direction. If the Dow breaks out on the upside, we'll likely recommend buying some of the stronger stocks. But for now, stay on the sidelines. So far, this is not a healthy market and it's best to play it safe.

CURRENCIES RECOMMENDATION

The U.S. dollar hit a two year high and it's still very strong. The dollar continues to be the safe haven of choice. Investors want safety and as long as that's the case, the U.S. dollar will likely remain strong. Despite stimulus efforts, the euro fell sharply and it's weak, along with the Swiss franc. The other currencies are mixed. We recommend keeping your cash in U.S. dollars, for the time being. This applies to U.S. and international investors. The U.S. dollar index will currently remain very strong by staying above 81.

INTEREST RATE & BOND RECOMMENDATION

Bond prices remain strong and bullish, and interest rates are near their lows. But interest rates are now oversold (bond prices are overbought). It wouldn't be unusual, therefore, to see bond prices take a rest as interest rates move up for the time being. If so, this will likely just be a normal rebound but the major trends will stay intact. That is, down for interest rates and up for bond prices. Continue to buy and hold over 10 year long-term U.S. government bonds. As mentioned in our weekly updates, we also again recommend buying 20+ Year Treasury Bond Shares (TLT), Long-Term Treasury Barclays Capital (TLO) and Rydex Series Fds Government Long Bond (RYGBX).

* NEW POSITION

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

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

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

INTEREST RATE ETFs AND FUNDS

20+ Year Trsy Bond *	TLT-Nasdaq
SPDR LT Trsy *	TLO-Nasdaq
Rydex Govt Long Bd *	RYGBX

Big Picture

By Uncle Harry July 9, 2012 *Hello Dear Reader,*
I'm back for a visit. Did U miss me? ☺
What a crisis we find the world in today, eh? One word comes to mind that describes it, an old fashioned word. I dug it out for this occasion. *Wicked*. These are wicked times. In at least 2 ways. Man, in general, has become more wicked (banksters, politicians, big biz, & society at large), & the result has given us a risky, dangerous economic/monetary crisis that is ongoing. And will remain ongoing for decades. 3yrs ago I said we wont get back to pre-crisis levels for about 20yrs. Several well-placed analysts now say 20-30yrs. Whatever. Plan on it, plan with it—that's the point! It's probably cyclical. Society seems to swing from God-fearing to Godless, & back again—over some decades, & with those swings goes everything. Standards have free-fallen. Anything goes on TV, films. Ditto with big banks, monopoly biz, multi nationals. Politicians have zero standards & nil respect (except Ron & Rand Paul & Angela Merkel). Responsibility? Forget it; Blame: not me; him! Integrity? How do U spell it? Solutions? Too painful; kickcan instead (official policy).

I was asked by *The DailyBell* folks to do another interview on what's going on. I can't keep up with such requests, but I sent them this short message: *"The entire world has become a singular, massive banana republic, with investors frozen in the headlights, earnestly searching for investments in an 'impossible' atmosphere. Banks are no longer banks (& cannot be **trusted**—to quote Martin Wolf at the FT), where rating agencies & govts are dimly viewed, where pensions are short of funds, where fraud is not the exception anymore, and where most mkt trends only last a few hours. Heaven help us."*
"There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crises should come sooner as a result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved." -Ludwig Von Mises

Per my *DailyBell* message, above, we no doubt need some help from heaven on an individual basis. Recall Albert Einstein said: *"I would rather live my life as if there is a God and die to find out there isn't, than live my life as if there isn't and die to find out there is."* -- The concept of God has been placed upon men's soul.
••••The lack of trust in society is pervasive, devastating & spreading. Is there no hope? Not til the flood waters recede; date unknown, but distant. Probably not in the lifetime of most 70yr olds & beyond. Plan on that in case that's it. The best we can do in this continuous social/economic/ monetary down swing is (still) to diversify. Only more so. At present there are no safe trends. Among those of us who day trade, the joke is no more a joke, that no trend lasts more than 3 hours. Many of us feel we are forced to trade because no trend lasts & because banks & safe bonds pay too little interest vs inflation. The European crisis can't be solved with some "agreement" because the debt is too deep for "solutions." Meaning: debt has to be dealt with. Can kicking isn't possible anymore. That's why Angela Merkel stands highest in the EU polls of any politician; she has standards & can't be sweet talked or forced to act against common sense or her Constitution.
••Back to diversification: still need a spread of currencies, esp. the A$ & C$. Best achieved thru A$ & C$ shorterm govt bonds/Bills. US$ Bills ok for now. Need gold of course, in various forms, some in house, none in ETF's!! From a trading view I'm both long&short gold & silver. Charts are neutral at best, with a scary top. Bearish under 1539 (big risk there), bit bullish over 1641, more so over 1720, then 1808. Also spread assets into quality blue-chip stocks in, CD & OZ, in US (if U live there), in UK stks if U live there or in EU. £ v.strong vs Euro, not US$. Div paying utilities ok. Potash-Toronto a prime stk. Look at water companies.

The Nanny State—grow or die? 1st, here is Ron Paul's take, on Apr 11. My take follows his. *"Better to look reality squarely in the face & tell people the difficult truth that govt is not capable of managing people's lives from cradle to grave as was foolishly promised. We face trillions in deficits with any of the budgets under consideration. Keeping those promises is, sadly, just not one of our options in the long run. Better to admit the nanny state is coming to an end & we are no longer working on 'compromises' but a transition – to a **sustainable** way of life, one that respects the constitution, the rule of law & property rights."* End quote. I agree. IMO this boils down to: either the Nanny State, now out of control, continues to expand & becomes *"a total 1984"* – where **everything** is govt owned/run & life becomes slavery to the state, **or**, the brewing discontent evolves into a non-violent revolution that slashes entitlements to the bone. If the latter, it may in fact be violent, as the unions wrongly prefer violence (worldwide) to giving up their perks. Also, half the population of most democracies won't give up their entitlements via the ballot box. In this respect, are they not akin to drinking sea water if in a lifeboat at sea?
Renowned analyst Jim Grant believes the only way out of US debt is to return to the gold standard. *"To me, the gold price takes the form of a very uncomplicated formula. All U have to do is divide one by 'n'."* Grant told *King World News*: *"And 'n' is the world's **trust** in the institution of paper money & in the capacity of people like Bernanke to manage it. So the smaller 'n', the bigger the price."* IOW, Jim says: as trust shrinks, gold rises, which is a process without end. Until they end fiat money & return to gold.
•••••*"**Power** gradually extirpates {exterminates} from the mind every humane & gentle virtue."* -- Edmund Burke (1729-1797) Irish-born British statesman, parliamentary orator, & political thinker. This applies to every level of society, from small town bureaucrats to corp. & govt chiefs & bureaus. Power seems to be a virus.

I found the Higgs Boson "God particle" discovery last week very comforting. I predicted to friends 4 yrs ago that science

& religion will eventually "merge." This particle is a tiny first step, IMO. It was the biggest discovery in 100yrs said a lead physicist. •••• Less comforting was news the UK CPI (prices) fell last month, the first time since their records began. Deflation is spreading. Some say depression is here if U use non-govt statistics. A fund mgr said (on CNBC) this recession cum depression is the problem, more than banks or debt or the euro. Says, like Japan, if U can pull out of the recession, the rest won't be so much of a problem. Whoa! The banks, debt & the euro won't let U pull out of recession. Japan in fact shows that. It's a kind of Catch22.

IMO, Europe's political safety (from fascism & dictatorship) is its current inability to unite! Talk of political-union is hollow & badly intended by the control freak elite. Fiscal union on the other hand, is probably necessary & possible. Germany needs the euro & will thus help save it, but NOT via political union.

Privacy is not just secrecy. It is survival. It is preservation. Democratic govts have no right to limit or remove it. We used to have some privacy only 10-15 yrs ago. Trouble is, the young generation never experienced individual freedom & privacy, so they don't know enough about it to fight to regain it, unless their parents & grandparents tell them how it was to live free. The elite used wars & lies about war threats to steal public liberties, in trade for "security" which they in fact cannot deliver. An old game by insiders.

Ron Paul has already won. These are ideological points he is making, & succeeding at getting into mainstream media, & the Net. The election is 2ndary. Helping people understand the system & its misuse & how to reform it are his goals, which he has already achieved in large measure. And the show isn't over yet. An army of young people is fed up with the brainwash & want to wash Washington.

••PIMCO (bond kings & money mgrs) says "We live under financial repression via the Fed depressing interest rates.
••Many GP doctors (& esp surgeons) don't recom vitamins & supplements because there's no course on it in med school. So they can't know what they don't know. Also, subconsciously, they probably resent the "competition" of vits, which have millions of believers & which bypass some medical treatment.
•••The bank lobbys prevent bank reform, in UK, US, etc.
•••There are no free mkts anymore, anywhere. Just interventions, by central banks or Treasuries.
•••Keynes,,by the way, was **not** himself a Keynesian! He was flexible, as all good thinkers & investors are. He reversed himself on govt money pumping. But the name stuck & people misuse the term today.
Unofficial, irregular border controls have returned to parts of Italy & Switz to stop illegals. Look for them to get tighter.
••Yale's professor Robert Shiller says: **US Housing May Not Rebound 'in Our Lifetimes'.**

Now for a lighter touch. My health isn't like it used to be (hahaha) but am ambulatory & better than many, at 88+10mo. I got an email that made my day (& year) from longtime friend, author, economist, & father of Freedom Fest, Mark Skousen. It read: *"Dear Sir Harry, Delighted to hear from you, my old & dear friend. I'm glad things are going well for your upcoming 89th birthday. The big news is the next Fibonacci number after 89 is 144. The sequence is: 1, 2, 3, 5, 8,13, 21 (blackjack!), 34, 55 (Kondratieff!), 89 (Harry Schultz), and 144. So, U have 55 yrs ahead! All good wishes, Mark."*
Great news! Of course, it doesn't mean everyone who reaches 89 will live to 144. IMO, the things that may make great age happen include: good genes, eating a really good diet (fish, poultry, no sugar), no smoking, modest drinking, 8hrs sleep, moderate daily exercise, a positive attitude, a belief in God, & it helps a lot to have friends & a loving mate. When I showed Mark's letter to team mate MJ he said: *"Well, U've already been in the Guinness Book of Records; who knows maybe U'll be in it again for being 144."* Stick around for 55 yrs & find out. Another old friend, Jim Sinclair, AKA Mr.Gold, heard this news & he wrote: *"Only 144?* ***I always thought you were St. Germain****. Love, Jim" -- I checked with abundant literature/lore & it seems St.Germain lived to a very old age (900?). Voltaire called him a legend, immortal, while looking only 40-50.* An alchemist as well 'twas said. --- So, perhaps, dear reader, U'll say a prayer that I manage it to 89, in Sept, to kick off a fabulous Fibonacci run to 144 ☺. I'm ready, with vitamin bags & a prayer wheel. ••• PS: Mark Skousen's fabulous freedom fest is July 11-14 in Las Vegas. Top speakers! Go see www.freedomfest.com. PPS: just heard that of the 265 in my high school grad class, only 11 of us are around.

Potpourri: "Losers drive home in the daylight. Winners drive home after dark." •••• IMO, Longevinex is a must for good health. •••• Jimmy Fallon? Argh. Bring back Jay Leno. Better yet, bring back Larry King. … Save the earth; it's the only planet with chocolate. ••• We live in a society where pizza gets to your houses before the police. ••• If I agree with U, we'd both be wrong. ••• By the time a man realizes his father was usually right, he has a son who thinks he's usually wrong. ••• I talk to myself because I like dealing with a better class of people. ••• I'm on a seafood diet. Every time I see food, I eat it. •••Very funny, Scotty, now beam down my clothes. ••• A happy person is one whose arithmetic is at its best when they are counting their blessings.

•••• I just realized, looking back, the nicest people I know (including family) are those who make religion of some sort, part of their life. Those who have no time for religion seem to be lacking something. The nicest, warmest, kindest letters I had from readers over 44yrs of HSL were, as I reflect back, mainly from people with a thought for God. A "God bless" at the end of letters, emails & phone calls was a trade mark. Even Einstein thought it was a win-win. •••• Your letters are welcome; can't answer all ?'s but can feature in another column. Write POBox 622, CH-1001, Lausanne, Switz, or: email nec@tangamail.com. ••• Poor ethics & dishonesty are not natural. They're a result of the welfare state, which has become socialism—which is a cover-up word for communism. Entitlements are a curse, introduced by design in the West by Soviet agents yrs ago to undermine economies; they succeeded. •••**STOPRESS**: as we go to press a lead-dog FT Wolfgang Munchau's 5 col headline reads: ***Why we won't solve the Eurozone crisis for 20years.*** That backs up 4yrs of HSL forecasts. ••• Hope U don't mind the small type. Used 10pt to squeeze in all I could. ••• Fond wishes & bye bye from your weary but unbowed *Uncle Harry*