THE
ADEN FORECAST
MONEY • METALS • MARKETS

JULY 2014 *our 33rd year*

LOTS OF QUESTIONS, ANSWERED

There was plenty of action this month. When this happens, we usually get more letters than usual, and this month was not an exception.

Following is a cross section of your questions, comments and what's on your mind...

Q. What's the story with FACTA?

A. Many letters came in about FACTA. While we're not experts on the subject, here's a brief recap of what we do know, which will hopefully answer some of your questions...

FACTA is a new regulation that requires foreign banks in about 70 countries to report to the IRS. They're to turn over details on accounts held by U.S. citizens. This also applies to pension funds, investment funds and so on.

The bottom line is, foreign financial institutions have now essentially become branch offices for the IRS. This is being done to collect more taxes and it means the days of offshore banking privacy are over.

Q. Why are so many foreign banks going along with this?

A. Mainly because the penalties for not participating in the program are very steep. This, despite the fact that the costs of implementing FACTA will be more than the taxes that'll likely be collected.

Q. Will this be another step to the dollar's demise as the world's reserve currency?

A. Not necessarily. It's more of a nuisance. The bankers we've talked to seem to be confused about how it's going to work. Some banks have just opted to close accounts held by U.S. citizens.

It's basically sad. For every drug dealer, terrorist or tax evader the U.S. is looking for, there are thousands of hard working U.S. citizens living and working abroad who are also confused.

Everyone is suspect and this is yet one more in a long line of personal freedoms that're being eliminated.

We're seeing it first hand and while we don't think this is big enough to seriously hurt the U.S. dollar, it could add more fuel to the dollar's decline... We'll soon see what the repercussions will be.

Q. Given the recent news of the Fed possibly imposing exit fees on all bond funds due to their supposed fear of a "bond run" if rates rise, do you feel that a 35% position in bonds is too aggressive?

A. No. As we've often mentioned, it looks like interest rates are going to stay low for a long time. This means bonds will continue to rise.

But if we see signs indicating otherwise, like faster economic growth or inflation picking up, we'll be quick to change our position and sell our bonds.

For now, however, with U.S. economic growth on the decline, we don't feel this is something we have to worry about (see **Chart 1**).

Q. I live in Asia and can only buy Asian bonds. Will they also benefit from the low interest rate environment?

A. Yes. Interest rates are low all over the world. So if you live in Asia, Europe or elsewhere, global government bonds of the major countries will also continue to do well and they're okay to buy.

The exceptions would be some of the emerging market bonds, which are generally more risky. Argentina comes to mind and these are the types of markets you'd want to avoid.

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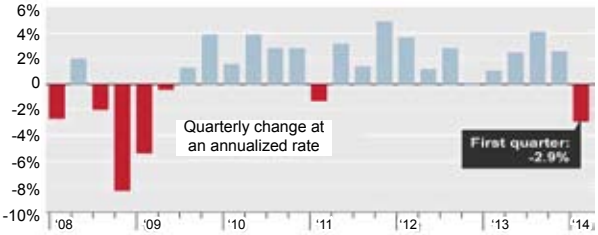
CHART 1

In the Dumps

The U.S. economy in the first quarter saw its sharpest pullback since the recession ended nearly five years ago.



NOTE: Adjusted for inflation SOURCE: Commerce Department

COURTESY: ww2.dowtheoryletters.com

Q. Are you concerned about what's happening in the Middle East and how that'll affect the markets?

A. Yes and we're watching these unfolding events closely. Iraq, Israel and Ukraine are of particular concern.

Just a few weeks ago, for instance, few of us had even heard of ISIS. Now they've taken over a large part of Iraq.

This helped push gold up strongly and ongoing tensions will move the markets, one way or the other.

These are the wild cards we've often mentioned and they're important to keep an eye on.

Q. Inflation and gold are rising. Do you believe deflation still has the upper hand? If so, where?

A. Gold is looking good. But the inflation numbers are mixed. While consumer prices have been rising near 2% on a year over year basis, producer prices are declining. So it's a mixed picture in several ways…

The inflation-deflation barometer we showed you last month still favors deflation. With gold recently surging, it's been moving in inflation's favor, but not in a significant way just yet.

We know the major countries are doing all they can to fight off deflationary forces.

They're letting the easy money flow, keeping interest rates near zero, buying their own bonds and so on, all to boost inflation. They want inflation because it's better than the deflationary alternative.

And while we've seen some brighter global economic signs this month, especially out of China, growth is still sketchy. The massive debt load is generally keeping a lid on strong growth.

Nevertheless, Japanese Prime Minister Abe announced that deflation has ended. He says that after 15 years of deflation and slow growth, it's over, thanks to his new policies.

We hope he's right because Japan has been the trendsetter for the rest of the world's developed countries. So it's going to be interesting to see how this all works out.

Q. Could a financial accident or a collapse happen like in 2007-08?

A. Yes, it's certainly a possibility. But for now, the stock market has been hitting new record highs. And since it's an economic leader, it's still telling us there's no recession on the horizon and all is well.

How long will this last? We just don't know. But the Fed has kept the economy chugging along with its QE program since 2009. And whether we like it or not, it's been working.

Remember, the economy was teetering on the verge of a depression in 2008. That's when the Fed jumped in to avoid a collapse via massive deficit spending and money creation. And they'll probably have to keep at it in the years ahead, like Japan, to keep the economy on track.

We all know it's not a healthy economic foundation, it's filled with problems and it's unlikely to end well, but we also have to deal with what is.

Salute to Two Newsletter Giants

We are proud to call Harry Schultz and Richard Russell our friends.

They are the reason all of us newsletter writers have a great job in this business. They were the trailblazers who began discussing the markets on a regular basis.

We admired their work and market opinions from the start when we both started in this business in the 1970s. We looked forward to each of their issues.

And it was even more than a thrill when we met them.

Since then, they've been instrumental in our ongoing ebbs and flows of market writing. They consistently encouraged us along the way and provided great advice. And we'll always be eternally grateful.

Well over a decade ago, we began working more closely with Sir Harry when our office took over the administrative side of his letters. He was and has been a joy to interact with.

Several years ago we flew to Monaco where he lives. We had a great time together. His sense of humor is as witty as ever. He was a real joy. The hours just flew by.

Now we have the true pleasure to be with Richard for his 90th birthday later this month. We are flying up to La Jolla and we're really looking forward to spending time with him. He's an amazing person and we love his daily reports and experiences.

Both of these giants in our industry have one thing in common.... a clear, crisp way of looking at the markets, the world, family and friends.

Their work and integrity are truly outstanding. It's no wonder they are good friends. In fact, Richard's son, Ryan, is Harry's godson.

We have so enjoyed them over the years and we take our hats off to you, Richard and Harry.

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U.S. & WORLD STOCK MARKETS

Still plowing ahead

The stock market is soaring. Record highs are commonplace, as it moves full speed ahead.

NOTHING STOPS THE SURGE

Good news, bad news… it doesn't seem to matter. If it's good, the market surges, and if it's bad the market basically ignores it.

As you'll see again this month, the stock market is very bullish. Plus, it's set to rise even further.

How much longer can this go on? That's the big question…

Most experts never expected this super rise to last as long as it has. They were convinced there was no way the market could post solid gains this year following the big moves of last year.

The market, however, has fooled the doubters. It's left them scratching their heads wondering how it happened. But we actually think the answer is pretty simple.

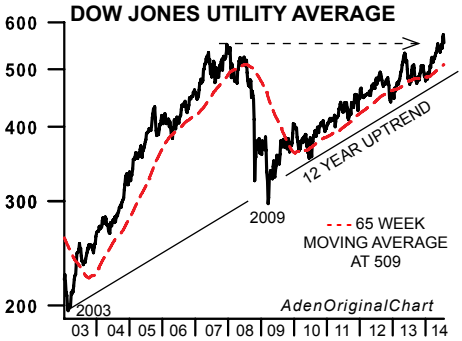
FED INDUCED BULL MARKET

Some may disagree. Some will argue. Still, as time passes, the reason why has become increasingly clear… it's the Fed's low interest rates and their easy money policies.

Of course, other factors have entered into the picture to further fuel the rise. But the Fed's actions have been the key elements that've driven the stock market to new, ongoing record highs.

CHART 2

RECORD HIGH!



And since Yellen keeps saying interest rates will remain low for "a considerable time," we can assume stocks will keep rising since they love low interest rates.

Our charts and leading indicators continue reinforcing this as well.

SIMPLY BULLISH

First, take a look at **Chart 3**, which shows the major stock indexes on a weekly basis since 2012…

We like the weekly charts more than the daily charts because they tend to smooth out the day to day static and provide a better picture of the major trends.

As you can see, there's no question these major trends are solidly up.

The Dow Jones Industrials, for example, broke above the 17,000 level. The S&P500 also chalked up its longest streak of quarterly gains since 1998.

And, despite higher energy prices, the Dow Jones Transportations hit new record highs too. This again confirmed another Dow Theory bull market signal.

Plus, Richard Russell's Primary Trend indicator and the Advance-Decline line remain bullish.

Meanwhile, our own 65-week moving averages have been very good and consistent in identifying the major trends.

The average for each index is listed on **Chart 3**. And as long as the individual stock indexes stay above their moving averages, they'll continue to reflect a solid bull market rise, signaling stocks are going higher, despite short-term dips, which are normal.

ALL INDEXES BULLISH!

In a nutshell, all of the stock indexes are doing good. Some sectors are obviously stronger than others but the Dow Jones Utility Average provides an interesting example of how the strength is widespread (see **Chart 2**).

The Utilities are considered safe and conservative.

CHART 3

MANY RECORD HIGHS

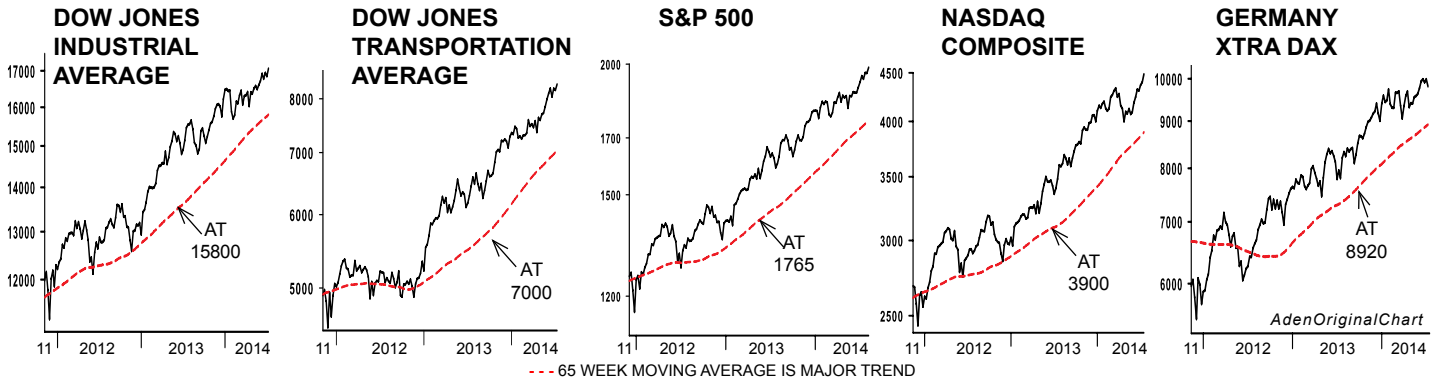
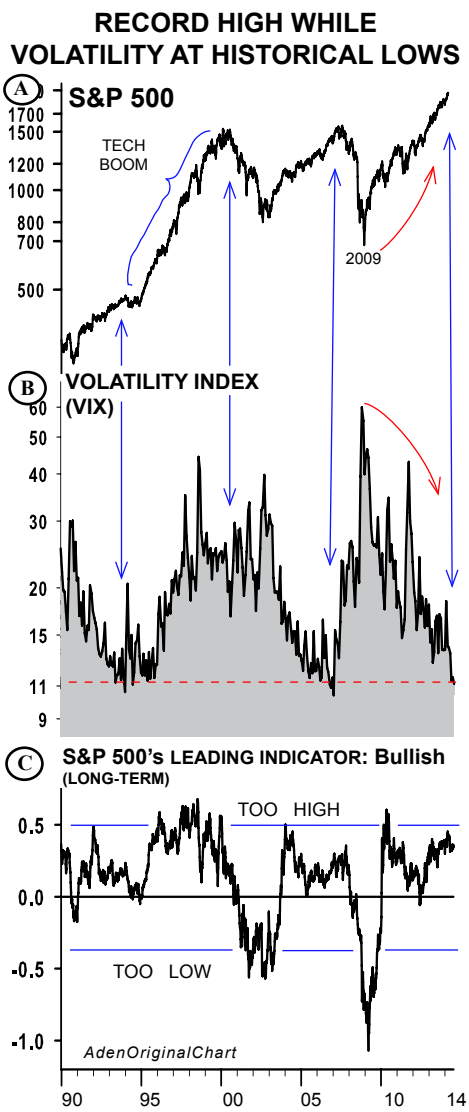


CHART 4



They're generally less volatile than the other stock indexes and they usually lag. They're also interest rate sensitive and they tend to pay higher dividends.

So when the Dow Utilities also hit a new record high this month, it was a big deal.

In fact, there have been many big deals along the way…

VOLATILITY LOW

As the S&P500 keeps hitting new record highs, for instance, the volatility index has stayed at super low levels (see **Chart 4**).

This tells us investors are okay with what's going on. And while a low VIX tends to coincide with tops, not always. It's a caution sign, but with the leading indicator still giving a bullish reading, all is good for now.

Never mind the rising Price/Earnings ratio (see **Chart 5**). The same is true of the sluggish economy, the ever growing debt load, or the brewing situation in the Middle East. The market doesn't seem to care.

Not only doesn't the market care, it's partying like the late 1990s. And the rest of the world is jumping in, with many of the developed and emerging markets joining the party too.

BE SELECTIVE

As you can see on **Chart 6**, the World stock market composite is super bullish.

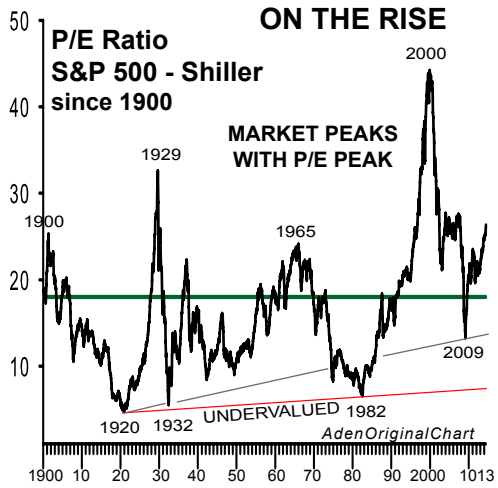
But despite this great performance, it's still a mixed bag on the global stock market front and you have to be selective.

Considering the overall major world stock markets, for example, the ones we like best are Germany, Canada and Switzerland.

The emerging markets are generally still lagging but they've perked up in their biggest quarterly gain since 2012.

Plus, many of these markets are super cheap, like Greece, Mexico and Russia. In other words, they are good values, but they're also higher risk. The ones we like best in this sector are Mexico, Thailand and Malaysia.

CHART 5



KEEP YOUR POSITIONS

Nevertheless, we're happy with the stocks we have. They're doing super well, despite a couple of laggards.

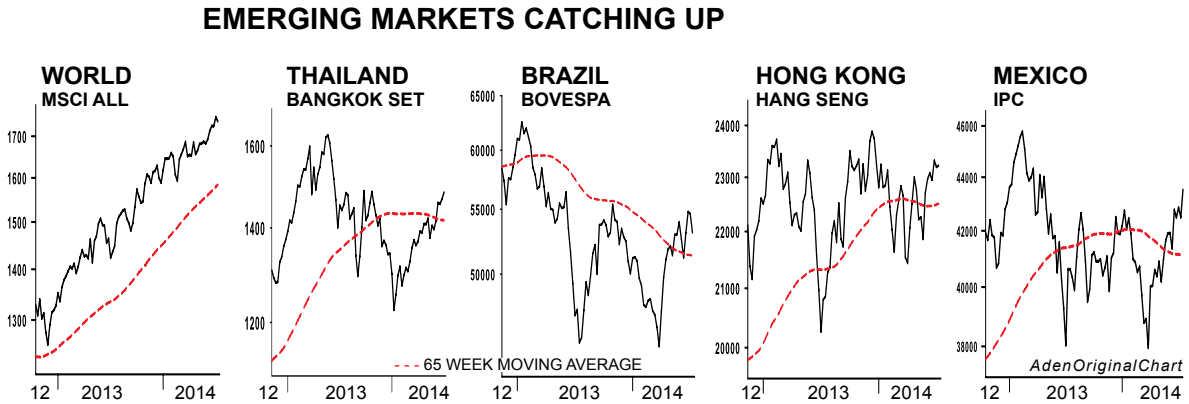
That being the case, we continue to recommend holding on to the stocks you have.

Like we've said before, keep riding this bull for as long as it lasts and we think you'll be glad you did. We've been holding XLE and JNJ for less than two years. They're up 37% and 38%, and still going strong (see our open positions on page 12).

If you want to buy new stock positions, or add to the ones you already have, then buy XLE, JNJ, IYT and QQQ.

These have generally been among the strongest leaders and it looks like that'll continue. If we see signs this is changing, we'll keep you posted via our weekly updates.

CHART 6



U.S. INTEREST RATES AND BONDS

Bonds: On the rise

Bonds prices surged higher again this month. And like we've been saying, they're headed a lot higher.

REASONS WHY BONDS ARE BULLISH

Bonds have several very important positive factors going for them. The most important are…

1. Slow global economy.

Even though there are many improving signs, the overall global economy remains lackluster. Growth is generally sluggish and improvements have come slowly.

For example, the U.S. has only now regained the jobs that were lost since the beginning of the 2007-08 recession. This took an awfully long time, far longer than in previous recoveries.

More impressive, however, was the U.S.'s dramatic downward revision in its GDP for the first quarter. It plunged nearly 3%, which was far more than expected. Plus, it marked the biggest downward revision since records began 38 years ago!

CHART 8

ON THE RISE & LOOKING GOOD!

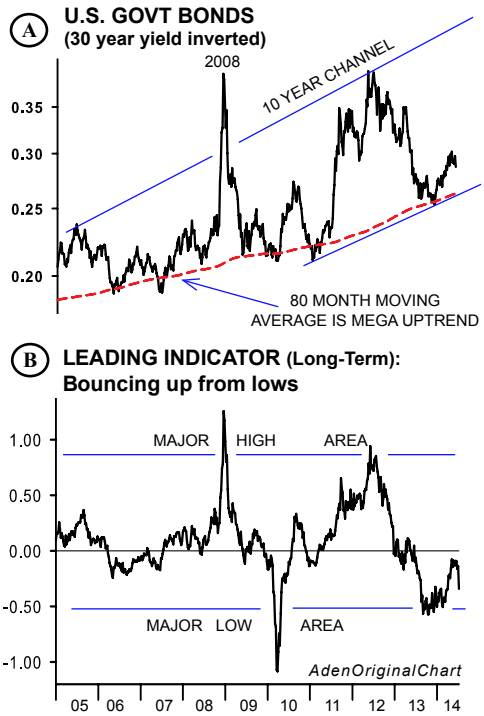
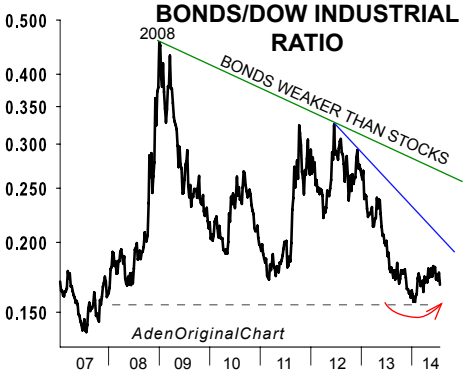


CHART 7

BONDS BOTTOMING VS STOCKS



2. Growing deflationary pressures.

This sickly GDP number further fueled deflationary pressures. And this too will keep upward pressure on bond prices.

3. Low inflation.

The same is true of low inflation. It's bullish for bonds and so far there are few signs it's picking up.

This month, for instance, world food prices declined for a third month. The U.S. producer price index also declined. And even though some commodity prices are rising, others are not. So no big sign of inflation yet.

4. Iraq and Ukraine.

As tensions escalate in the world's hot spots, bonds have become even more attractive. That's because bonds are a safe haven during times of turmoil.

Considering the fast moving events in Iraq and the many repercussions, bonds become a magnet for global investors. Like gold, safe U.S. government bonds are a shining star.

5. Super low interest rates.

Interest rates are very low all over the world. And it looks like they're going to stay low for a long time.

Aside from Yellen, other central bankers feel the same. This means bond prices will stay firm and rise further (remember, bonds and interest rates move in opposite directions.)

6. Aging baby boomers.

Baby boomers are getting older. Older investors tend to be more conservative with their money.

For the most part, they can't afford to take a speculative flyer, like they might've done in their younger days.

That's why many baby boomers are opting for the safety of bonds instead of stocks.

As you can see on **Chart 7**, which compares bonds to stocks, bonds have recently been stronger than stocks. And as this ratio continues to rise, bonds will keep outperforming stocks. That is, they'll provide greater profits.

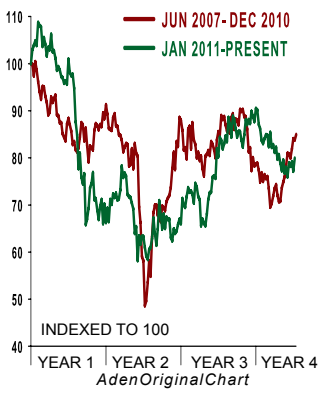
7. Our technical indicators remain bullish.

Looking at **Chart 8A**, you'll see a clear bond price rise. The mega trend, which is the strongest, is solidly up. This is telling us bond prices could keep rising to the top of their trading channel.

In other words, this bull market has a lot further to go. And our leading indicator is reinforcing this as it rises out of a major low area

CHART 9

DEJA VU!
30 YEAR YIELD



(see **Chart 8B).**

So if this bull market rise ends up being as strong as we think it's going to be, then bond prices could still gain about 36% from their current levels.

EERILY SIMILAR

Our "Déjà vu" on **Chart 9** suggests this as well.

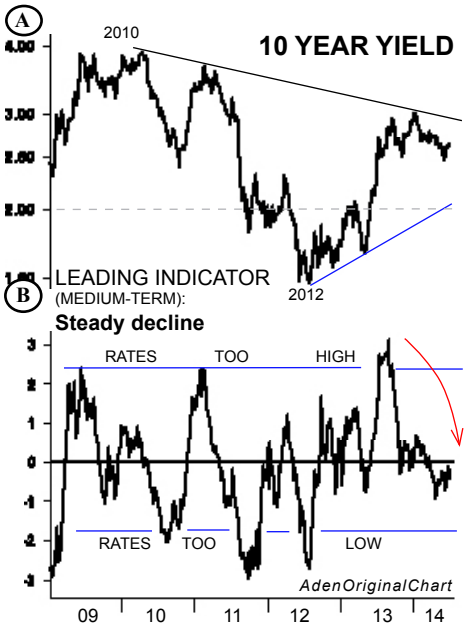
Interestingly, note that the 30 year yield from January, 2011 to the present (green) has moved very closely to the yields' movements from June, 2007 to December, 2010 (red).

If this mega pattern continues, then rates could rise a bit further before they head down sharply, like they did in 2007-08...

This would obviously be very bullish for bond prices. But does it mean a recession or financial/economic mishap also lies ahead?

It could but at this point, we just don't know. By the same token, rates could fall much further as the Fed tries to keep boosting the economy, or it could happen for some other reason.

CHART 10



In any event, the 10 year yield is also confirming that rates are headed lower, and so are many of our other indicators (see **Chart 10**).

As we've mentioned before, **bonds have been the big winners so far in 2014**. They've gained much more than other investments and we think this is going to continue in the months ahead, probably at least until year end.

We know that may not sound too exciting or sexy... In fact, most people think bonds are boring but trust us, they're not.

There are times when bonds are the most exciting and profitable markets, and we believe this is one of those times.

That's why we continue to recommend buying and holding long-term U.S. government bonds. And we advise keeping the largest portion of your investing portfolio in bonds.

We also recommend the bond ETFs, which move with the bond price. Our favorites are UBT, TLT, TLO and TLH and these are the best if you want to buy new positions or add to the ones you have.

Should this change, you'll be the first to know. But we'd be surprised if it does.

CURRENCIES

U.S. dollar: Under pressure

The U.S. dollar is starting to feel the heat. It's been under downward pressure all year but it recently hit a seven week low.

VULNERABLE

This renewed weakness could intensify, especially now that gold is moving up.

Plus, the prospect of ongoing super low interest rates and random sluggish economic signs aren't helping the dollar either.

A few weeks ago, the Fed lowered their projection for near term economic growth. They also lowered their forecast for unemployment.

But even the Fed must have been surprised at the first quarter revision. It was worse than the most pessimistic forecasts.

Sure, the economy's been looking up since then. Manufacturing and home sales are up.

And the leading economic indicator has risen for four consecutive months, signaling the economy will likely continue to gain momentum.

Plus, the job market is improving and this drove consumer confidence to its highest level in over six years.

This is all good news. But as we've often pointed out, there's still a tug of war going on and the signs are mixed.

CHART 11

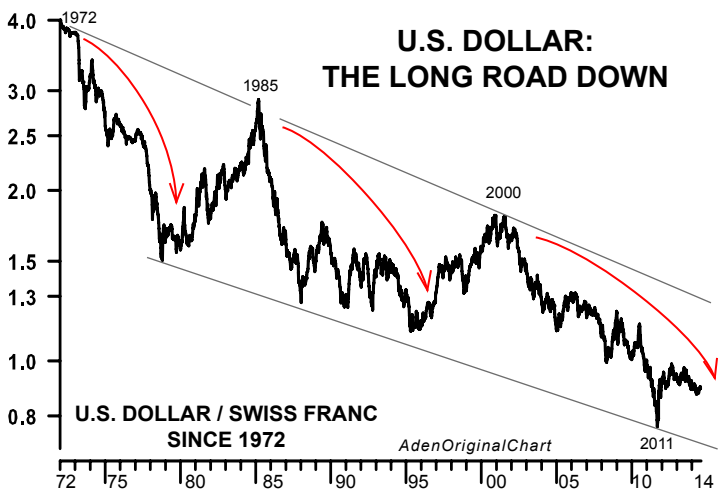
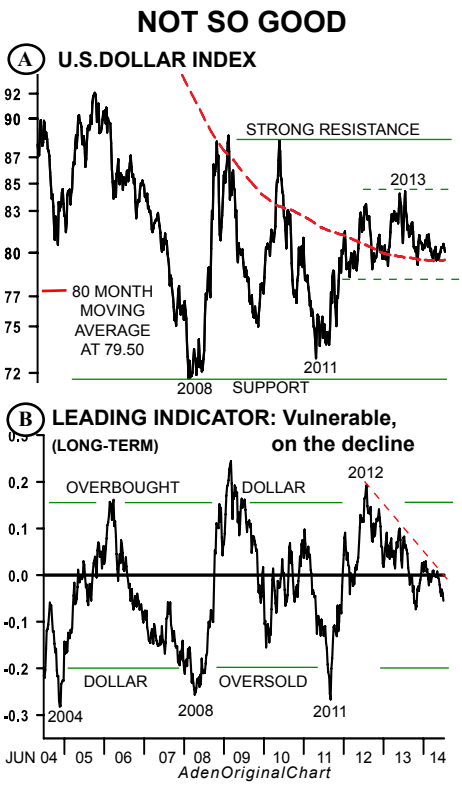


CHART 12



NOT SO BRIGHT

Not to throw cold water on the party, but if the second quarter shows strong growth, when you combine it with the dismal first quarter, there's a good chance that 2014 will still show negative growth, or mini growth at best. And this will weigh on the dollar.

In addition, the trade deficit recently ballooned. This too is negative for the dollar, and so is the situation with China.

As you know, China has the world's largest reserves at nearly $4 trillion. In other words, it has the biggest savings stash compared to any other country and a big chunk of those savings are in U.S. dollars.

But in recent months, China has been cutting back on its U.S. dollar holdings and so have several other countries. This tells us the dollar is becoming less desirable.

This really isn't that surprising considering the U.S. dollar's long road down (see **Chart 11**). As we've shown you many times before, the dollar's been on the decline ever since 1972 when it went off the gold standard. And there's no reason to believe this is going to change any time soon.

In fact, the dollar and gold's relationship continues and it's been interesting to note some of the subtleties within this relationship…

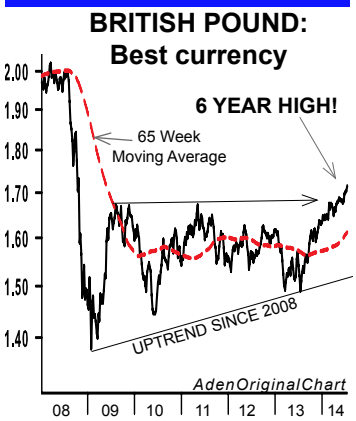
As you know, gold and dollar normally move in opposite directions. With gold being the ultimate currency and the dollar being the world's reserve currency, this makes sense.

DOLLAR CHUGGING

Most interesting is the U.S. dollar index (see **Chart 12A**). It hasn't reached a record low since 2008, in spite of the soaring gold price and super low interest rates since then.

The Fed's liquidity intervention helped the dollar. But it's still to be seen how this will all work out. And this chart gives us a sneak preview.

CHART 13



Following the volatile highs and lows during the 2008 financial crisis, another dynamic started happening. The dollar index didn't reach new lows, when gold soared in 2011.

That is, the dollar in a basket of currencies didn't hit a new low. But the dollar did reach a new low in several currencies, like the Swiss Franc (see **Chart 11**).

This was important.

Since 2012 the dollar has been chugging. It just wasn't as obvious in the dollar index. That is, until now…

The dollar index failed to rise stronglylast year when gold fell sharply. Instead, the dollar index has been declining quietly from its 2013 high.

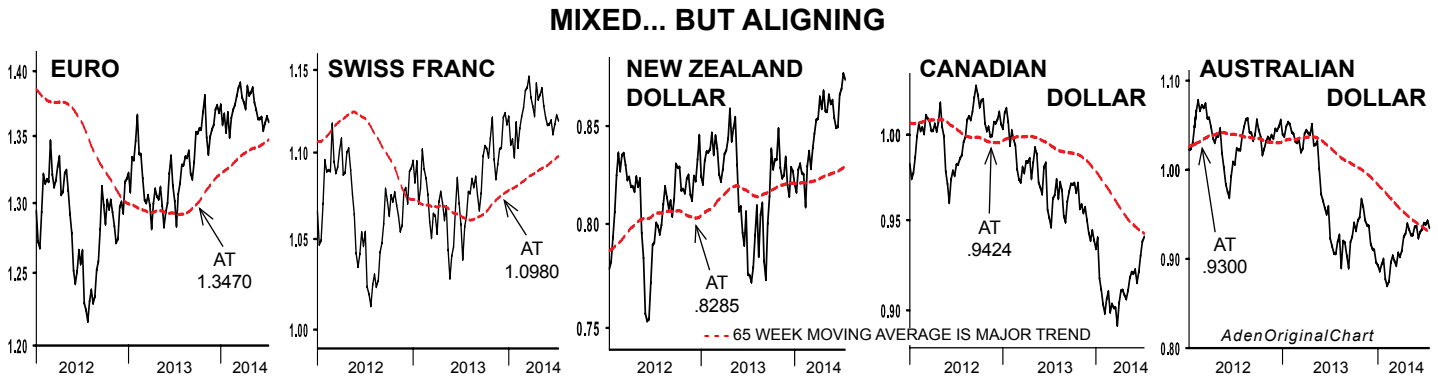
This year the dollar has been lifeless to weak while gold is getting ready for take-off.

So will the dollar reach another low? According to **Chart 12**, it's clearly reflecting a vulnerable dollar situation.

The dollar index has been sitting near its red mega 80 month moving average, while its indicator continues to lose stream.

This means if the U.S. dollar index declines and stays below 79.50, and especially below 79, it could fall to the 2008 and 2011 lows near

CHART 14



the 72 level, while the indicator reaches the oversold level.

CURRENCIES: Looking good

Meanwhile, most of the global currencies have been moving up, some more than others.

The British pound is still the strongest and it's our favorite (see **Chart 13**). The pound is at a six year high and we continue to recommend buying and keeping it.

The so called "commodity currencies" are improving for different reasons (see **Chart 14**).

The New Zealand dollar got a nice boost after New Zealand hiked their interest rates. This marked the fourth interest rate rise this year and that makes the New Zealand dollar more attractive.

Another interest rate champ, however, continues to be the Australian dollar. Since its rates are high compared to the other major countries, it has a special advantage.

Plus, China is showing economic improvement. And as we've often said, what's good for China is good for the Aussie dollar.

If you'd like to hold the New Zealand or Australian dollar, they're fine. The euro and Swiss franc are similar. These currencies remain bullish in spite of recent weakness and they're likely headed higher. But we'd sell them if they decline below 1.3470 for the euro and 1.0980 for the Swiss franc.

The Canadian dollar is looking better too.

METALS, NATURAL RESOURCES & ENERGY

Get ready... turning bullish!

No sooner had gold taken a back seat to the soaring stock market, when it did an about face! Gold jumped up from its June 2 low.

Tensions in the Middle East and Ukraine pushed gold up. The Fed then fueled the rise by again affirming a low interest rate policy, while the dollar declined.

A run to gold as a safe haven is indeed underway.

Gold reached a recent 18 week high. Short stop losses were triggered and the surprise revised U.S. first quarter GDP added to the bubbling gold rise.

In the end, **the yellow metal posted a second quarterly advance,** making it the first back to back quarter gain since 2011!

Gold is looking better with each passing month. Investors are starting to take note. It's being reflected in the big surge in gold ETF buying, also at the fastest pace since 2011.

2013 was the only down year gold has had. It fell the most about a year ago, and it ended the year near the lows.

We've felt that 2014 could end up being the turnaround year, from a bear market to a bull market. And that a bull market ascent could develop in 2015.

This is still a likely scenario.

The metals all rose in this direction this past month. Gold, silver, gold shares, copper, and platinum all rose above their 65 week moving averages (see **Chart 15**).

This is a great first step!

For the first time in 18 months this moving average has been surpassed. And it's happening during a roaring bull market in stocks and a solid rise in bonds.

GOLD: Great value

Note on **Chart 16,** gold compared to stocks. You can see the ratio (**A**) has been bottoming this year near the lower side of a 15 year upchannel. And the leading indicator is bottoming in a bombed out area for gold.

This is saying gold is cheap compared to stocks. It's at a great value.

It's also holding up well compared to the U.S. dollar.

You'll remember that super low interest rates began in 2008 to help the financial crisis. So it's understandable that the dollar index hit a record low at the time (see **Chart 17B**).

This low interest rate world and the Fed's unprecedented liquidity kept the dollar index moving within the lows and highs of 2008 thereafter.

CHART 15

WORST PART IS OVER?... TURNING BULLISH ABOVE MOVING AVERAGES

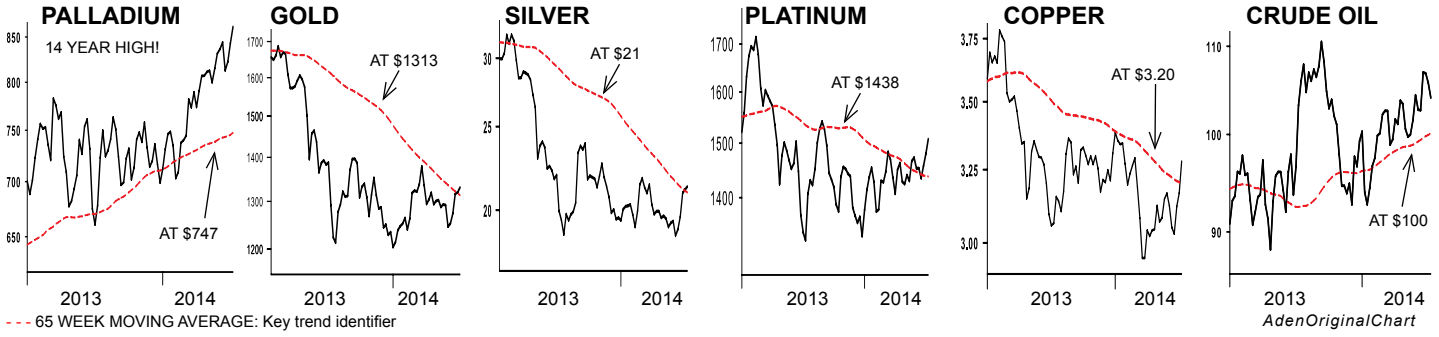
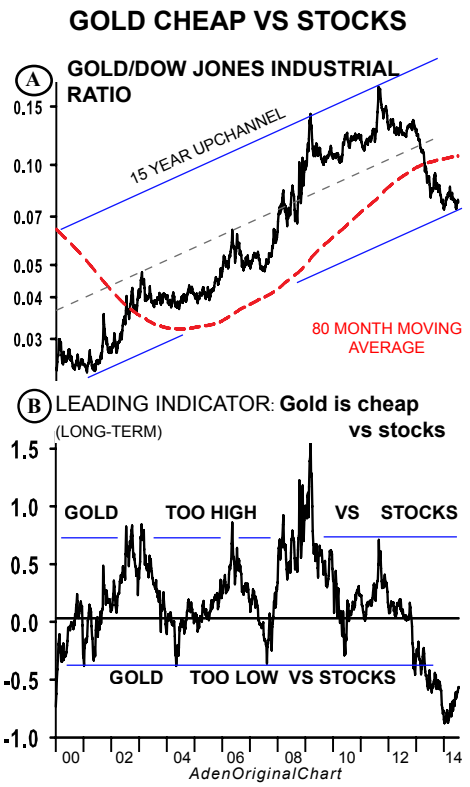


CHART 16



But that wasn't the case in all of the currencies (as you saw with the Swiss franc on **Chart 11**).

This was a leading sign. The dollar has been rolling over and declining since 2012, in spite of gold's fall last year.

The weak dollar couldn't rise in face of a falling gold price.

Now the dollar is declining and it's poised to decline further while gold rises from the lows.

The normal relationship of gold and the U.S. dollar moving opposite appears to be kicking in again.And that relationship today is a higher gold price and a lower dollar.

It's just getting started.

Comparing bear markets

Last month, we compared today's decline since 2011 to the gold plunge from its 1980 peak. It was worse then.

And gold's 38% decline this time around also hasn't been as steep as the fall in 1974 -76 when gold fell 50% inbetween two bull markets.

You can see this similarity on **Chart 18**. Gold fell less this time but the bottom area is lasting longer than it did then.

Will gold repeat a mega bull market rise in a similar way? The answer is coming up within the next six months to a year.

HARD NOT TO BE A BULL

We believe it's just a matter of time until the next bull market gets underway... not if a bull market develops. There are too many positives behind the gold price.

One big reason is demand. Investor demand is starting to come back. And India, a large gold consumer, may be about ready to lift their restriction on gold imports. These two potentials will only add to the already strong demand.

The U.S. Mint is on pace for another record year for silver sales. 2013 was a great year, in spite of the fall, and now again this year.

Plus, if gold ends up playing a serious monetary role in the world, we'll clearly see it much higher.

The fact that gold has been rising on some sluggish economic news out of the U.S., Europe and China shows this eventual path is likely. Ongoing competitive devaluations are a sure sign for the need of gold discipline.

Gold rises when the global economy is slow or weakening because it implies that further stimulus is necessary to turn it around. And this means inflation down stream.

Geo-political tensions are also growing in the world today, which will continue causing investors to turn to gold as a haven.

Germany has now decided to leave their gold in the U.S. You'll remember when Germany wanted

CHART 18

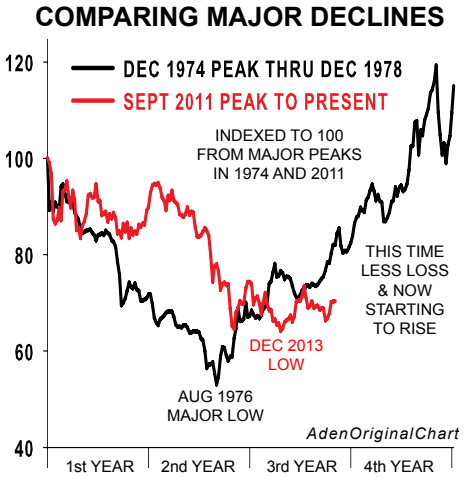
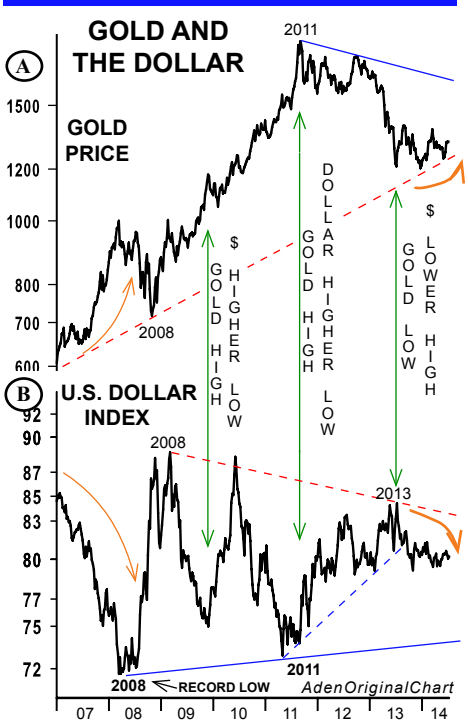


CHART 17



their gold returned to them. Well, they've now decided it's safe in New York.

When the U.S. said they'd give Germany back their gold over a period of years, it created doubts. Former U.S. Treasury official, Paul Roberts, for instance, believes the entire U.S. gold holdings are gone. And to buy it in the open market would have caused a surging rise.

For the sake of peace and stability, we believe that's why Germany is now saying it's sensible to store part of their reserves outside of the country.

Gold Timing: How far up in the C rise?!

It's official. The B decline is over. It finished at its June 2 low at $1244. An almost 10% decline from its March highs fits the description of a normal B decline (see **Chart 19**).

Most exciting is the C rise. It's off to a good start by breaking above its 65 week moving average for the first time since January 2013. Gold will now show a new type of strength just by staying above this moving average at $1310.

The extent of this rise will now be important to see the overall

strength (or lack of) in the gold market. Gold's next hurdle is the $1380 level. Once surpassed its key breakout level is at $1420.

Keep an eye on $1420. This is now the 23 month moving average level, as well as the August high. Once this level is overcome, gold will be smoking!

Gold could then reach its original support level at $1536. This type of move would then be pointing upward for the years ahead. That is, it would have wiped away the worst part of the bear market.

Keep in mind, if gold closes the year above $1181, it will be an up year for gold. That in itself would be a good turnaround sign.

Gold Shares: Leading

Gold mergers and acquisitions have been revived this year, after falling to the lowest in 10 years in 2013 as companies struggled with the drop in gold.

This is not surprising. This sector has been in bad shape.

Interestingly, worst hit were the junior shares. And now these shares are leading the rise. They've outperformed seniors since early June, which was a leading indication of an upcoming rise.

Junior mines fell 80% from 2011 to 2013, the worst fall since the 2008 crash. But since juniors are higher risk than seniors, it makes them a good leading indicator when they begin to clearly outperform.

Gold shares have now risen above their 65 week moving average, as you can see on **Chart 20**.

Gold shares fell to their lows last December. They were totally

CHART 20

GET READY... TURNING BULLISH!

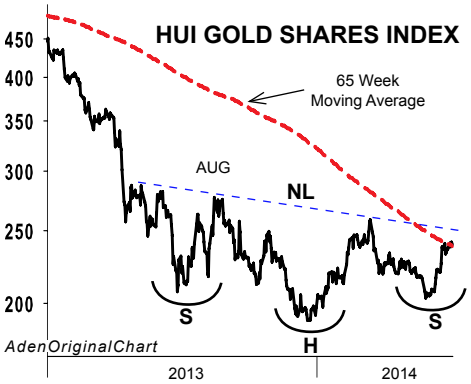
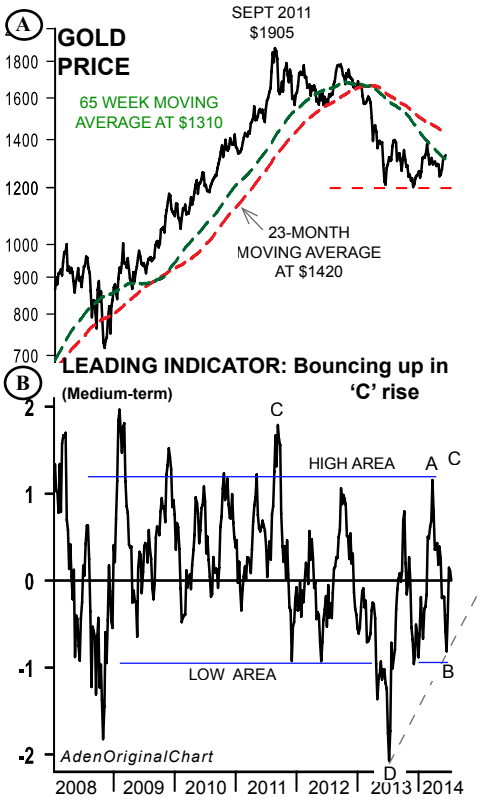


CHART 19

'C' RISE UNDERWAY



bombed out, and that low ended up becoming the head formation of a head and shoulders bottom.

We've been showing you this bottom formation for quite a while, probably to the point where you have wondered if it would ever finish!

Well, it's starting to now. With the HUI index currently above its 65 week moving average, and near the neckline of the H&S bottom, it shows that a bottom is likely in.

That is, if the HUI gold shares index can now stay above 234, and continue rising above 258, and its highs of last August near 276, it will be off and running!

Gold shares are a good buy

Gold shares have been rising more than gold during the past month. When gold shares are better it's saying, risk is worth it because they're more speculative than gold itself.

This is a good omen. Just like the stronger juniors this month, it's a good indication for all of the metals.

Note on **Chart 21A** how HUI is just starting to rise more than gold. The ratio is rising from a bombed out area.

Interestingly, this ratio tends to form a major low every 5½ years, and in each case, gold shares rise more than gold for several years.

With its leading indicator (**B**) now breaking clearly above an over 4 year downtrend, it's showing gold shares potential to rise much more than gold this year and next. This coincides with the 5½ year pattern!

Our gold shares are doing well. Royal Gold is a royalty company. It's been a good performer and it's still cheap. It continues to be one of our favorites. Agnico Eagle is also a favorite.

We recommend buying and keeping our recommended shares. If you want to buy a junior mine, we recommend the ETF, GDXJ.

SILVER: Stronger than gold

Silver is in a great position to explode upward, and we want you to be onboard.

It jumped up from a solid support level, as you can see on **Chart 22A**. This support is near the 2008 highs. The 2013 lows essentially

CHART 21

GOLD SHARES RISING MORE THAN GOLD

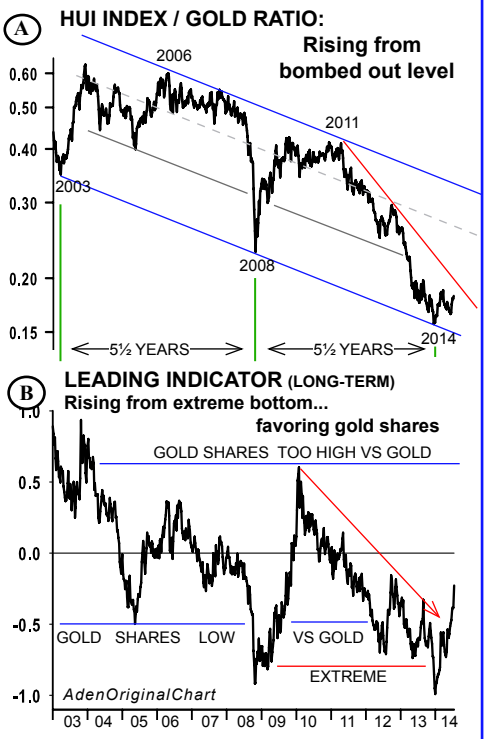
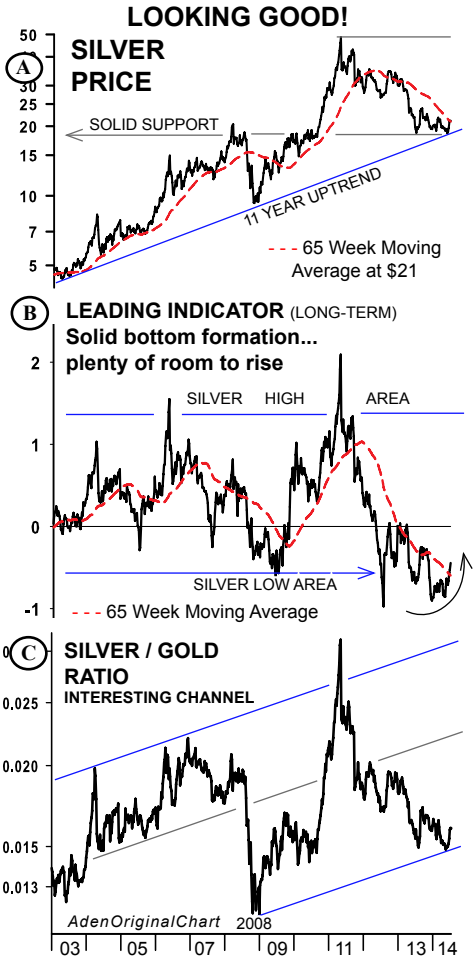


CHART 22



held at this level near $20.

Silver has been bombed out too and many are taking advantage of its great value. Note its leading indicator is rising from a super low area (**B**), and silver is starting to outperform gold for the first time since 2011 (**C**).

Silver has open potential to rise, and to rise more than gold.

Keep an eye on... $20.90, the 65 week moving average. If silver can now stay above this level, the super low area will be behind us.

Silver could then easily rise to the $24 level during the current rise. But once it surpasses this level, it'll be in full breakout mode. Silver would then be clearly bullish.

Silver Wheaton is also a royalty company, and we recommend buying and keeping it, as well as silver itself.

Most interesting is silver's relationship with copper. Silver is both a precious metal and an industrial metal. Gold is the leader of the precious metals, and copper is the leader in the resource sector.

When both gold and copper are rising, it's a very bullish sign for silver. Silver tends to explode when both of these metals rise together.... like now!

Chart 23A shows the silver to copper ratio since 2005. Silver outperformed copper during the best rise from 2006 to 2011. But once the tide turned down on all metals, silver fell more than copper.

But this is changing.

The ratio is now bottoming at the lower side of a 10 year upchannel, while the indicator is bottoming in a silver too low area.

Silver has been outperforming copper and gold for the past month. And since it's become stronger at a key juncture, it's telling us that all of the metals have good upside potential, and silver will be the best.

RESOURCES: Signs of good life

Copper rose to an almost 19 week high on prospects of more demand. This is a bullish sign for a better global economy.

With employers in the U.S. adding the most workers since 2012 and manufacturing in China expanding at the fastest pace this year, you can see why copper is bursting upward.

The two biggest copper consumers in the world are looking better.

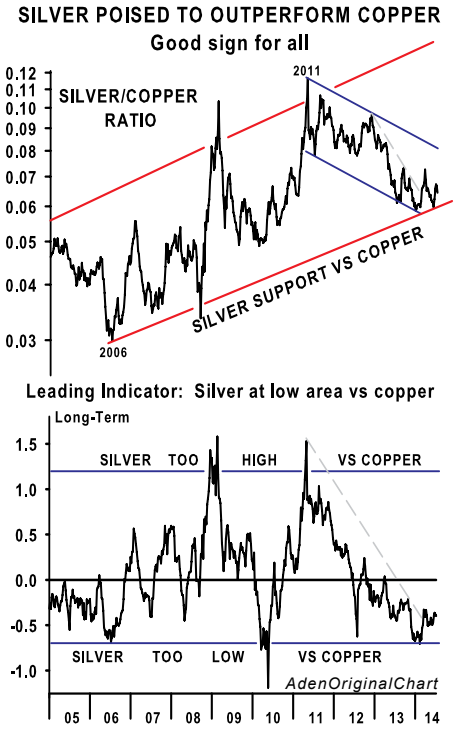
You can also see some strength in the base metals (see **Chart 24**). Nickel jumped up already this year, and now zinc is at a 16 month high. They too look like a turnaround could be at hand.

Palladium has been bullish all along and it's been by far the best precious metal. Palladium recently reached its 2000 highs (see **Chart 15**).

Granted, palladium got a boost from the Ukraine-Russia tension, and during the long mining strike in South Africa because they're the world's two largest palladium producers.

But the auto industry is bubbling, which is also bullish. U.S. auto sales are headed for their biggest year since 2007 and China is similar. Palladium is used in the automotive sector for pollution control devices, and there's a shortage. Plus, palladium is about 15 times more rare than platinum.

CHART 23



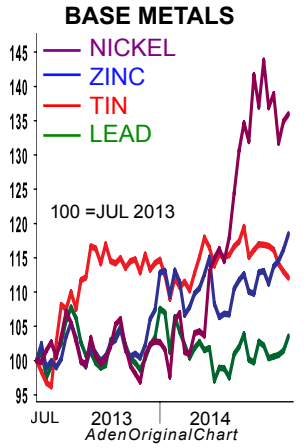
Palladium continues to be a good investment. It could rise to $1000, its 2000 high, and perhaps reach record highs. Keep your positions.

Platinum is also looking better for the first time this year. It's now firm above $1460, and it too could rise to $1550 and $1700.

Crude oil is strong and the geopolitical situation is tense. Iraq, the world's seventh largest oil producer last year, is causing uncertainty.

But the oil industry in the U.S. has indeed embarked on a new age. Since the U.S. has become the world's largest oil producer, this has eased some tensions. We recommend keeping your energy ETF, XLE.

CHART 24



OVERALL PORTFOLIO RECOMMENDATION

There was a lot of action this month. The markets are looking good, and that goes for most of them. Stocks, bonds, the metals and several currencies are all headed higher, so continue to buy and/or hold. This month you'll note several adjustments in our recommendations below but they basically remain the same.

PRECIOUS METALS, ENERGY, RESOURCE

Gold shares led gold, silver, platinum and copper higher this past month. The intermediate rise we call C has begun and the upside looks promising... They all crossed above their 65 week moving averages for the first time in 18 months. This alone is taking the gold universe to a higher level. Junior mines are outperforming seniors, and seniors are outperforming gold. Plus, silver is outperforming gold and copper. All of these are bullish signs. Buy and/or keep your metals positions listed in the box below. We're adding the junior gold stock ETF called GDXJ. Palladium is in a league of its own.

U.S. & GLOBAL STOCK MARKETS

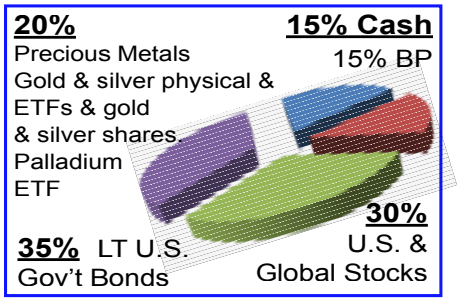
The stock market is soaring, reaching more record highs. The market remains very bullish.Continue to hold our recommended stocks, keeping 30% of your total portfolio in the stocks listed on the right. If you want to buy new stock positions, or add to the ones you already have, then buy XLE, JNJ, IYT and QQQ.

CURRENCIES

The U.S. dollar index has been under pressure. It's still vulnerable and it would turn bearish below 79. The British pound remains the strongest. We continue to recommend buying and keeping it with your 15% currency cash position. The other currencies have been lackluster. If you have the New Zealand or Australian dollars, euro or Swiss franc, they're still okay to hold.

INTEREST RATES & BONDS

Bond prices remain bullish and they're headed higher. That is, interest rates are set to decline further. And it looks like bonds will continue to outperform the other markets in the months ahead. That's why we continue to recommend buying and keeping 35% of your total portfolio in long-term over 10 year U.S. government bonds. We also like the bond ETFs and the ones we recommend are listed on the right.



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

OUR OPEN POSITIONS

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Palladium	PALL	Jan-13	69.71	84.84	21.70	Buy/Hold
Agnico Eagle	AEM	Feb-14	33.68	38.94	15.62	Buy/Hold
Silver Wheaton	SLW	Sep-09	11.66	26.77	129.59	Buy/Hold
Royal Gold	RGLD	Mar-14	66.04	74.73	13.16	Buy/Hold
iShares Silver Trust	SLV	May-06	14.50	20.21	39.38	Buy/Hold
Silver (physical)		Aug-03	4.93	21.01	326.23	Buy/Hold
Junior Gold Miners *	GDXJ	Jul-14				Buy
NewGold	NGD	Apr-10	5.13	6.18	20.47	Hold
Central Gold Trust	GTU	May-09	36.53	47.17	29.13	Hold
Gold (physical)		Oct-01	277.25	1316.50	374.84	Buy/Hold
SPDR Gold Shares	GLD	Nov-04	44.38	127.07	186.32	Buy/Hold
iShares Gold Trust	IAU	May-05	4.17	12.79	206.71	Hold
Central Fd of Canada	CEF	Apr-04	6.39	14.42	125.67	Hold

STOCKS & ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Energy Select SPDR	XLE	Aug-12	72.37	99.46	37.43	Buy/Hold
Johnson & Johnson	JNJ	Feb-13	76.16	105.72	38.81	Buy/Hold
iShares Transports	IYT	Oct-13	118.85	146.98	23.67	Buy/Hold
Nasdaq Powershrs	QQQ	Jun-14	92.82	94.26	1.55	Buy/Hold
S&P Glbl Tech	IXN	May-14	87.75	89.55	2.05	Hold
iShares US Med Dv	IHI	Oct-13	86.70	102.05	17.70	Hold
Dow Diamonds	DIA	Jun-14	169.08	168.84	-0.14	Hold
Microsoft	MSFT	Feb-13	28.01	41.78	49.16	Hold
Utilities Select	XLU	Apr-14	43.11	42.99	-0.28	Hold
DJ US Telecom	IYZ	Sep-12	25.22	30.25	19.94	Hold
iShares Germany	EWG	May-14	32.14	30.90	-3.86	Hold
Global 100	IOO	Oct-13	72.97	78.79	7.98	Hold
BHP Billiton	BHP	Aug-13	67.68	70.33	3.92	Hold
Procter & Gamble	PG	Sep-12	68.10	80.56	18.30	Hold

BONDS

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Ultra 20+ Treasury	UBT	Feb-14	58.00	63.55	9.57	Buy/Hold
20+ year Try Bond	TLT	Feb-14	107.78	112.74	4.60	Buy/Hold
SPDR L-T Treasury	TLO	May-14	66.40	65.74	-0.99	Buy/Hold
10-20 Treasury Bond	TLH	Feb-14	125.73	128.68	2.35	Buy/Hold
Intermediate Muni	MUNI	Feb-14	52.69	53.02	0.63	Hold

CURRENCIES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
British Pound ETF	FXB	Sep-13	161.11	168.55	4.62	Buy/Hold

*New position

