THE
ADEN FORECAST
MONEY • METALS • MARKETS

JULY 2017 36th year

IS THE ECONOMY READY FOR HIGHER INTEREST RATES?

Behind the scenes there's a big debate going on, and the outcome will be important for all of us... Here's the deal...

HIGHER INTEREST RATES

The Fed recently hiked interest rates for the fourth time in 18 months. They feel the economy is strong enough to withstand these rate hikes.

In their favor, they point out the employment picture is the best in decades. Housing continues to improve with sales picking up, and housing prices are hitting their highest levels since prior to the financial crisis. Manufacturing is also surging and the risk of deflation has diminished.

Plus, the index of leading economic indicators continues its upward march, hitting a new high and signaling the economy will likely keep plugging along for the rest of this year (see **Chart 1**).

Consumer confidence is up too, and so is the service sector, consumer spending and the stock market.

FAMOUS LAST WORDS?

These positive signs led Janet Yellen to make her boldest statement yet... she said that another financial crisis, like the one that exploded in 2008, was not likely in our lifetime.

You'll remember Lehman Brothers went bust in 2008, and the banking crisis pushed the economy literally to the brink. The Fed then intervened, embarking on its QE economic stimulus program.

Other central banks did the same, also dropping interest rates to zero or below, in a successful attempt to keep the financial system and the world economy afloat. But there was a high price to pay...

HARD JOB AHEAD

As our old friend Jim Grant points out, since the start of the 2008 financial crisis, the world's central banks have materialized the equivalent of $12.25 trillion.

To put this into perspective, the value of all the gold that's ever been mined amounts to $7.4 trillion. So the money that's been created in the past nine years is 65% greater than all the gold that's been accumulated throughout world history. This alone is pretty mind boggling.

Yellen, however, had more calming words, stating the banks are much stronger than they were in 2008. She said the Fed has learned lessons from the financial crisis and it's brought stability to the banking system.

That is, not only does she feel the economy is good to go as far as more interest rate hikes are concerned, but she also wants to start reversing the Fed's lopsided balance sheet. Like higher interest rates, this too would have a tightening effect... and that's where the debate comes in.

ON OTHER HAND... ECONOMY NOT SO STRONG

In the opposite corner are the naysayers, warning that higher interest rates could prove to be a disaster. They say the economy is not nearly strong enough to handle more interest rate hikes and they have a laundry list of items backing up their case.

Inflation, for example, remains low. It's not a threat in any way, and the drop in commodity prices reinforces it's not going to be a problem going forward.

The bad...

Then there's a slew of indicators that've been going down, like housing starts, retail sales, bank loans and durable goods.

These indicators have essentially offset the positive indicators, so basically the economy is mixed. But there's more...

Consumer debt is back up to record highs and so is corporate

INSIDE

debt. Plus, 70% - 80% of those polled said they don't have enough money in savings to cover a $1000 emergency.

Then there's the velocity of money, which has been declining since the late 1990s (see **Chart 2**). It measures the rate that money is "turning over" and the fact that it keeps hitting new lows is a negative sign and it's worrisome.

It tells us that, despite all the monetary stimulus over the past eight years, people aren't borrowing or spending like before. That is, it's a sign of a lackluster economy that isn't responding like the Fed would like.

With GDP growing at a sluggigh 1.4% annualized rate in the first quarter, it's no wonder many are concerned the Fed is on the wrong track by raising interest rates into a weakening economy.

Even the IMF has said the U.S. economic outlook is uncertain. In addition, Trump's approval rating is at a low, and this is creating some concern.

THE DANGER OF TOO SOON

At this point, some of you may wonder, who cares if the Fed raises interest rates moderately again?... Well, our dear friend and colleague, Matt Kerkhoff at dowtheoryletters.com summed it up best. Here's Matt...

"The answer to that very important question is that if the Fed hikes rates under the wrong conditions, it could throw the economy into a recession and provide a nice haircut to asset prices.

Adopt too many rate hikes at the wrong time, particularly when inflation is already weak, and we risk crossing the threshold from economic expansion to economic contraction, aka recession.

As most of you know, the Fed has a rich history of throwing the economy into recession by raising rates too far into a weakening economy. Monetary policy acts with a lag, and we need some time to allow the latest rate hikes to percolate through the system.**"**

THE DEBATE MATTERS

In other words, considering the mixed signals, it would be best to take a wait-and-see attitude for the time being.

And yes, this debate matters. In fact, it's probably the most important factor hanging over the economy for now and the outcome will have wide ranging effects.

So, it'll be very important to watch what the Fed does and see how the economy unfolds in the months ahead.

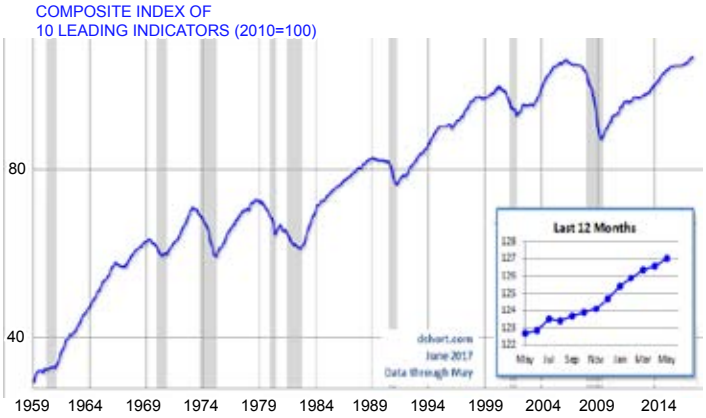
The Fed has said they're going to raise their Fed funds interest rate one more time this year. Hopefully they'll take it slow and easy, especially if the economy stays mixed, but we'll soon see.

THE BRIGHT SIDE... RISING STOCK MARKET...

Meanwhile, one important bright note

CHART 1

CONFERENCE BOARD LEADING ECONOMIC INDEX
WITH RECESSIONS HIGHLIGHTED



continues to be the stock market. It keeps on rising, which is extremely positive for the economy.

As you know, the stock market is much more than just a stock market. It's also a very reliable leading economic indicator. And since the stock market leads the economy by about six to nine months on average, and some of the market indexes are still hitting record highs, this is a big plus.

It's telling us the economy will likely continue to do well, at least until the end of this year, and perhaps well into 2018.

Interestingly, this is also reinforcing what the index of leading economic indicators is signaling. And these two indicators are powerful.

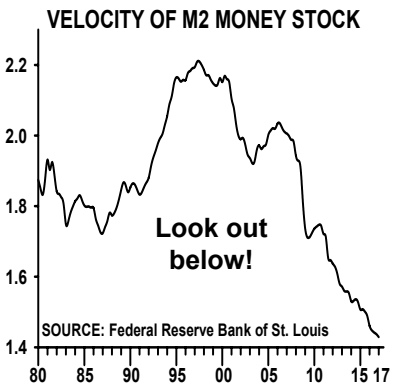
If so, this also means the stock market will continue to focus on the positives. And it'll keep ignoring the Trump controversies, like it's been doing all along.

DOLLAR FEELS THE HEAT

So far, these have barely caused a hiccup in the stock market. But they have been a factor driving the U.S. dollar lower.

This, in turn, is resulting in some bullish action in some of the currency markets. As you'll see in this month's Currencies section, we now recommend buying some of these markets.

CHART 2



The weaker U.S. dollar will also be bullish for gold, and at some point we'll likely see it head North. The same goes for the other metals, the gold and silver shares and the oil price.

So the bottom line is, stay diversified and continue to go with the major trends. Regardless of all the news, commentaries and opinions, the price action in the markets themselves will keep us on the right track.

And for now, that track is telling us to diversify, also keeping a large portion of our portfolio in cash.

U.S. & WORLD STOCK MARKETS

It's all about the roaring bull market

The stock market keeps on going. Even though some sectors have been sluggish or correcting downard, the overall market remains strong and bullish, and it's still poised to head higher.

A BULL RECONFIRMATION

In fact, the legendary Dow Theory signal reconfirmed the bull market action. This is a very important sign and it happened when the Dow Industrials and Dow Transportations both hit new record highs this month (see **Chart 5**). It's telling us stocks are going higher, and the other stock indexes are reinforcing this too.

Note they're all at or near record highs and well above their moving averages. Nasdaq, for instance, has been the leader this year, and it marked the best first half of the year in eight years.

As you'd expect, new record highs are making some investors nervous. After all, they wonder, how much higher could stocks go?

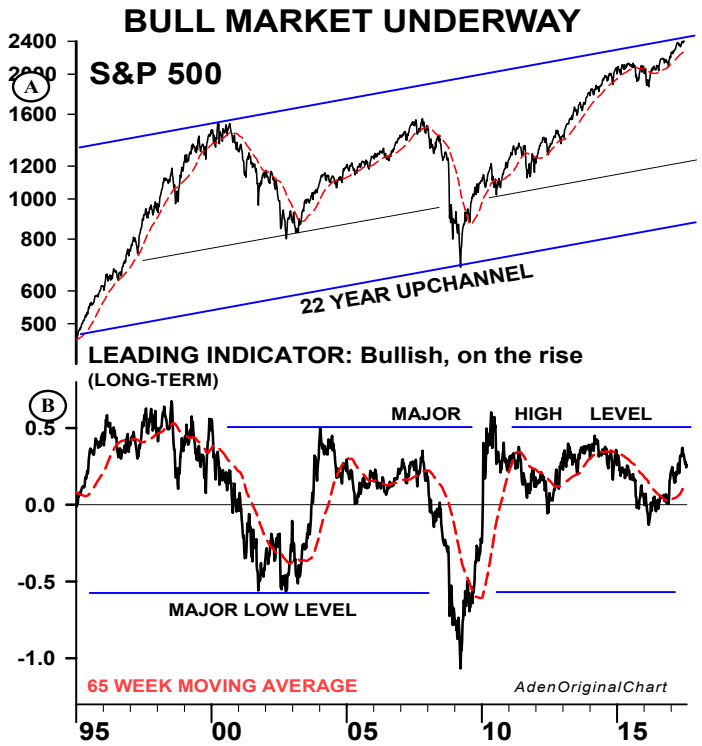
IT'S A BULL MARKET MOMENT...

Interestingly, a recent study shows stocks could go a lot higher after hitting new highs. Contrary to what most people think, stocks have historically kept on rising for another year, chalking up impressive gains. And this rule applied to global markets as well.

CHART 4

Another positive factor is the ongoing rise in the Advance/Decline line (see **Chart 4**). It too is hitting a new record high, which means more stocks are advancing than declining, and more stocks are participating in the bull market. This tells us the bull market's underlying foundation is solid.

CHART 3



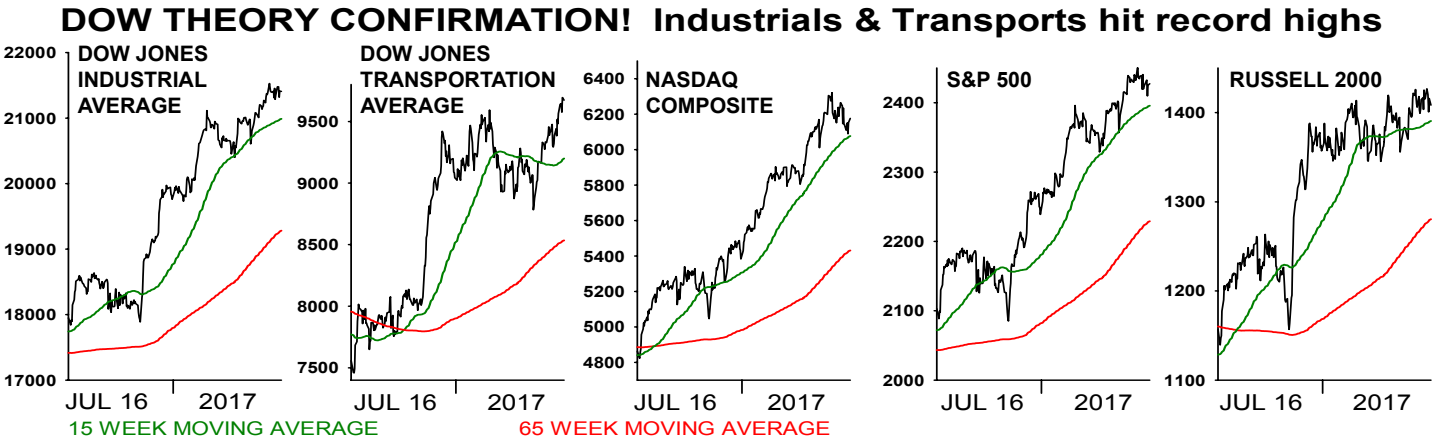
...AND MARKET IS NOT OVERBOUGHT

Month after month we continue to show you how our reliable leading indicators are also backing up the bullish outlook. **Chart 3** shows you what we mean.

The S&P500 remains bullish. But the leading indicator is most important. It too is rising but it has not yet reached the "major high level."

This tells us **the market is not yet overbought**. It has more upside potential and as we mentioned last

CHART 5

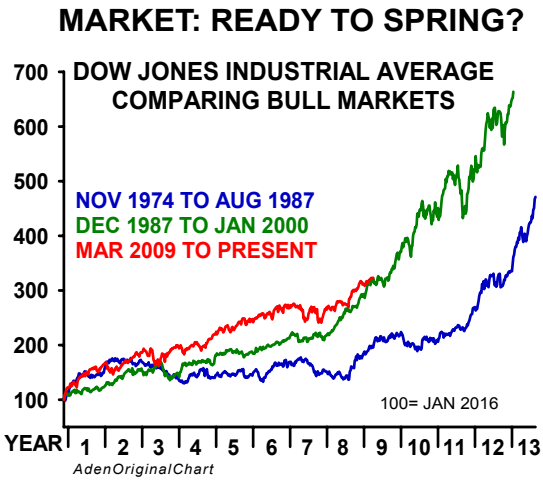


month, this final push will likely coincide with a more frenzied phase in this bull market.

In other words, more investors will start jumping in, not wanting to miss the boat. And this frenzy could end up being similar to the frenzies we saw during the dot. com bubble in the late 1990s.

This is illustrated on **Chart 6**, which is one of our favorite charts... It compares this bull market (in red) to the big bull markets in 1974-1987 and in 1987-2000. Note that in those two previous cases, the stock market literally soared.

CHART 6



This time around, the bull market rise looks tame in comparison... and that's saying a lot...

The bottom line is, despite the rise the market's already had since 2009, if it continues to follow in the footsteps of these two previous bulls, then stocks could keep rising for a few more years, reaching levels that're much higher than most people are expecting.

CHART 7

Nasdaq Composite Index Price-to-Sales Ratio

ALL SYSTEMS GO

Yet another bullish indicator is Nasdaq's Price-to-Sales ratio (see **Chart 7**). Our friend and market expert Steve Sjuggerud believes this ratio is one of the best ways to measure real value in the stock market.

He notes that, even though today's valuations are already high, it doesn't mean stocks can't go higher. They can. As you can see, valuations are currently nowhere near the high levels reached during the last bubble in 2000.

At that time, valuations were already very high before Nasdaq soared 200%+ in the 18 months leading up to its bubble peak. And the ratio surged right along with Nasdaq, reaching way overvalued levels...

The point is, valuations alone won't stop this kind of boom. It didn't then and it probably won't now, especially if this bull market continues to evolve the same way the last two big bulls unfolded.

So these, and other technical and fundamental factors are still signaling all systems are go... And there's more...

A GLOBAL BULL MARKET

The world stock markets are mostly all rising and that's another huge plus (see **Chart 8**). We've often noted this is a global bull market but it's a super impressive one.

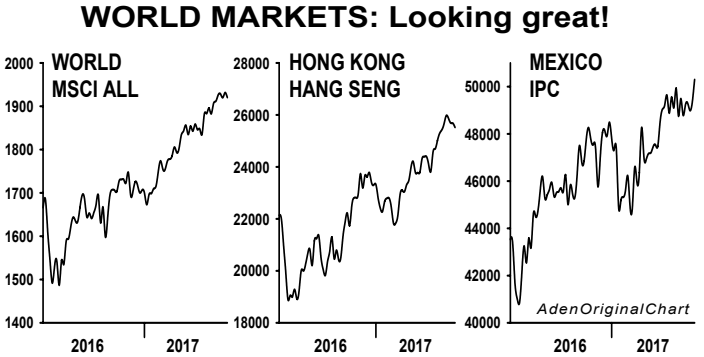
Out of the 30 biggest stock markets, for example, 26 posted gains in the first half of this year. Plus, it was the best first half performance since the 2008 financial crisis. Also, half of those 30 markets are near record highs.

This is powerful, further fueling the bullish outlook. That's even more so because all types of markets are rising... that is, markets in developed countries, emerging markets and frontier markets; these are countries that are moving up the ladder but aren't yet emerging. So it's all good.

For now, we continue to recommend riding this bull for as long as it lasts. We also advise buying the U.S. Global Investors China Fund (USCOX). It's been doing very well and this will likely continue. It'll provide exposure to China, which has been one of the strongest.

Keep the stocks you have and don't be surprised to see a further downward correction in the weeks ahead. It's a possibility and if so, we'll probably buy more stocks at that time in some of the stronger sectors.

CHART 8



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U.S. INTEREST RATES AND BONDS

Rates trying to turnaround... globally

Interest rates shot up this month. This marked a big change in this year's ongoing decline in long-term interest rates.

SHORT RATES ON THE RISE WITH THE FED...

As you'll remember, short-term and long-term interest rates have been going their separate ways for several months now. This has been unusual because interest rates generally move together.

In other words, short-term rates, like the 90-day T-Bill interest rate has been surging, recently hitting a new 8+ year high (see **Chart 9, left**). It's in a major uptrend and it's mainly been moving along with the Fed's interest rate hikes, which began in late 2015.

Other short-term interest rates, like the Libor rate, have been doing the same and they're set to rise even further in the months ahead. Long-term interest rates, however, have been another story.

...LONG RATES NOT

As you can see, the 30 year yield has been on the decline for years and this year has not been an exception (see **Chart 10A**). It dropped to a seven month low a couple of weeks ago and the major trend clearly remains down.

The main reason why has been weaker economic numbers. Bond investors have been skeptical of the Fed's interest rate hikes, generally feeling it's been a mistake to keep raising interest rates in the current lackluster economic environment. So they kept driving long-term interest rates down.

You see, **the Fed can control short-term interest rates, but not long-term interest rates.** We know we've discussed this many times before, but to refresh your memories...

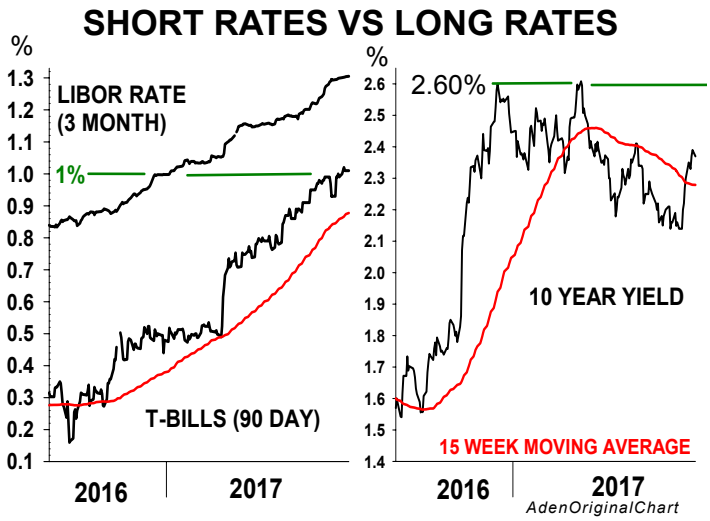
CHART 10

MASSIVE BOND MARKET

The bond market is one of the biggest markets in the world. Bond investors and traders tend to be more sophisticated than other investors.

So if they don't like what they see, for whatever reason, long-term interest rates will keep declining. This could be because they don't see inflation picking up, or they think business is going to slow down in the months ahead, or whatever.

CHART 9



That's what had been happening until June 26, and then long-term interest rates did an about-face. They started rising, ending the week with the largest gain in over three months. And then they kept going (see **Chart 9**, right).

The big improvement in manufacturing was an important factor driving rates higher. It was finally like... see, the economy's doing better than the bond naysayers thought... Maybe Yellen's doing the right thing after all.

Sentiment changed, at least for the time being, and the yields surged. So are long-term interest rates finally following short-term in-

CHART 11

terest rates up?

KEEP AN EYE ON 30 YEAR YIELD

It's still too soon to tell, but this could be the beginning of a realignment with both rates getting in synch again. This will not be confirmed, however, until the 30 year yield rises and stays above its mega moving average, currently at 3.18% (see **Chart 10A**, again).

CHART 12

As you know, this moving average is super important. It's identified and confirmed the mega downtrend in long-term interest rates ever since the 1980s. In other words, it doesn't change often. So if this trend were to change and turn up, it would be a huge deal.

It would signal interest rates are heading higher for years to come. And since bond prices move opposite to long-term interest rates, it would also be a strong sign the bond bubble has indeed burst and bond prices are headed sharply lower (see **Chart 11**).

It would also mean the 30 year yield keeps following in the footsteps of its previous movements, we call The Wave (see **Chart 12**). **In fact, if this pattern is broken, it'll be the first change in yields since 2007.**

T-BOND HOLDERS BEWARE

Currently, it's good to remember, if bond prices and the interest rate action tell us that's what is coming, we have to go with it because these markets look ahead. They see things before they become obvious.

If this ends up being the case, we're pretty sure a lot of people will be very surprised. That would especially be true of some of the world's central banks.

Japan, for example, is the biggest foreign holder of U.S. government bonds in the world. China is a close second and it's been buying more bonds for the past three months, hitting the highest level in six months. If bond prices fall sharply, along with a weakening U.S. dollar, bond holders aren't going to be too happy.

But interestingly, that may end up being the case for all bonds... Recently, for instance, the Bank of England, the Bank of Canada and the European Central Bank all said they're going to wind down their easing programs and/or they're considering an interest rate hike.

If so, the world would be back in synch, but this time on the upside. This would further reinforce a big trend change is in the works.

WATCH 2.60% ON 10 YEAR YIELD

Meanwhile, the 10 year yield is still in an almost 10 year downtrend, but it's poised to rise further. If it were to break above 2.60%, this too would confirm that big changes are coming (see **Charts 9 and 13**).

For now, we continue to recommend avoiding bonds and staying on the sidelines. Bonds are risky. There are better opportunities in other markets and it's best to steer clear.

But remember, at this point anything is possible, so continue to watch these markets and we'll soon see what happens.

CHART 13

CURRENCIES

U.S. dollar: A bad year, so far

The U.S. dollar fell further this month, posting its biggest quarterly drop in nearly seven years... The dollar is clearly bearish and it's headed lower in the months ahead.

How can we be so sure? Well, as you know, markets are always about probabilities. Nothing is set in stone and it's, therefore, important to be flexible. But if we stand back and look at what's happening, the big picture is telling us the tide has turned...

Here are a few of the reasons why...

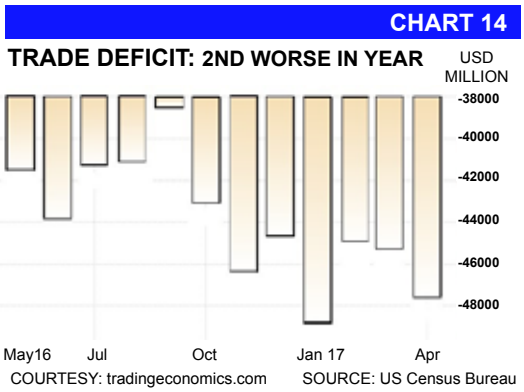
SENTIMENT HAS SHIFTED

Mainly, sentiment has shifted and it's driving the currency markets, away from the U.S. dollar and into other currencies. Investors are concerned about the U.S. and there's been a loss of confidence. Investors are feeling somewhat uncertain, especially foreign investors, so they've been lightening up on their dollars.

As you saw on pages 1 and 2, the U.S. economy has

pros and cons going for it. But in this uncertain climate, currency investors have generally ignored the good news and reacted to the bad news.

For example, higher U.S. interest rates would normally be good for the U.S. dollar. But since rates are rising into a lackluster economy, it makes investors nervous. Also, with interest rates now poised to rise in other countries, it's reducing the edge the dollar previously had.



Plus, it didn't help that the IMF downgraded their forecast for U.S. growth, stating Trump's target of 3% growth will be difficult to reach for several reasons, like an aging population and so on.

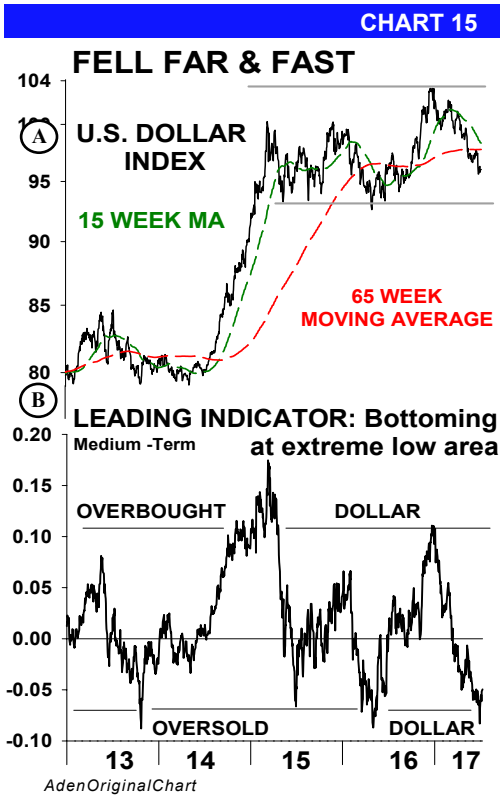
Then there's the trade deficit (see **Chart 14**). It's still huge and this too is putting downward pressure on the U.S. dollar.

It's also no secret that Trump wants a weaker dollar because it will make U.S. exports more attractive and help boost the economy. So he's now getting what he wanted...

DOLLAR: LOOK AT DOWNSIDE

Looking at the U.S. dollar index on **Chart 15A**, you'll see what we mean...

Note the dollar index has stayed below its 65-week moving average, signaling the major trend remains down.



And as we pointed out last month, the dollar index could likely decline to about the 93 level. This is the next support near the 2015-16 lows.

Going a step further, if the dollar index breaks below 93, it could then continue down to 86.50. In other words, if the dollar index eventually drops below 86.50, it would be super bearish, signaling a big bear market is unfolding.

For now though, the dollar is oversold, so it could bounce up in a normal rebound in the weeks ahead before it heads much lower.

We'll see how it goes, but in the meantime this is all good for the currencies, some more than others.

EURO: Best

The euro has benefitted the most. That's mainly because the euro is the offset currency for the dollar. So when the dollar declines, the euro rises the most.

The euro is also being boosted by more positive sentiment and better economic signs. Plus, the likelihood of interest rate hikes in the near future has been a big positive.

The technicals are also looking good... **Chart 16A** shows that the euro has remained bullish by staying above its moving average at 1.0980. The euro's next resistance is near the 1.115 level.

If it rises and stays above 1.15, it could then continue up to near 1.30. If so, that would be a 14% gain from its current level. But this will not be a straight upmove.

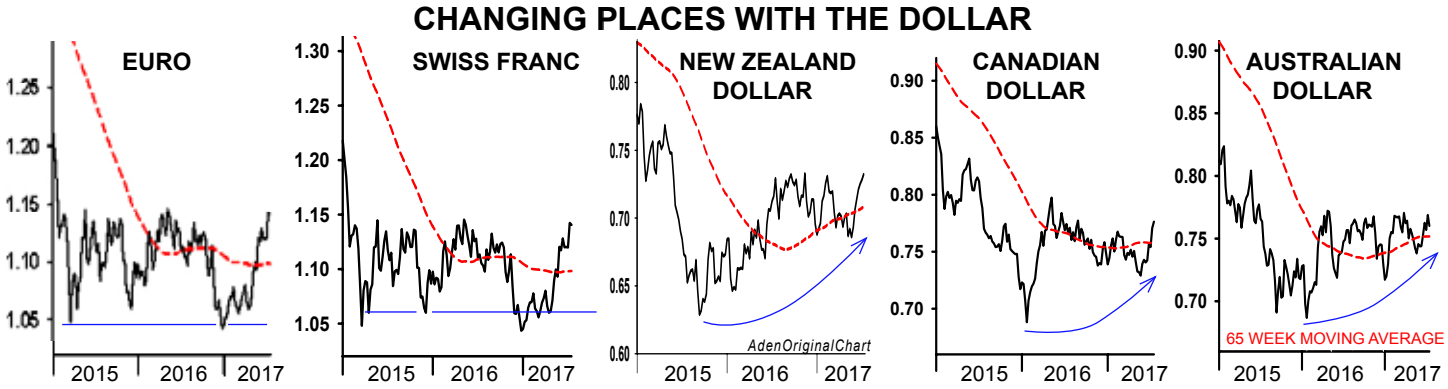
As you can see, the euro's leading indicator is approaching a high area. This means the euro will probably resist near the 1.15 level and then consolidate, and back and fill before it plows higher. This would be normal action in this relatively new bull market.

WE LIKE BEST

We like the euro and we recommend buying it and/or its ETF, which is FXE, using half of your cash U.S. dollars.

Even though the euro is our favorite, several of the other currencies are now following its lead (see **Chart 17**). That's especially true of the Swiss franc, New Zea-

CHART 17



land, Canadian and the Australian dollars.

If you'd like to diversify into other currencies, the ones we like best are the Swiss franc (FXF), Canadian dollar (FXC) and the Australian dollar (FXA).

Here's briefly why... The Swiss franc has a history of safety and stability.

The Canadian dollar gets the benefit of a rising oil price and the possibility of an interest rate rise coming up. And Australia always benefits when China is doing well because it's one of China's main trading partners.

With the dollar on the decline, you may also want to buy the U.S. Dollar Bearish ETF. It rises as the dollar falls and its symbol is UDN.

As for the rest of our cash U.S. dollars, we'll likely soon be moving these into other investments.

METALS, NATURAL RESOURCES & ENERGY

Summer doldrums... B decline in low season

Gold, silver and gold shares declined steadily from their June high, allowing the B decline to fully develop in these seasonally slow Summer months. This weakness is normal and it's part of a consolidation process.

In other words, it's important to have patience because once this weakness is over we could see a decent leg up in this bull market. We call this an upcoming 'C' rise.

Interesting is gold priced in euro terms. **Chart 18** shows that gold actually bottomed over three years ago in 2013, and it's been rising in a major upchannel ever since.

This is saying dollar strength dominated in 2014-15 when gold weakened in dollar terms. And now with the dollar declining in a new bear market, this should bode well for the gold market.

Gold could decline further in euro terms during this B decline, but it'll likely remain in a four year uptrend!

GOLD IS THE ULTIMATE CURRENCY

Also interesting, with the dollar now on the decline, President Trump just may be the one who brings gold's role back to the monetary table... The U.S. dollar is the global currency for trade and reserves, and Trump has an affinity for gold in this role.

Click here to read a great article about President Trump and the gold standard by Forbes.

So part of Trump's "make America great again" theme could have a gold standard attached to it. Wouldn't that be something? He has said the U.S. doesn't have the gold when indeed it does, and it wouldn't take that much to put the dollar on the gold standard.

Trump may indeed heed Allan Greenspan's words from his interview with the World Gold Council, when Greenspan said he views gold as the primary global currency.

Ron Paul backed this up in a recent interview with CNBC. In our words, he feels the economy is sluggish with serious problems, and he sees difficulty unwinding the Fed's balance sheet.

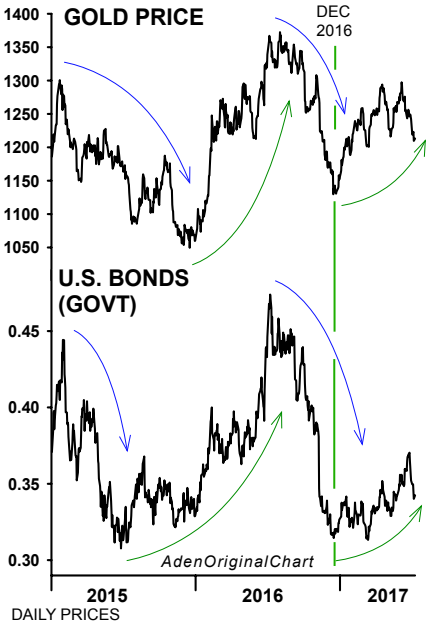
He believes inflation is already here when you consider the high cost of education, medicare and the stock market. He also uses the example of the gold price and the price of Nasdaq. In 2000 gold was at $300 and Nasdaq hit 5000. Today gold is above $1200 and Nasdaq surpassed 6000 just a few months ago.

This is a good example showing gold has done very well during that 17 year time span, when comparing this year's red hot tech stocks to the gold price.

CHART 18

CHART 19

STILL MOVING TOGETHER... BUT CHANGING



DEMAND HAS DRIED UP

But for now, and back to today's reality, many have turned their backs on the gold universe. Nevertheless, gold has held up fairly well in dollar terms, rising almost 15% this year from its December lows to the June high. But silver and gold shares have been weaker, and so have commodities during this year's ongoing run-up in the global stock markets.

This stark difference, especially with higher yields, have added to demand drying up.

Our good friend, Dana Samuelson from Amergold says Gold Eagle coin sales by the U.S. Mint have fallen to 15 year lows. Plus, premiums are down to as low as he's ever seen since the early 2000s.

Many see this lack of interest as a buying time and indeed we believe the low for this decline is closer.

Another interesting point is that Frank Giustra has returned to the gold market. He did the same during the lows in the early 2000s. He is an entrepreneur, a Canadian mining mogul and philanthropist, and his latest undertaking of Leagold Mining Corp, a gold producer based in Mexico, is a bullish sign.

SAFE HAVENS CHANGING

Gold and the bond market have been moving together in safe haven mode for the last several years... unusual partners that may be starting to part ways. **Chart 19** shows a sampling of how bonds actually led gold in the intermediate moves.

But this changed after gold bottomed last December. Gold rose this year while bonds stayed flat. And it was only in recent months that we've seen bonds "catching up" to the gold rise.

This is an unusual drag on bonds compared to recent years. And it's suggesting a possible change is starting in their relationship. We also see other factors backing this up, like you saw in the Interest Rate section.

HEIGH-HO SILVER!

Silver hit the spotlight this week because of its "mysterious flash crash." Silver has been weaker than gold during this ongoing weakness, but some strange force pushed silver down to a 15 month low... perfect timing for an "aberration."

Silver plunged 11% suddenly overnight without any reason and during a period when few were actively trading. It occurred outside of NY hours and in the early hours of the Asian market, which has become typical over the past year of many flash crashes.

This unknown type of move offers a good buying time, because we've been wanting to buy during weakness. And especially considering that silver's at the lowest discount to its fundamentals since last May (see **Chart 20**).

CHART 20

Silver Prem/Disc to Fundamental

COURTESY: Zerohedge, Monetary Metals & Co

Take a look at silver since 2014 on **Chart 21**. You can see silver broke its December lows during the flash crash. If silver stays below $16.20, it could perhaps fall to its major support, the 2015 low.

But note, silver's leading indicator (**B**) fell to a low, and it's saying silver is also most likely near a low, and the latest fall could be an overshoot of the decline. Keep an eye on $15.45. Silver will be stable and firm at the lows above this level.

CHART 21

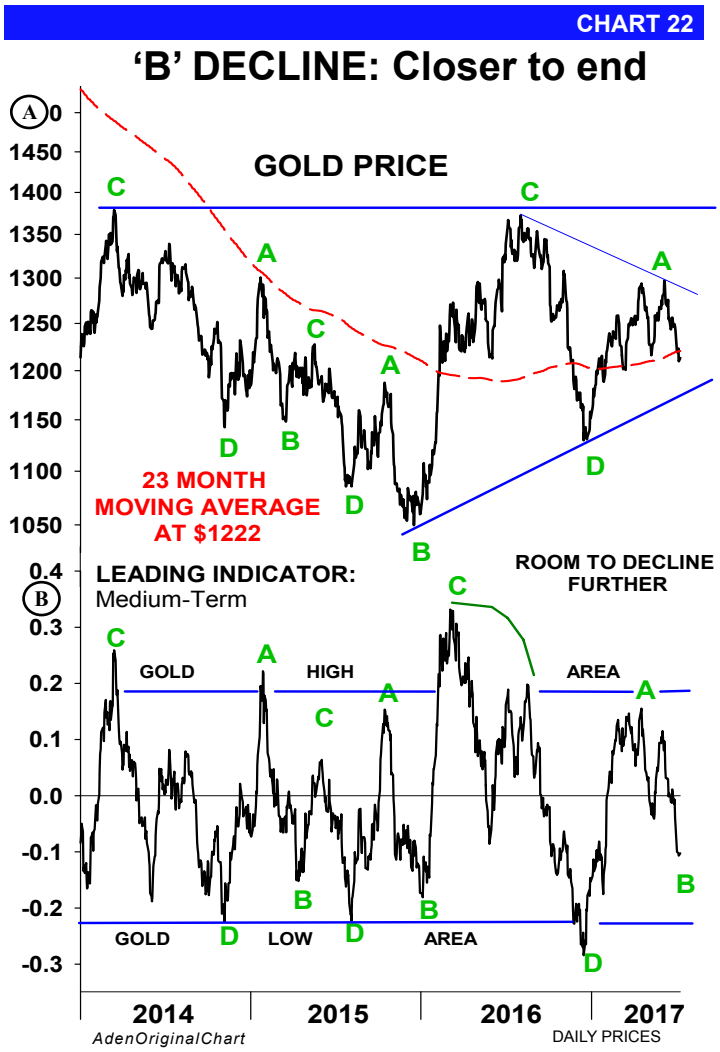
HARDEST HIT... FLASH DIVE

GOLD: B decline getting closer to end

Gold's A and B moves this year have basically been a consolidation period following the strong leg up in 2016. That is, gold's 30%+ rise last year was a bullish turnaround rise from bear to bull market.

And the rise and decline this year has been bullishly consolidating that rise. **Chart 22A** shows the triangle gold has formed for this new bull market. And it's a key triangle for today's consolidation.

The decline since the June 6 peak is dipping below its 23 month moving average while the leading indicator (**B**) falls further. This means gold could still decline further, and if it does, the B-D uptrend



will be the key support level at $1080.

It looks like this uptrend will hold because the indicator is getting closer to the low side, which is a typical level for a low to develop. If so, and gold then rises and breaks out of the triangle at $1290 , it'll be a very bullish pattern in this turnaround period.

The prior C rise last August will then be the next resistance. And as you can see, it's at the same level as the C rise in 2014. A break above this area near $1400 would be an extremely bullish confirmation.

This would confirm the whole turnaround, and we'll want you all to be fully invested!

A note about our indicators...

Some of you have asked about our leading indicators and moving averages. Our older subscribers know this but for a refresher we'll take gold's indicator on **Chart 22** as the example.

Technical analysis and cyclical moves have guidelines, but a lot is in the eye of the observer. When we say an indicator leads, it means it tends to lead most of the time. Plus, when it nears a high or low area, we know it's getting closer to an intermediate high or low area in the gold price.

We've been studying the markets for almost 40 years, and we've seen that any one market is not isolated. There is a rhythm between markets that give hints.There are obvious and subtle moves that anticipate change, or ongoing strength or weakness. When it's not clear, we give it time to express itself.

Moving averages are great, and while at times you can get whipped, most of the time they work very well. When there is a temporary slip on a mega trend, we'll always give it the benefit of the doubt. Haste can make waste in this case.

We'll continue to give you our best guidance on the markets. We love what we do, and we enjoy sharing it with you.

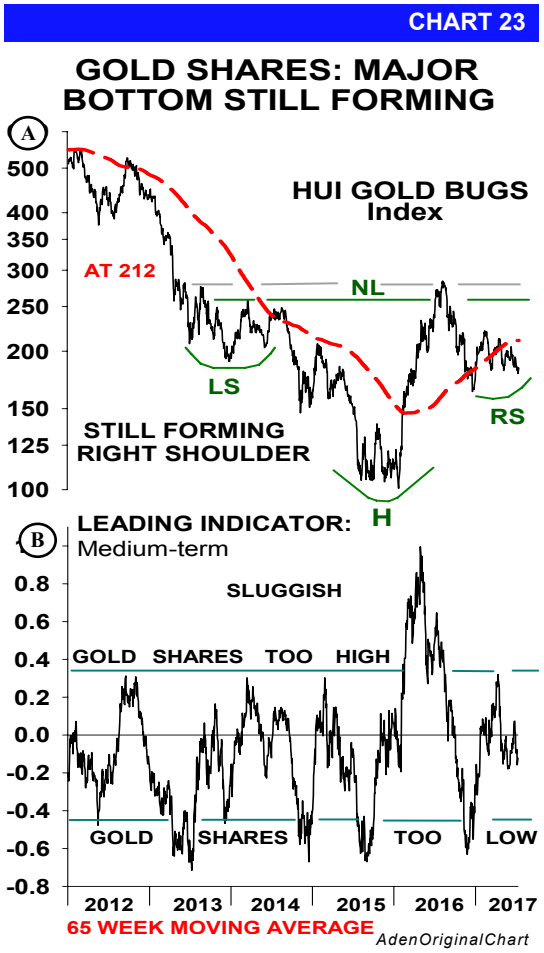
GOLD SHARES: Still basing

The best thing about gold shares this month is that the HUI index is holding above its May lows at 180 (see **Chart 24**, left).

And while it could still decline to its December lows, like platinum has, most important is that the major bottom is still forming.

We're showing the same gold share chart as last month because we believe it's important to keep it in perspective (see **Chart 23A**). The point is, we could see gold shares move lower and it would still be forming a right shoulder of a major bottom by staying above 163.

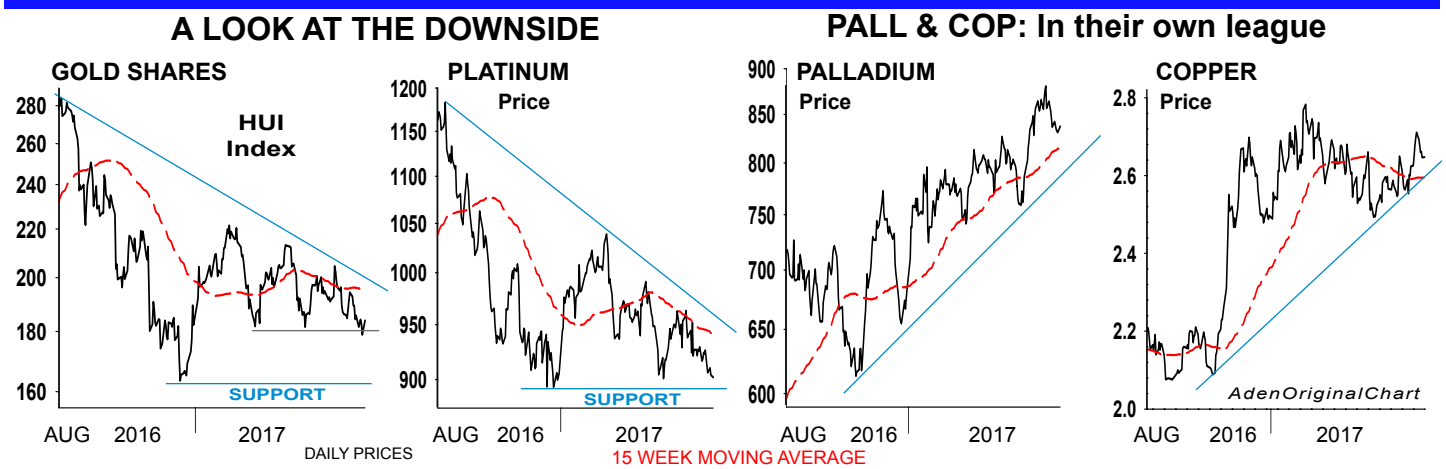
Keep your gold shares and buy now during this down time if you don't have your full position.



Palladium is an independent metal. It's used to make auto catalysts for gasoline-fueled cars. It's been on the rise with strong car sales in recent years, and speculative demand has also kept palladium strong.

Chart 25 shows palladium's mega rise since 1970. It's now approaching

CHART 24

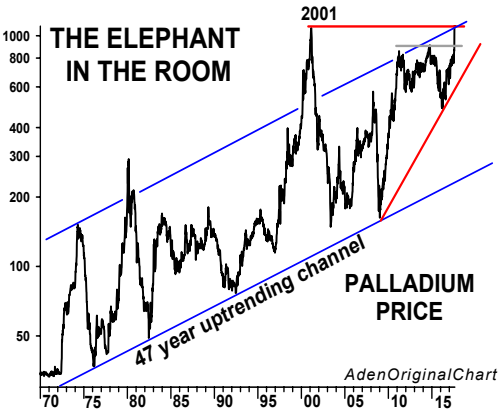


its 2014 high near $910, and if broken, we could see palladium test its January 2001 record highs near $1080.

You may remember the precious metals in 2001. Gold, silver and their shares were at major lows after falling for 20 years. Palladium acted like a dot.com stock then, and once again it's moving with the stock market.

Weak fundamentals are soon expected to take their toll on the price of this metal, and we'll watch from the sidelines.

CHART 25



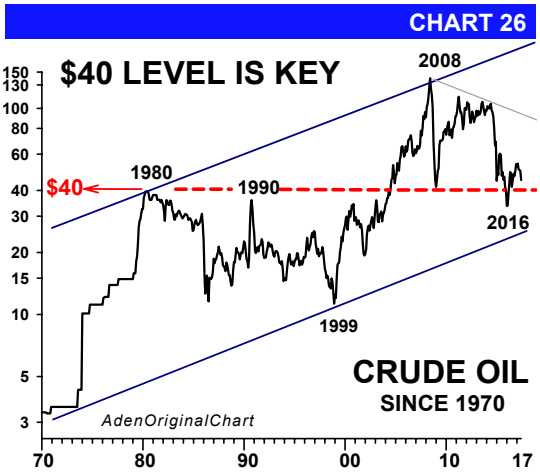
RESOURCE AND ENERGY: A bottom formation

The commodity sector has been sluggish this year. After having a good rise in 2016, it peaked in February and it's been drifting down since.

This year's weakness doesn't mean that last year's rise was a fluke. On the contrary, commodities in general are still in a major bottoming process well above the lows reached 1½ years ago.

Copper is a good example of the general sector. It actually gained in the first half of the year, closing up 8% on June 30th. Note on **Chart 24** how it's been bouncing up over the last few months. By rising clearly above its 15 week moving average in June, it's saying that the 2017 doldrums may be about over. Remember, the 15 week average identifies the intermediate moves.

CHART 26



The soft commodities are similar. Chart 27 shows a close up of the last two+ months' movements. Note how they too are rising, especially in recent weeks. We'll be keeping a close eye on commodities, now that they're starting to head higher.

Interestingly, Goldman Sachs, the leading commodities firm on Wall Street, is bailing out of commodities. They've seemingly lost their patience, but we hope you haven't. We'll be pressing the buy button one of these days, just not yet.

Crude oil has been basing above the $40 level for about a year now, and ever since it temporarily fell below it in 2016.

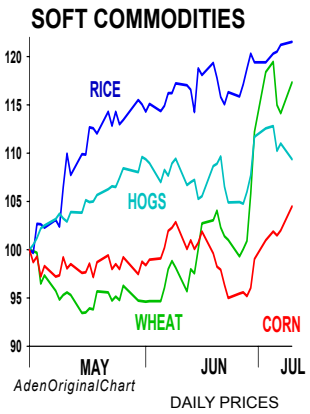
The big picture on **Chart 26** is impressive. Note the key $40 level in the 1980-90s was a strong resistance level. And ever since rising above it during the 2003-08 bull market, crude has stayed essentially above $40.

$40 became a key support level at the 2008 lows. So if crude falls below it, it'll probably be a short-term selloff, like we saw last year.

For now, crude is firm above $42, and it too is poised to rise in a major rise. Supply and demand are key. Will OPEC keep their production quotas under control? Will the other nations do their part? Will the U.S. rig count stay lower?

Overall, we see the commodity world having a bright future for a sustained rise going forward.

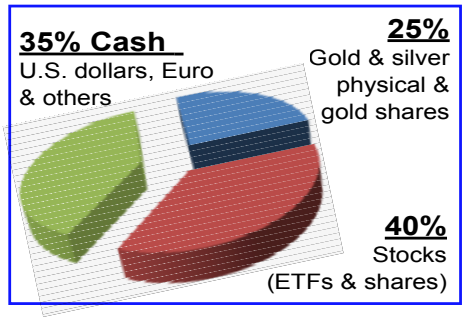
CHART 27



OVERALL PORTFOLIO RECOMMENDATION

PRECIOUS METALS, ENERGY, RESOURCE

Gold, silver and gold shares declined steadily from their June highs allowing the B decline to fully develop, and silver's flash dump last Friday seems to be the grand finale for the B decline. This decline could last a while longer, but it's getting closer to a low and this weakness is giving us a good opportunity to buy at better prices if you want to add to your positions. These Summer months are normally a seasonally low time for the metals. Our recommended positions in the box are in order of strength. Once this weakness is over, gold will be poised for a C rise, and in a bull market the C rises tend to be the best leg up. Keep your positions.



U.S. & GLOBAL STOCK MARKETS

The stock market keeps on going. Even though some sectors have been sluggish or correcting downward, the overall market remains strong and bullish, and it's still poised to head higher. That goes for the U.S. and global stock markets. Currently, we continue to advise holding a 40% position in stocks and keep riding this bull for as long as it lasts. And if the market corrects further downward, we'll then probably buy more stocks in some of the stronger sectors. For now, we recommend buying U.S. Global Investors China Fund (USCOX). It's been doing very well and it'll provide exposure to China, which has been one of the strongest.

INTEREST RATES & BONDS

Interest rates shot up this month and bond prices declined. That is, long-term interest rates are starting to follow short-term interest rates up with both getting in synch again. But this will not be confirmed until the 30 year yield rises above 3.18%. For now, bonds are risky and we continue to recommend avoiding bonds and staying on the sidelines.

CURRENCIES

The U.S. dollar fell further this month, posting its biggest quarterly drop in nearly seven years. The dollar is clearly bearish and it's headed lower in the months ahead. This is good for the currencies and the euro has benefitted the most, but they're all turning bullish. Per our weekly update of June 29, we advise buying the euro and/or its ETF, which is FXE, using half of your cash U.S. dollars. If you'd like to diversify, the other currencies we like best are the Swiss franc (FXF), Canadian dollar (FXC) and the Australian dollar (FXA). With the dollar on the decline, you may also want to buy the U.S. Dollar Bearish ETF (UDN). As for the rest of our cash U.S. dollars, we'll likely soon be moving these into other investments.

OUR OPEN POSITIONS in order of strength per section

GOLD AND SILVER

		PURCHASE		PRICE AT	% GAIN/LOSS	CURRENT
NAME	SYMBOL	DATE	PRICE	issue date	SINCE BOT	RECOMM
Jr Gold Miners ETF	GDXJ	Feb-17	42.12	32.17	-23.62	Hold
Gold Miners ETF	GDX	Feb-17	25.20	21.66	-14.05	Hold
Agnico Eagle	AEM	Feb-17	47.10	44.81	-4.86	Hold
Gold (physical)		Oct-01	277.25	1214.70	338.12	Hold
SPDR Gold	GLD	Mar-17	117.51	115.65	-1.58	Hold
Ctrl Fund of Canada	CEF	Mar-17	12.66	11.95	-5.61	Hold
Silver (physical)		Aug-03	4.93	15.75	219.37	Hold

STOCK ETFS & SHARES

		PURCHASE		PRICE AT	% GAIN/LOSS	CURRENT
NAME	SYMBOL	DATE	PRICE	issue date	SINCE BOT	RECOMM
US Global Inv China *	USCOX	Jul-17		9.73		Buy
DJ Transportation	IYT	Nov-16	158.29	172.79	9.16	Hold
US Financial Services	IYG	Dec-16	107.06	114.36	6.82	Hold
SPDR S&P Insurance	KIE	Nov-16	80.24	88.41	10.18	Hold
Dow Industrials	DIA	Aug-16	186.52	214.02	14.74	Hold
SPDR Russell 2000	TWOK	Nov-16	77.19	82.97	7.49	Hold
Alcoa Corp	AA	Nov-16	31.85	35.00	9.89	Hold
SPDR S&P Bank	KBE	Dec-16	43.41	43.91	1.15	Hold
Adobe Systems	ADBE	Feb-17	118.93	142.93	20.18	Hold
Templeton Emerg Mkts	EMF	Feb-17	13.42	15.02	11.92	Hold
S&P 500 Index Equal	RSP	Dec-16	87.55	92.44	5.59	Hold
Microsoft	MSFT	Dec-16	63.62	69.99	10.01	Hold
Nasdaq Pwrshrs	QQQ	Aug-16	117.7	139.05	18.14	Hold
S&P Global 100	IOO	Aug-16	75.34	84.56	12.24	Hold
US Steel	X	Nov-16	29.17	22.31	-23.52	Hold

CURRENCIES

		PURCHASE		PRICE AT	% GAIN/LOSS	CURRENT
NAME	SYMBOL	DATE	PRICE	issue date	SINCE BOT	RECOMM
Euro ETF	FXE	Jun-17	110.48	110.89	0.37	Buy/Hold
Canadian dollar ETF *	FXC	Jun-17	76.09	76.37	0.37	Buy/Hold
Australian dollar ETF *	FXA	Jun-17	76.91	76.4	-0.66	Buy/Hold
Swiss franc ETF *	FXF	Jun-17	98.97	98.54	-0.43	Buy/Hold
US Dollar Bearish *	UDN	Jul-17		21.77		Buy/Hold

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

