THE
ADEN FORECAST
MONEY • METALS • MARKETS

AUGUST 2011 *our 30th year*

WILD MARKETS, WILD TIMES

It's been another incredible, fast paced month with one drama unfolding after another. But this month took the cake and the repercussions are being felt far and wide, affecting all of the markets.

BIG BLOW

For the first time in U.S. history, the U.S. credit rating was downgraded on August 5. Coming on the heels of the steepest stock market drop since the 2008 financial crisis, it was a big blow to an already fragile financial system. Both in the U.S. and globally, trouble was already brewing before the S&P downgrade.

Growing signs of a global economic slowdown kept stock markets jittery weeks prior to the first stock meltdown on August 4. Essentially ignoring the debt compromise reached on August 2 and fearing another recession, bond prices surged.

As investors turned to safety, gold soared, hitting one record high after another, and so did the two safe haven currencies (see **Chart 1**). And these trends have intensified since then.

The markets are clearly telling the story… They don't like what they see. For now, the tug of war between inflation and deflation, which we've often discussed, has tipped heavily to the deflation side. And again, this will continue to strongly affect the markets and the global economy.

'FIGHTING ON TITANIC' FEELING

As you'd expect, reactions were widespread around the world. But when all was said and done, the general feeling was that the U.S. was careless for taking its budget disagreements down to the wire, risking default. The system appeared flawed, leadership was perceived as weak and the opposition as stubborn. In the end, the U.S. essentially lost international credibility.

This political paralysis was one of the main reasons given for the downgrade, but there's much more and it revolves around the debt. It has nearly reached the point of no return and the politics-as-usual stance was viewed in a negative light by the rest of the world.

China and Russia were the most critical, but they have been all along, especially Russia. In China's case, however, it pulls more weight since they are the U.S.'s largest lender. They've been urging the U.S. to get their financial house in order but now they've basically said they'll be reducing their U.S. debt exposure.

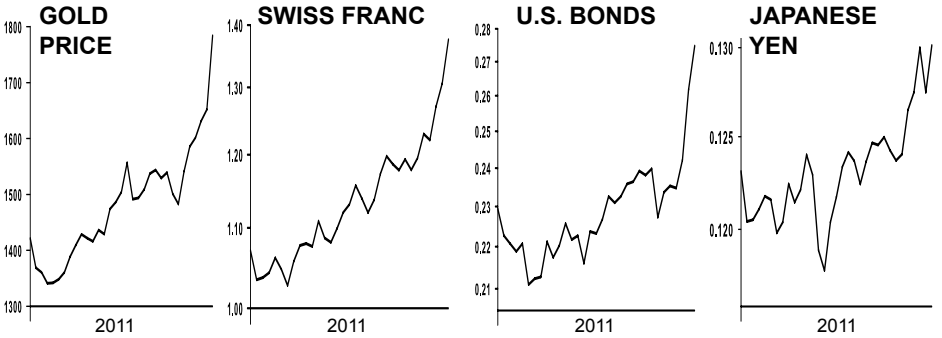
If that's true, their timing isn't so good. With the U.S. dollar stabilizing and bond prices on the rise, bonds are looking good (see **Chart 2**).

Japan realizes this. They said they'll keep lending. And since they're the U.S.'s second largest lender, that was a positive note.

Nevertheless, the bottom line is one we've been expecting. Calls have increased for an alternative to the U.S. dollar as the world's reserve currency. They say the U.S. has been irresponsible, bringing the rest of

CHART 1

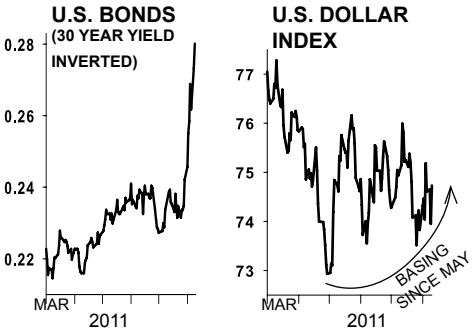
FLIGHT TO SAFETY



INSIDE

CHART 2

FROM THE CREDITORS' PERSPECTIVE



the world along with it, affecting the global economy by causing instability… But this is nothing new…

U.S. & EUROPE: In same boat

We all know the U.S. has the largest debt in world history and its annual deficit has exceeded $1 trillion for the past three years. The U.S. is also fighting wars in many countries, spending more on its military than China, Japan, Russia, India and NATO combined. The majority within the U.S. now want to get out of Afghanistan.

This has been going on for years. The downgrade simply brought it all to the forefront.

The U.S., however, is not alone. The Euro crisis is flaring up again, along with concerns about their banks. This is making the world even more nervous, which adds fuel to the fire, with fear flip-flopping from Europe to the U.S.

This is being reflected in the growing number of downgrades. Aside from the U.S.'s downgrade by S&P, thousands of muni bonds were too. Moody's also gave the U.S. a negative outlook. Greece was downgraded to further junk status and Spain is under review.

In a nutshell, the U.S. has now joined New Zealand and Belgium in the AA+ group, leaving behind AAA countries like Australia, Canada, France, Germany, Singapore, Switzerland, the U.K. and Hong Kong.

None of this means the world is ending. It just means the U.S. has to buckle down and make some very tough choices about the debt crisis it's gotten itself into.

Yes, the economy is slowing from an already weakened position. Jobs and housing are in poor shape and the Misery index is at a 28 year high (see **Chart 3**). This is a composite of unemployment and consumer prices and since food prices are still at high areas, it makes matters worse (see **Chart 4**). So at times like this, there's plenty of blame throwing to go around.

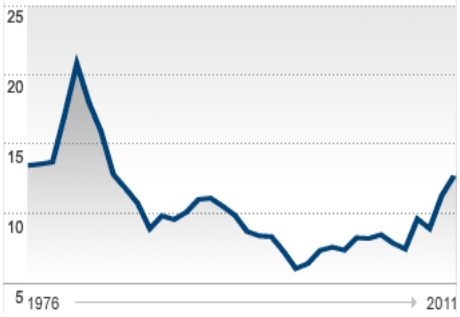
UNPRECEDENTED TIMES

But that's not the point. The point is, **be prepared for whatever comes**. What's happening is truly unprecedented and it's been building for years. It's not recent. It's just the way empires evolve and, whether we like it or not, the U.S. became an empire and it's now changing.

Our goal is to do our best to guide you through these turbulent times and to keep you on the right track.

CHART 3

Misery Index* hits 28 year high



* UNEMPLOYMENT RATE PLUS CONSUMER PRICE INFLATION
SOURCE: MISERY INDEX, US.CAPITAL ECONOMICS

MARKETS ARE OUR GUIDE

As you'll see in this month's issue, there's a lot going on. Some of it makes sense and some doesn't. But like always, the markets will be our guides. They're simply the most reliable truths we have.

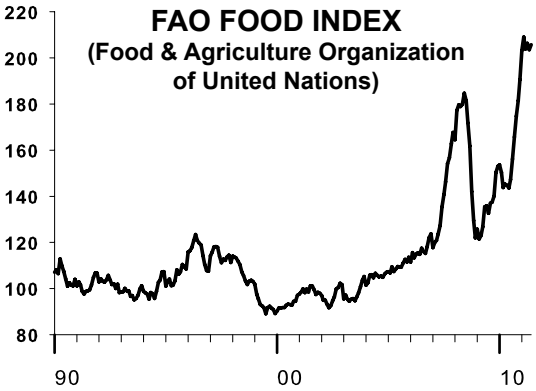
All of the debates, opinions and discussions can be boiled down to one thing… the markets. They will indeed tell us what's likely coming, for whatever reason.

This may sound strange to some of you but it's so true. Over the years, that's always been the case and it's especially useful during times of confusion, fear and uncertainty, like we're now seeing.

The markets look ahead and if you listen to what they're saying, it'll help crystallize what's coming.

You can fight it, or go with it, but we've found that it's best to go with it, which is why we sent an alert on August 4 to sell all of our U.S., global, resource and energy stocks. Even though it may not make sense at the moment, remember that the reasons why the markets are behaving the way they are will always become very clear in time. So here's what they're currently telling us…

CHART 4



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U.S. & WORLD STOCK MARKETS

Taking a dive

Stock markets plunged around the world, taking many investors by surprise. That's understandable because sentiment turned on a dime, leaving devastation in its path. It was pretty shocking as fear gripped the market, and reminiscent of the huge stock drop in 2008.

SO WHAT HAPPENED?

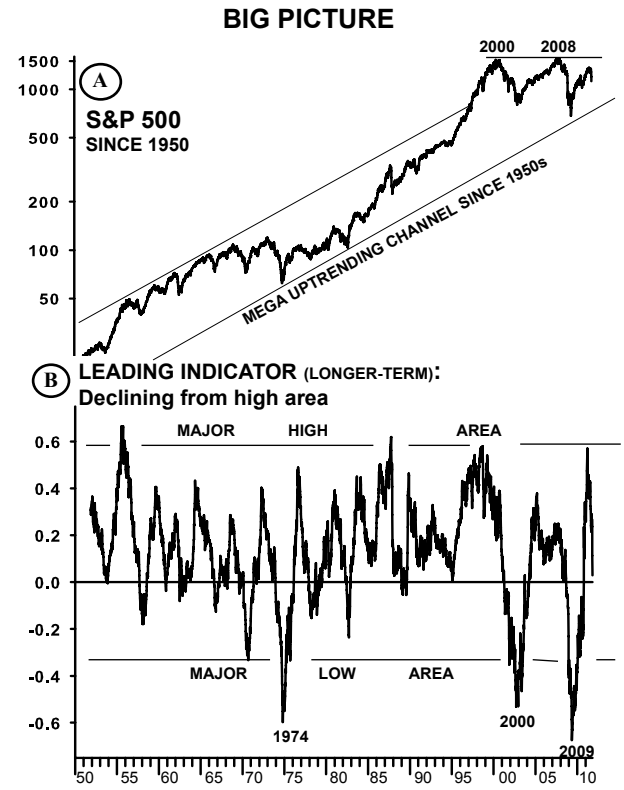
Stocks were actually holding near the highs prior to Tuesday's August 2 debt ceiling deadline on optimism that a deal would be made, avoiding a default. But then the market got nervous.

It was literally a case of, buy on the rumor and sell on the fact. Once the compromise was reached, stocks fell sharply. By Thursday, stocks started seriously selling off. Several of the stock indices triggered bear market signals, which is why we sent out our special alert to sell the rest of your stocks.

By week's end, the international markets had wiped out $42½ trillion of their value in the steepest drop since 2008. Then the U.S. credit downgrade was announced. That put the nails in the coffin and stocks collapsed worldwide on Monday, August 8. On August 10, Europe took the spotlight on speculation that France may be downgraded.

Events have been so fast moving, it's been head spinning. Mass hysteria took over, which is a very bearish sign. It strongly suggests there's a lot more downside to come and it's best to just get out of the way... at least for now.

CHART 6



ALERT TO SELL

As you know, we don't send special alerts often, but this was an unusual situation as the writing on the wall became more apparent. It was not a normal downward correction. The market was turning bearish and it was happening rapidly.

Plus, as we noted last month, we were already maintaining caution. Our leading indicators were turning down, despite the rises in stocks, signaling the upside was limited. Risk was high, many of the world stock markets had turned bearish, which are some of the reasons why we recommended selling some of your stock positions in June.

In the end, the indicators were indeed correct and they were telling the story, even though the price action still looked good last month. The Dow Transportations, for example, had hit an all time record high, which is why we

CHART 5

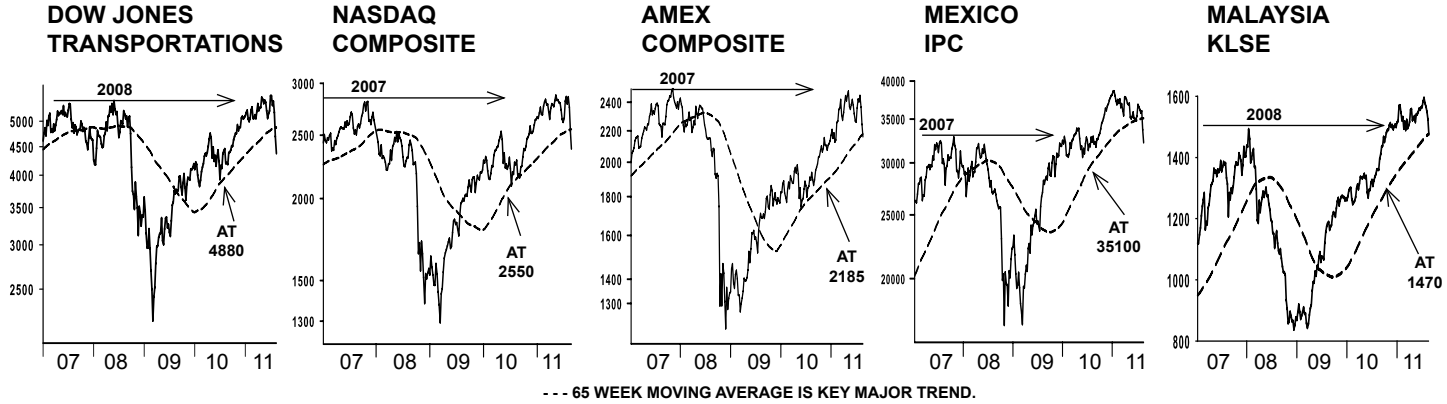
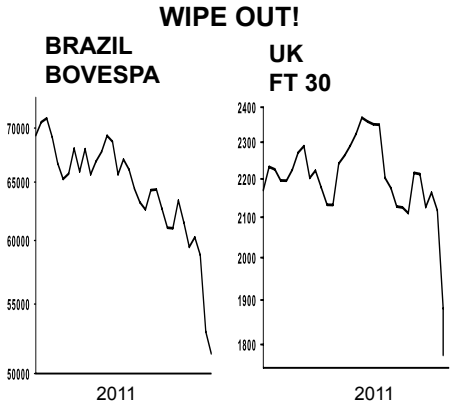


CHART 7



didn't sell all of our stocks then. But it proved to be short lived (see **Chart 5**).

The markets essentially resisted at their old 2007-08 highs and the major trends have now turned down. As you'll see next, if you haven't sold your stocks, or you think it's too late, it's not. It looks like the upcoming bear market could be a bad one and we still strongly advise getting out of the market and standing aside. Don't fight this new major downtrend.

TURNING DOWN

Looking at the big picture for the S&P500 going back to 1950, it shows the most important point (see **Chart 6A**).

First, note that the S&P also resisted near the 2000 and 2008 highs. In other words, aside from mini ups and downs, the general stock market hasn't really gone anywhere over the past 10 years. This is one reason why we call it the lost decade.

Far more worrisome, the very reliable leading indicator is declining from a major high area. These high areas coincide with important tops in the market. And the fact that it has plenty of room to fall further before it reaches the major low area, tells us that stocks will likely fall sharply in the upcoming months.

Since the stock market looks ahead, it also strongly suggests that the economy is going to get worse. Also, keep in mind that this is just one example. The majority of the world stock markets are reinforcing this scenario as well (see **Chart 7**).

STOCKS MOVE WITH HOUSING

And if the stock market moves down and a recession lies ahead, it will obviously not be good for the job or housing sectors, which have been hurting for a long time (see **Chart 8**).

Currently, for instance, millions of people can't find work and over 25% of all homeowners are under water. That is, their mortgage is greater than the value of their home. A recession would keep downward pressure on housing, as well as interest rates.

With stocks now on the decline, these three sectors are again moving together, suggesting that the decline since 2006 is going to continue. Again, that's deflationary and another sign that what's happening is probably a continuation of the crisis that began in 2007-08.

We'll soon see, but there's no question that the overall outlook has abruptly changed.

DUE FOR A BOUNCE

In the meantime, since stocks have fallen far and fast, don't be surprised to see some sort of an upward rebound in the market in the weeks ahead. That would be normal (see **Chart 9**).

CHART 9

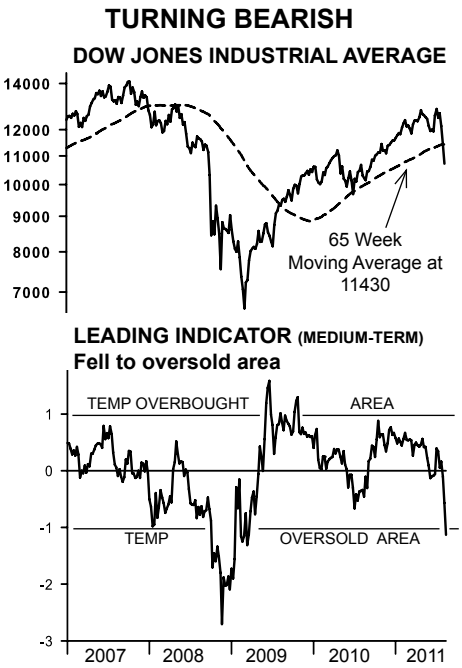
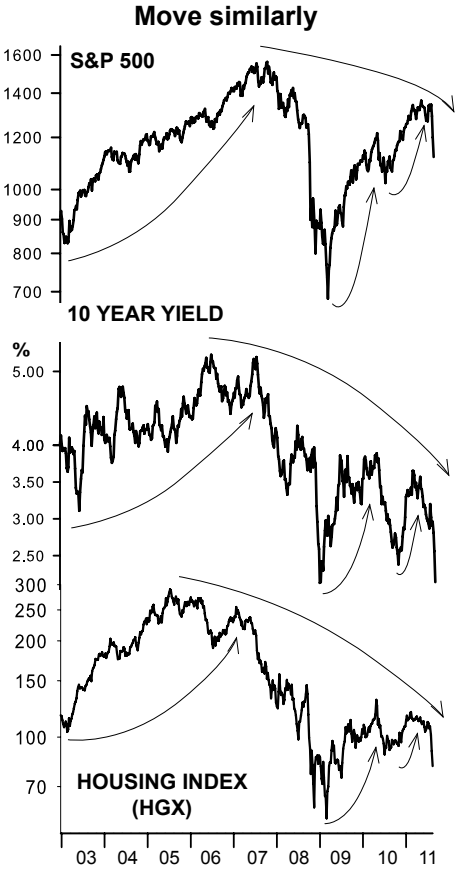


CHART 8



As you can see, the Dow Industrials is nearing a temporarily oversold area. Once the market is clearly oversold, which it is based on several other measures, stocks will head higher and it'll be important to see how this rebound unfolds.

If the Dow Industrials stay below 11430, the major trend will remain down, indicating real weakness. Whatever the outcome, the bigger picture is more important, as we've often pointed out. So regardless of near-term ups and downs, any strength would provide a good opportunity to sell at a better price.

For now, we would stay out of stocks and move to cash. That's the best course to take during times of change, especially if the major trend is turning down, as our indicators are reflecting. At some point, we'll go back in, but not for the time being.

U.S. INTEREST RATES AND BONDS

Surging bonds... falling interest rates

Do you remember how interest rates and our indicators were not coinciding last month? Interest rates were rising, but our indicators were suggesting rates were headed lower.

Here too, we noted that we'll have to wait and let the markets tell us the final outcome. Well... the markets spoke and our indicators were right. As usual, they were leading the way.

PLUNGING RATES

Interest rates literally plunged this month. The 10 year yield dropped one full percentage point in a straight down move that was also eerily reminiscent of the action during the 2008 financial crisis (see **Chart 10A**). There were several reasons why this happened, but the bottom line is... it's not good news.

In the end, it was all about the economy. As the numbers consistently showed, the U.S. economy is indeed slowing and this affected markets worldwide. With Europe dealing with their own debt problems, concerns grew that the overall global economy is headed into recession. And this too was reinforced by the numbers in many other countries.

As the tug of war between inflation and deflation tipped strongly toward deflation, interest rates dropped sharply. As you just saw, stocks plunged too, further reinforcing this outcome.

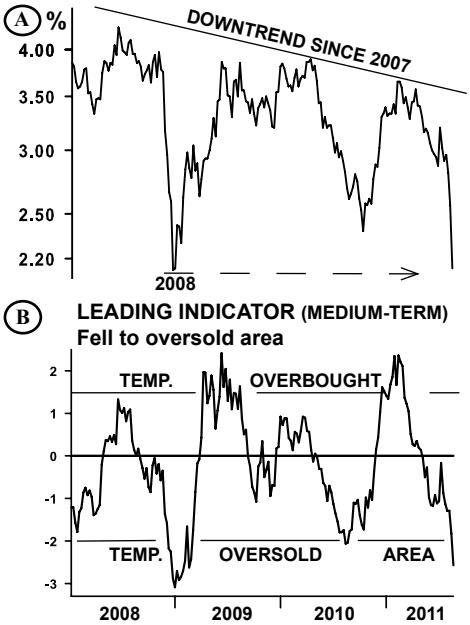
WHAT DOES THIS MEAN?

For now, the likelihood of another recession has become more probable than it was before. The economy is on thin ice, but it has been all along.

We all know the Fed has been stimulating the economy ever since the financial meltdown brought the world to the brink in 2008. But once it ended on June 30, everything started falling apart, suggesting the Fed kept the economy artificially propped up all along. In other words, had it not been for the Fed's stimulus, the economy would have been sliding over the past few years.

CHART 10

10 YEAR YIELD: Fell to 2008 lows



Many believe the crisis never ended, and in many ways that's true. Whether this ends up being a continuation of the 2008 crisis, a double dip, or a new recession is really not the point.

That will become obvious in time and it's now pure speculation. The point is, the economy is slowing and this has become very clear in recent weeks.

Second quarter GDP in the U.S., for instance, only grew by an anemic 1.3%. Taken together with the first quarter, it was the worst six months since the recovery began in 2009. In addition, consumer confidence is down in the U.S. and globally. And we all know that consumers have been the drivers of global growth.

For a long time, the big, ongoing drag has been the housing and job sectors, which have not shown improvement. Plus, manufacturing is currently the lowest since 2009.

Overall, it's not a pretty picture and that's what interest rates are reflecting as bond prices rise. Since bonds do well in a recessionary environment, they're benefitting from this slowing situation.

THE SAFETY OF BONDS

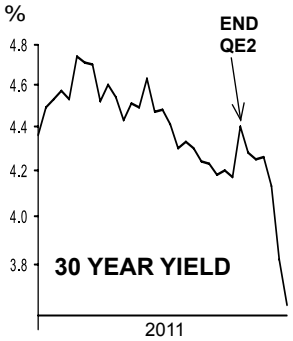
But wait a minute, with the U.S. essentially in the midst of a band-aid fix for the debt situation, shouldn't bonds be falling?... Not necessarily...

Despite the credit downgrade and the uncertainty that intensified, the few safe havens that were left did very well. And as strange as it may seem, U.S. Treasuries are still viewed as a safe haven compared to most other investments in the rest of the world.

Why? There simply aren't that many options out there. Plus, the U.S. government bond market is huge, it has a good long-term track record, the U.S. is still the world's largest economy and, despite the drama, the markets simply can't imagine the U.S. actually defaulting on its debt.

CHART 11

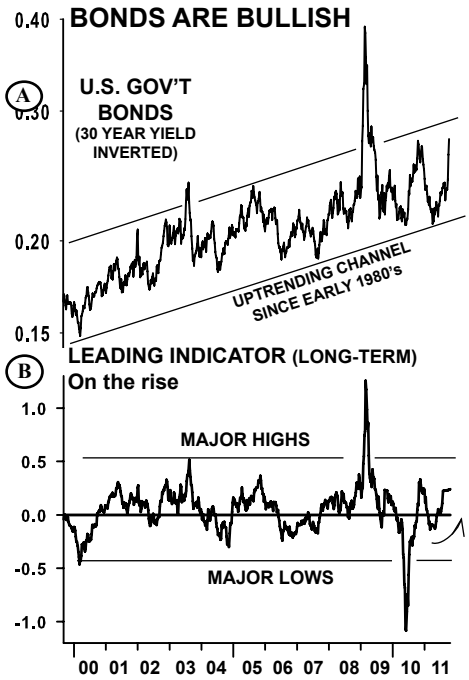
2011: A turbulent year



So investors turn to bonds when they're nervous, uncertain, scared, want liquidity, and/or when signs of recession or a slowing economy emerge.

As demand for bonds grows, interest rates drop, which is what has happened in recent months (see **Chart 11**). And as rates decline, bond prices rise.

CHART 12



Prior to June 30, the Fed was largely responsible for keeping rates low, maintaining these trends by buying tons of U.S. bonds. But now it's another story… the trends are being driven by growing safe haven demand.

This is clearly illustrated on **Chart 12A**, which shows the bond price since 2000. As you can see, bonds have been in an uptrend since then.

Recently, however, bonds embarked on a renewed rise and the leading indicator is bullish. Not only is it moving up but it has plenty of room to rise further before it reaches the major high area. This means bonds could rise to much higher levels in the months ahead. The Fed essentially reinforced this, stating it'll keep rates low for the next two years.

BONDS BETTER THAN STOCKS

In addition, bonds are now poised to outperform stocks. That is, the gains in bonds are going to be greater and stocks will be weaker. That's what happened during the 2008 crisis when stocks fell sharply and bond prices surged, and it's happening again (see **Chart 13**).

Here you see the ratio, which compares bonds to stocks. Note that since 2009, bonds have been weaker than stocks as the stock market moved up strongly. Those days, however, appear to be over.

The ratio has now broken sharply above its downtrend since 2009, signaling that bonds are currently stronger than stocks. And like 2008, this looks set to continue.

It too implies that a crisis or ongoing economic slowdown, or recession lies ahead.

FED TO THE RESCUE... AGAIN?

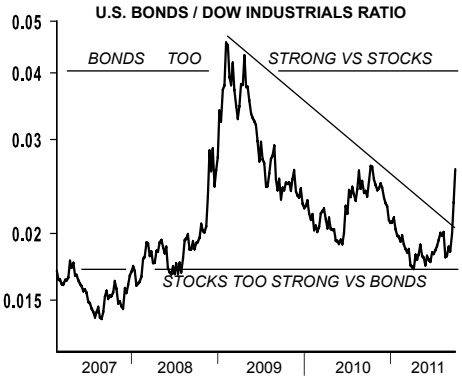
We know the Fed has been fighting the deflationary forces for the past few years. But as this trend evolves, it's almost certain that the Fed will be forced to eventually embark on another QE type program to again stimulate the economy. That's especially true considering that next year is an election year. This of course would mean higher debt levels and the situation would then become a more vicious circle.

In the meantime, we recommend buying U.S. government bonds. If you already have bonds, keep them. As you'll see next, the U.S. dollar is also starting to benefit from this shift to bonds, so it too should be a stable investment, at least in the months ahead.

Another way to profit is buying American Century Intl Bond fund (BEGBX), which gains as bond prices rise. But since it's currently overbought, there's no rush. Your best bet would be to buy on weakness since bonds will likely correct over the next month or so, enabling investors to buy at a better price.

CHART 13

BONDS STRONGER THAN STOCKS



CURRENCIES

Record Swiss franc & yen... U.S. dollar stable

We've often noted that, over history, no paper currency has ever survived, and the U.S. dollar will not be an exception.

Many people, especially in the U.S., find this hard to believe, or they simply refuse to accept it. Our mom is a perfect example… "but the U.S. is the richest nation, it'll never happen," she says. So we don't talk much about it, but her view is strong and typical.

Unfortunately, that's not the case and the recent credit downgrade was the first public sign of this. In fact, many would argue, what took them so long? Remember, this is not a political issue, it's a fundamental issue and it's happened over and over in dozens of countries.

As Jeff Clark notes, what's shocking is how many currencies have failed in just our lifetime. And in all cases, the people who held on lost everything.

We recently spoke to a woman whose parents lost their life savings in the 1990s. This happened in Europe and her story was heart breaking. Over the years, we've heard other similar stories from people in different countries and they're all essentially the same.

CHART 14

While it's happening, people keep hoping it's going to get better, but it doesn't. And again, the U.S. is not immune... On the contrary, it's already happening.

The facts are, the U.S. dollar has lost 95% of its purchasing power over the past century. In the last 40 years, the dollar has plunged about 80% against the major world currencies. Its value is slowly eroding. That's why the dollar doesn't go as far as it used to, and it's why it's so important to diversify by buying and holding gold.

But as you know, no market goes straight up or straight down and for now, it looks like the U.S. dollar is going to head higher, at least in the near-term, before it eventually falls further. Why?

DOLLAR: REBOUND RISE

One reason is because the currencies have risen too far, too fast and they're due for a downmove. Specifically, the Swiss franc and the Japanese yen have been the currency safe havens as the global debt crisis intensified. But that's now changing...

These countries are actively fighting the strength in their currencies by doing all they can to stop the rises. They don't want their currencies so strong and their efforts are starting to work.

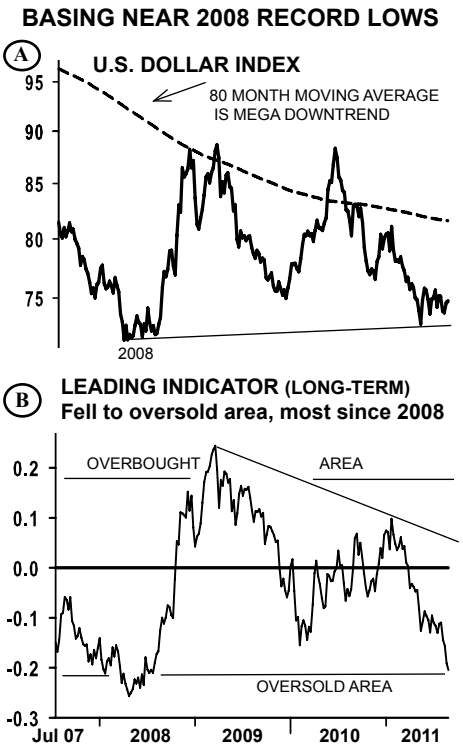
Interestingly, this is happening at a time when the Swiss franc is extremely super overbought (see **Chart 14**). In other words, it's technically overdue for a decline, which suggests the Swiss officials will likely succeed in bringing the franc down to more reasonable levels.

The other currencies are also coming under downward pressure (see **Chart 15**). That's especially true of the resource related currencies, like the Canadian and Australian dollars.

As the global economy slows, these currencies are affected more than others because, due to lower demand, commodities decline and these countries are largely commodity based. They're also considered higher risk currencies and when global stock markets fall, they're the first to feel the negative effects as sentiment shifts toward safety.

The euro is another story. As the stronger Eurozone countries keep putting out fires, it's hurting the euro. And as their debt saga evolves, the euro will continue feeling the heat because of ongoing fears of contagion.

CHART 16

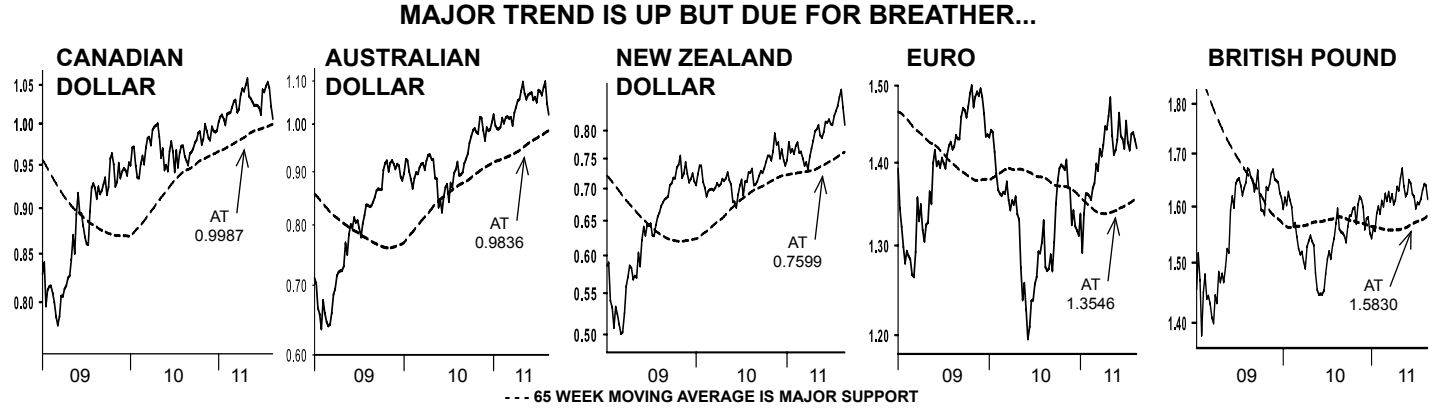


CURRENCIES: Correcting

For now, the major trends are still up for the currencies but they appear to be topping. And if they are, the U.S. dollar will rise.

In fact, the dollar has been bottoming over the past few months and it's been stabilizing as investors move into U.S. bonds (see **Chart 16**). Remember, investors need dollars to buy bonds so a slowing economy is

CHART 15



positive for the dollar as it too benefits as a safe haven.

By now you're probably thinking... but what about the debt, the credit downgrade and all of the other problems? Won't that keep the dollar weak?

It sure could, but it really depends on how things unfold. That is, the slowing economy, the problems in Europe, and so on... these will all influence which way the currencies go. But we'd have to say, the outlook for the global economy will likely weigh the most on these markets.

Meanwhile, keep an eye on 71.50 for the U.S. dollar index. As long as it stays above this level, the dollar will continue building a bottom. And if it rises and stays above 76.50, a renewed rebound rise would be underway.

On the other hand, if the dollar index drops to a record low, below 71.50, then the downgrade and debt will have overpowered the global economy, signaling the dollar wasn't able to rebound, it's very weak and its long-term major decline continues.

Currently, we're keeping most of our cash in U.S. dollars. We're still holding the Swiss franc but we recommend selling the Canadian dollar, as well as FXC, as we said in our weekly update.

Since selling our stocks, we have a large cash position of 35%, but we feel that's temporarily warranted during this time of uncertainty. Once we see a good opportunity in any of the markets we'll go ahead and move into it. But for now, keep cash, metals, metals related investments and buy U.S. bonds.

METALS, NATURAL RESOURCES & ENERGY

Gold stands alone in strength

Gold continued to soar, topping $1800, as record highs became practically a daily event. Mounting demand for a haven continues to grow as global markets plunge, and volatility reigns due to escalating U.S. and European debt woes, uncertainty and fear.

Gold shares and silver have been following gold, but gold clearly stands alone in strength in the commodity arena.

GOLD STRONG GLOBALLY

Gold is strong around the world. It is the ultimate currency and it cannot be manipulated (intervened) by any government, like the currencies can. **Chart 17** shows gold's strength since the crisis low in 2008. Here you can clearly see, gold has been rising to new highs in terms of most currencies.

Central banks see this and continue buying gold. South Korea was the latest example as they bought for the first time since 1998. Other central banks and investors also continue to buy gold.

There is a global rush to buy as investors seek refuge from debt and the banking crisis. The exchange traded products backed by gold were at record holdings last month, while krugerrands are seeing the highest demand in a year... and the list goes on.

IN ITS OWN LEAGUE

Gold and silver were one of the few markets that soared well above their 2008 highs (see **Chart 18**). Copper and gold shares rose just above their highs, as did some of the world stock markets, while the U.S. stock market barely rose to its highs (see **Charts 5** & **25**).

The most interesting point here is that 2009 was a turning point for gold. When it surpassed the 2008 record high in September 09, gold moved into a stronger phase of the bull market. The rise never stopped thereafter as gold continued to soar. It ended up leading silver, copper and the stock market as they all began to rise sharply about a year later in 2010.

For now, we don't think it's a coincidence that the markets have been erratic and volatile ever since QE2 ended on June 30th. Gold and silver began to soar starting July 1, while the global markets fell as the debt problems in the U.S. and Europe intensified.

GOLD AT HIGH VS STOCKS

Also interesting (so many interesting things these days), is the gold to stock ratio shown on **Chart 19A**. Note that the mega trend changed to favor gold in 2002 when the ratio rose above its mega moving average.

CHART 17

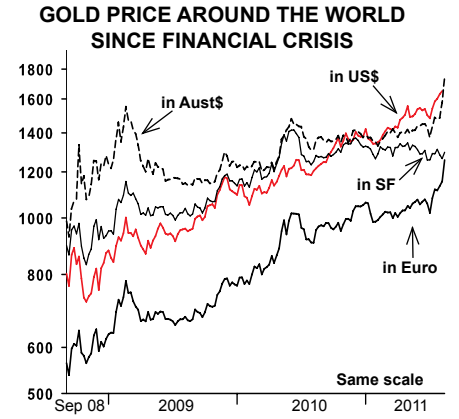


CHART 18

The ratio has since stayed clearly above this trend, thereby saying gold is the better investment, so stay with it.

The ratio peaked in 2008 (the financial crisis year) while the leading indicator (**B**) reached a super high. But most important, the ratio has been favoring gold within this high area. This was happening while the indicator was rising from a low area.

This means gold has clearly remained in the stronger seat. It was set to strongly outperform stocks and now it is!

This may also be indicating that the July 1 low near $1483 was probably the Summer low for this year. As you know, the Summer months are seasonally slow months for gold, which is when we usually urge you to buy new positions.

GOLD'S BIG PICTURE

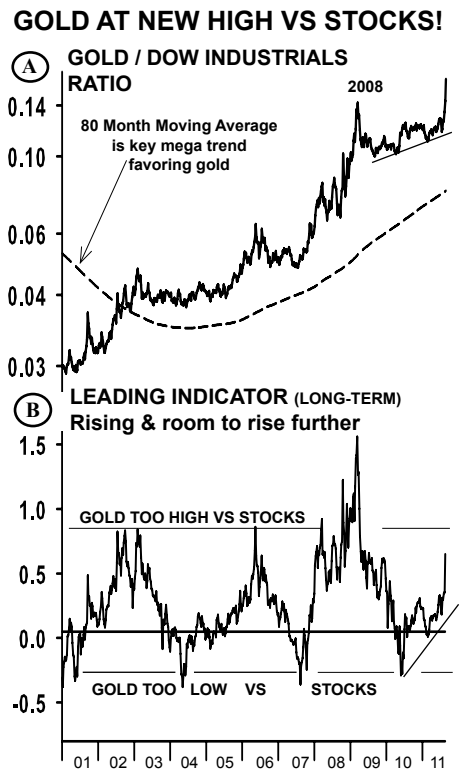
Many say that the gold and silver market, and the commodity market in general, are too volatile. But this past week's plunge in the U.S. and global stock markets clearly shows that all markets can be volatile. It's a myth to say it's only commodities. They can all be orderly and they can be volatile. It's the nature of the beast.

The gold price is actually a cyclical market and it's a great market to measure what's happening. This is one reason why we have enjoyed doing this for over 30 years. We watch all of the markets closely and any changes in their relationship, or movements, is always a consideration in our decision making.

We have found several interesting moves in gold over the years, and, on a big picture basis, there are two that stand out. **Chart 20** shows these two recurring patterns since 1967. Our older subscribers know these well.

First, you can see

CHART 19



that gold tends to reach low areas about every eight years, starting with its low in December 1969. The last eight year low was in November 2008, right at the financial crisis low, near $705. It was only three months shy of completing the full eight years, counting from the low in 2001.

The 2008 low was formed at a much higher level than the 2001 low, which was similar to the 1976 low when the bull market was near its half way mark.

That 2008 low was also the last time gold had a steep decline. In fact, it was the steepest decline, we call D, in the 10 year old bull market. From there, gold went on to reach record highs, right up to the recent record high.

Another recurring pattern is on the upside, which is where we are today. Note that each eight year low is followed by a major rise that eventually reaches a peak 11 years later. (The 1993 low was an exception, but since it was the most moderate decline, from 1987 to 1993, we can discard it.)

The scary thing now is that the current incredible bull market will complete 11 years, from the Feb 2001 low, next year! It's still to be seen how this unfolds. But if this pattern repeats, it's possible that we could see a huge run-up in the gold price until next year as it soars to its major peak.

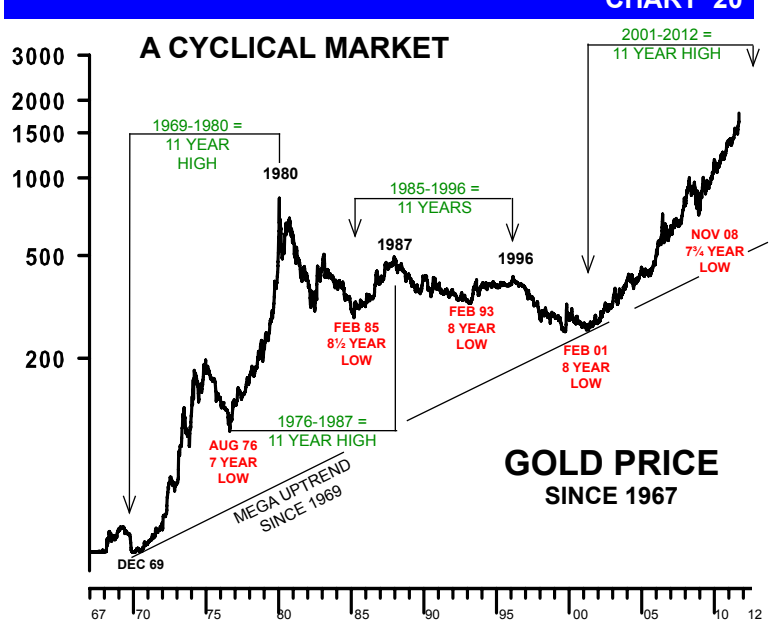
We've already seen an unusual and extraordinary C rise develop during the past over two years. As gold moved into a stronger phase of the bull market, the rise has been ongoing and the indicator still has room to rise further (see **Chart 21**).

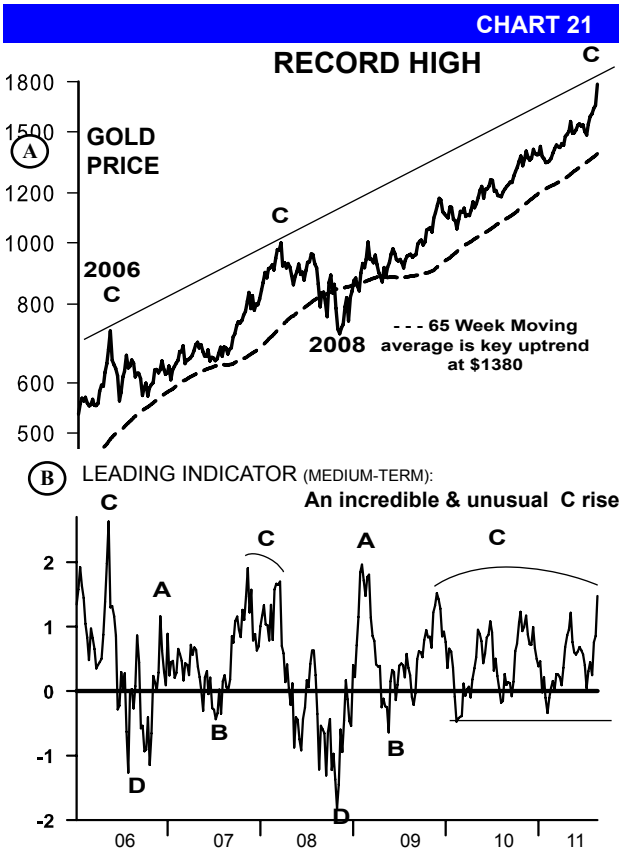
It now looks like a low occurred on July 1 and another leg up in this amazing bull market and C rise is underway. Gold is already up 20% since that low.

Currently, gold is super strong above $1630. If a soaring rise, unlike any other, is truly unfolding, just stay with your position for as long as it lasts.

It's important to keep in mind that there was never a time in history when inflation and gold soared like they did in the 1970s. During the last four centuries, it was the first time the gold standard was removed and a

CHART 20





pure fiat currency system came into play. But this bull market could out-do the one in the 70s.

NO BUBBLE

We think gold has much further to rise, despite its over 600% gain in this 10 year old bull market. One reason is because it's far from being in a bubble. People, in general, are only starting to notice the rise and they're not in the market.

A big part of this grand bull market 'secret' is the stock market. The stock rise in 2002-08 and again in 2009-2011, took the lion's share of investors' attention, even though gold rose more. But the past month's divergence, with stocks worldwide falling while gold soars, is attracting attention. As it does, the public will eventually move in, driving gold much higher.

Most important, the major trend will remain up with gold above $1380.

SILVER: Holding strong

Silver remains strong. It's still consolidating its sharp run-up from late January to its April peak near $49.

Silver has been in need of a rest and that's what it's getting. It rose to the top of a 10 year upchannel and it's holding up well, thanks to gold's influence (see **Chart 23**).

Meanwhile, its leading indicator has been working off an overbought situation (**B**), while silver holds above its 15 week moving average now at $37.50.

Silver has interesting support levels... As long as silver stays above $29, it will remain very solid within the bull market. So far, its lowest level in this consolidation has been the $33.50 level, which means if $37.50 is broken, silver could test $33.50, and possibly $29.

On the upside, silver's bull market is clearly underway and the upside is open. In fact, with its indicator (**B**) now at a clear low area, a renewed rise could occur at any time.

GOLD & SILVER SHARES: Doing fine

Gold and silver shares have held above the June lows and they've clearly held up much better than the stock market and resource sector. They are being pulled up by the rising gold price, but being tugged on by the waterfall stock decline.

You can see this clearly on **Chart 22,** which shows gold and the HUI index starting at 100 in July 2010. Note their similar strength during the leg up since last year. They moved in tandem until the Apr-May peak. But since then, gold has been rising more than gold shares.

This is saying the flight out of paper and into physical gold is intensifying, but gold shares are still being influenced by the gold price more than the

weak stock market.

Our advance/decline line for gold shares and our silver shares index (borrowed from our sister service, GCRU) shows us that the uptrends are still in place for gold and silver shares (see **Chart 24**). The HUI index remains bullish above its 65 week moving average (see **Chart 25**).

RESOURCE & ENERGY: Taking the low road

Raw materials fell around the world as concern over a weakening global economy sent them tumbling,

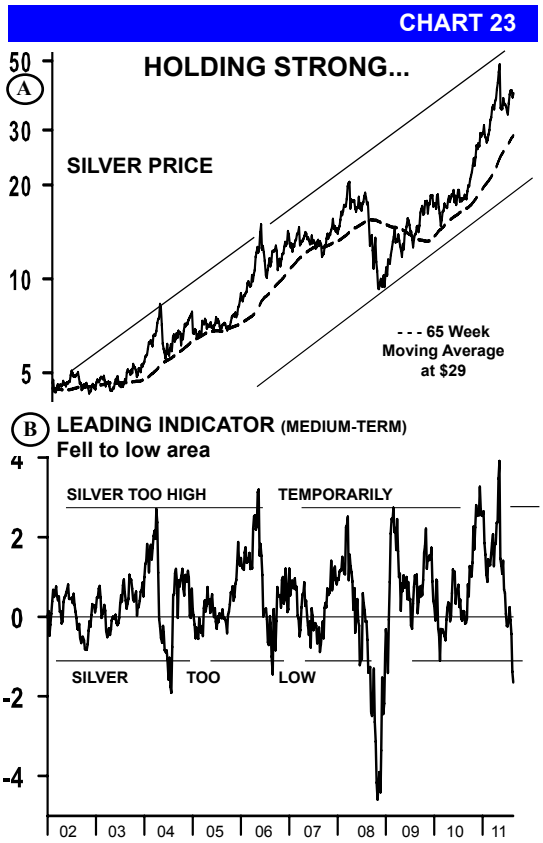


CHART 25

LOOKING VULNERABLE: But major trend still up

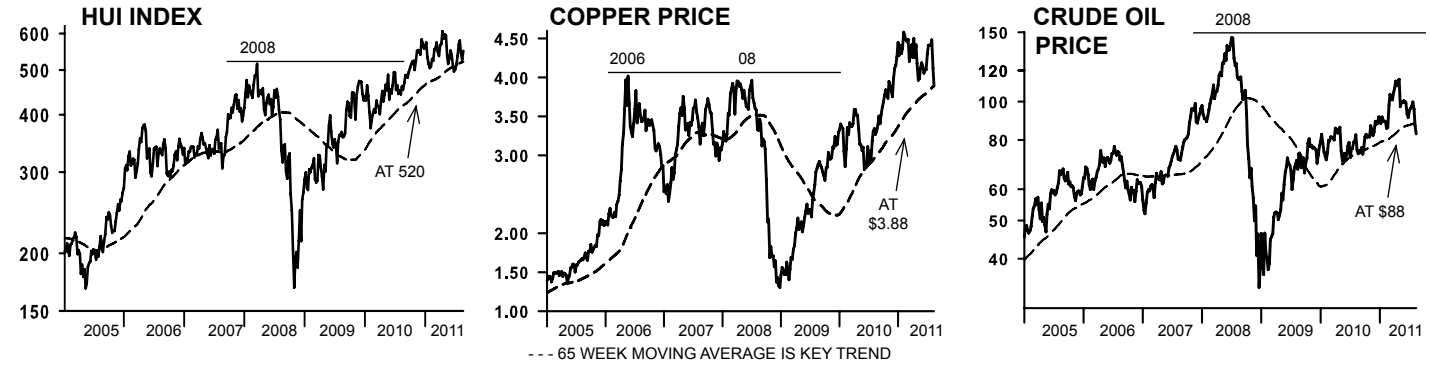
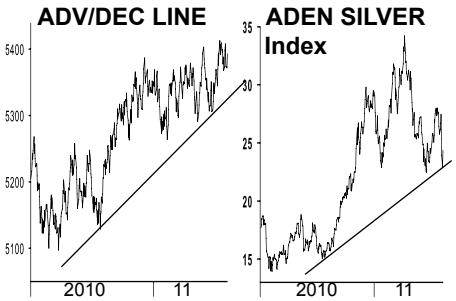


CHART 24

GOLD & SILVER SHARES: Basing



along with the stock market. Much of this sector peaked last February and stopped rising with gold and silver.

Pressure was already being felt in energy and resources. We sensed the pressure, which is why we lowered our position last June and why we sent an alert last week to sell the rest of your positions.

In the end, you could say that copper led the stock market as it peaked in February, several months ahead of the S&P500, and it continues to move with the long term yields, like it's been doing during the last few years.

The copper price is a great barometer to measure the health of the world economy. And the fact that it had its biggest weekly drop since June 2010, tells us the economy is vulnerable.

Copper's major trend is still up, but if it declines and stays below $3.88, it will be turning down for the first time since 2009.

The resource and energy sectors in general did not rise to clear record highs last year, like gold and silver did. They rose to new highs but, as you can see on **Chart 25**, it wasn't a clear new high in copper, while in crude it didn't even get that high.

You could say the same for platinum, palladium and many other metals and commodities (see **Chart 27**). A good example of gold's strength is that it even reached a higher price than the price of platinum! This doesn't happen very often.

OIL & GOLD: Move together

Oil and gold tend to move together. **Chart 26** shows a good example of their tandem move since 1985.

Note that oil was the front runner leading up to the record highs in 2008. It also fell more than gold during the meltdown, but thereafter, gold took off, rising more than crude.

This is understandable because the global economy was in fast mode leading up to 2008, whereas it's been growing less and sputtering with debt problems since then, which makes it gold's turn to shine.

Crude oil fell sharply to its October 2010 lows, breaking below its 65 week moving average for the first time since 2009. It's now weak the longer it stays below it at $88. A bounce back above $88 would put it back in the bull box.

CHART 26

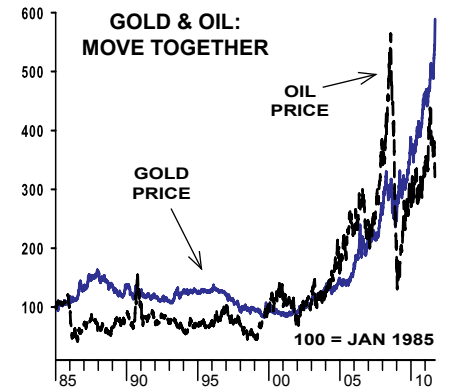
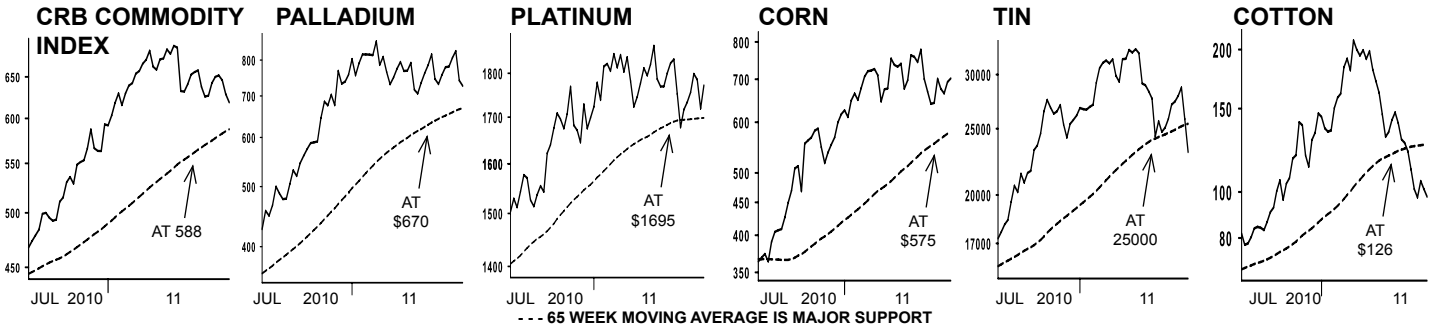


CHART 27

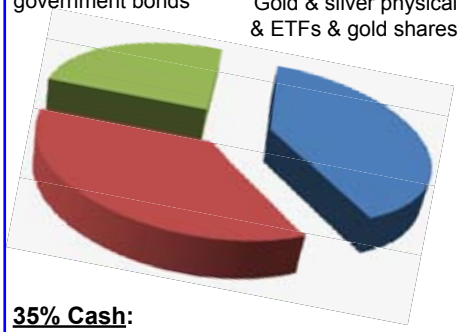
TURNING DOWN, BUT MOST HOLDING ABOVE MAJOR TRENDS



OVERALL PORTFOLIO RECOMMENDATION

It's been another fast paced dramatic month and the market repercussions are being felt far and wide. Following the U.S. downgrade by S&P, stocks plunged, bonds soared and so did gold. Bonds are clearly bullish and the stock market is bearish on growing signs the economy is moving toward a recession.

Meanwhile, the U.S. dollar is stabilizing and the currencies appear to be topping. This month, in our Aug 4 special alert, we recommended selling the rest of your U.S., global, energy and resource stocks. For now, we're keeping a 35% cash position, and buying long-term U.S. government bonds with 25% of your total portfolio. Continue to keep 40% in your metals related investments.



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

Gold continued to soar, reaching the record breaking $1800 level, as it's jumped over 20% since July 1. Gold has been the shining star in the commodity world as fear and uncertainty have driven it higher. Silver was flip-flopping between gold's strength and the resource and energy weakness, but it remains strong in a now oversold consolidation area. Perhaps it's ready to catch up to gold's rise. Gold shares are similar; they too held above their June lows and they are stable to firm. We added RGLD to our list in our July 13 update and suggested buying new positions in it as well as GLD, GTU and IAU... all are doing great.

Gold will remain super strong above $1630, so take advantage of weakness to buy new positions. If the uncertainty that's grabbed the world this month dies down a bit, we could see gold fall in a normal downward correction. But even if gold (Dec) declines to $1560, it would still be very strong and in a great buying area. $1480 and $1380 are also solid support levels. Keep your positions.

The resource and energy sectors got hit with concerns over the slowing global economy. We sold these in our alert... see the stock market section.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The stock market has been in a free fall and the major trend has turned bearish. As we said in our alert, sell all of your stocks (except for gold and silver shares). These are: CAT, DIG, BHP, APA, IXC, SU, USO, XBI, EWM, DIA, EWW, EMF, IOO and IXP. In the end, our U.S. and global stocks averaged gains of 23% and our main resource share, BHP Billiton, surged 359%. The rest of our resource and energy shares didn't fare as well as they lost 8%. If you haven't sold yet, it's not too late and it's best to sell on a bounce up. Move to cash and stay on the sidelines. Stocks are likely headed much lower. For now, stocks have fallen far and fast, so an upward rally would not be unusual, but it's not guaranteed. We don't recommend shorting stocks. The market is too volatile, but when we see a good opportunity to do so, we'll let you know.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

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

CURRENCY ETFs & FUNDS

Swiss Franc	FXF-NYSE

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

CURRENCIES RECOMMENDATION

The U.S. dollar still appears to be bottoming and the currencies topping. If they are, the U.S. dollar is headed higher as the economy slows and investors move into U.S. bonds. As long as the U.S. dollar index stays above 71.50, it'll continue building a bottom and a renewed rise would be underway above 76.50. Currently, we're keeping most of our cash in U.S. dollars for the time being. Having sold stocks and since we're buying bonds, our cash position is now 35%. We're also still holding the Swiss franc and FXF, but since it's so overbought, we may be selling it soon. We recommend selling the Canadian dollar, as well as FXC, as per our weekly update.

INTEREST RATE & BOND RECOMMENDATION

Bond prices are soaring as interest rates plunge. Bonds are poised to rise further and this was confirmed by the Fed... they plan to keep rates low for the next two years. Plus, the economy is weak, which is good for bonds. With the U.S. dollar also stabilizing, we now recommend buying long-term U.S. government bonds, using 25% of your cash. If you already have bonds, keep them. We also like American Century International Bond Fund (BEGBX), which gains as bond prices rise. But since bonds are currently overbought, and they're due for a downward correction, so buy gradually over the next month or so.

Big Picture

By Uncle Harry Schultz Aug 11, 2011 Dear Reader, Welcome to the new world of the U S of A++. It's not only a financial & economic crisis. It's a *confidence crisis*—which is the worst kind, because it's harder to cure—as it's emotional. That runs deep, & U don't reverse it with a QE or an interest rate cut. *A faith-fall can be fatal*. The S&P downgrading of US debt caused shields to fall from global eyes, especially Asian eyes. Asia had biggest mkt fall on *S&P Day.* Why? They hold the most US$ bonds/debt (Korea/Japan/China). They realized in a twinkling they bet on the *wrong horse*. Actually most already knew, but were hoping they could postpone a bloodbath via *slow* diversification into non-US$ assets. This knocks out Asia as the engine to save global mkts. Other shoes will fall (Fitch, Moodys). We are only at the beginning of the end of US$ hegemony. S&P mgr John Chambers says it normally ***"takes 9-12 years to reverse lost confidence."*** I agree. ••• A wag said: "sell happy, buy gloom." ••• China quickly called for a currency basket to replace the US$. •••

Trust is what makes gold tick. Trust is lacking in govts, banks, the system, fiat currency, politicians, big biz, monopolies, multi nationals, mass media. Until U see a big change in some of these, gold will continue as a haven & as a source of asset gain. ☺ Goldman Sachs next tgt is $1860. Deutschbank says: no bubble til gold over $2000. JP Morgan just forecast gold at $2500 by yr end. Buying corrections has worked for years in this gold bull mkt. •••• Yes, Virginia, it is a stocks bear mkt. But big dividend blue-chip stocks that have crashed to multi yr lows are a low risk buy, eg, consumers. •••• Naturally, any S&P downgrade of a nation or a company brings defensive attacks. But as *CNBC*'s loveable bond expert Rick Santelli says: *"Stop the complaining, denial & blame game. We don't need excuses. We need plans to fix the system."* Roger that. Stop blaming the umpire! The *FT* agrees (7/27) says: *"Instead of shooting the messenger, make the message irrelevant. Some govts {US,Germany,EU} want to regulate the raters or have a govt regulator. But who would believe a rating of govt by itself?"* The "market" knows what's going on, so a rater's announcement is rarely, really a surprise, or wrong.

Road: Remember the **can** that our leaders were kicking down the road? Well, as clever Sylvia Quandt, *CNBC*, says, if ECB buying Spain/Italy bonds can't plug the hole, we're at *"the **end** of that road."* ••• U want logic? Pimco's erudite CEO Kashkari says S&P's downgrade logic is: *"The **projections** of US debt is negative & unsustainable."* If projections of a company or country are negative (ie, no visible hope of reversing) U can't rank its debt as prime beef. Mr. K also blasted myth that only the US$ has a deep pockets mkt. Said Yen & euro are both deep mkts. Pimco finds ample depth in them & others. Said EU unlikely to solve its problems on present course, are doing mini steps. •••• Ex Bear Stearns pf mgr says *"Biggest US error was QE2; increased debt instead of biz. US economy over the cliff. Deleveraging is a big factor."* •••• *Falling oil* is an anagram for recession (at best!). ••• As I write, S&P has downgraded Fannie Mae & Mac. Finally. Overdue; were in red ink for yrs, but allowed because no one said the Emperor has no clothes. Congrats to S&P. Flash: Berkshire Hathaway may be downgraded. I downgraded Buffett long ago as a loose cannon, blowhard. •••• Europe now in stocks bear mkt. •••• Asia next? •••• Many US muni's headed for downgrading. ••••WWW doesn't only mean World Wide Web. It also currently means a Wave of Worry & Woe. •••If it is jobless, then it's not a recovery. Stop saying it's a jobless recovery: it's the equivalent of saying: I am a healthy cancer patient!!! ••••• Gold is called *honest money* because if U borrow gold, U must repay in gold, *an ounce for an ounce*. But with our electronic printing presses, a dollar (or any fiat currency) debtor can cheat a creditor, repaying with paper that's worth much less than when borrowed. That's what's happening globally.

Someone whispered in my ear: The real reason Germany is fighting to keep the euro currency intact/strong is not for an ideological notion of unity. Rather, if euro breaks up, an independent Deutschmark would rise sharply, making her exports too expensive, & she **depends** on exports for econ-survival. •••• The US economy is too big to fail from a rating agency, so the stock mkts get hit instead. The US stk mkt is no longer AAA. Just now it's probably AA, & counting. –RD• •••• Note: **"The damage being done by debt, & the avoidance of solutions, is *cumulative*.**" –Jim Sinclair.
****
Who are biggest debt nations? In size order: 1. USA, 2. Japan. 3. Italy. •••• European Union officials ruled France violated the spirit of Europe's visa-free travel zone in stopping NoAfrican migrants crossing its border with Italy, but did not violate the letter of the Schengen (visa-free) law. IMO, EU will water down that law & border controls will be strengthened. •••• Columnist Ross Douthat (*IHT* 7/26) says "Europe's cultural conservatives are right: mass immigration really has left the Continent more divided than enriched, Islam & liberal democracy have not yet proven natural bedfellows, & the dream of a post-national, post-patriotic European Union governed by a benevolent ruling elite looks more like a folly every day. Extremists on both sides of the Atlantic only grow stronger when a political system pretends problems don't exist."

I've been warning about fluoride for years. My longtime readers stopped using this 'poison' in their toothpaste (eg, Colgate) but my new readers may not know. Anyway, a new study says: Fluoride Can **Damage the Brain** – especially prevent use by children. If your town uses fluoride in your drinking water, demand they stop, show them this site: Download this: http://lib.store.yahoo.net/lib/realityzone/UFNfluorideBrainDamage.html

"Europe's latest plan to prop up Greece seems, on closer examination, to look suspiciously like a plan to bolster European banks." Rightly says Jack Ewing, *NYT*, 7/26. Further, "the banks are unloading much of their Greek risk onto the Euro Union. The Bx accord in mid-July was always more about banks than about Greece. The irony: Mrs Merkel went to Bx vowing to make banks pay their share of the cost of aiding Greece. She inadvertently seems to have done them a favour instead."

Words we live by & are encouraged to misuse. We are led in a world fed by increasing use of selected WORDS, in communicating & disseminating news/info/ messages, Tweets. So, think hard on which words u believe in, use, send. Eg, the word ***socialism*** is tossed around so casually, it has lost meaning. I suggest we use a newer term: *nanny-state*. It reflects a babysitter, a cradle-to-grave caregiver, a state of dependency, etc. Whenever I propose a label, or create a word--as I did with *stagflation*--I like the word or label to explain itself as U say it. Nanny-state does that. A nanny to care for children is OK; kids need care (if not excessive) as they grow. In life, a nanny becomes ever less needed as a child grows up. But in politics we've created a permanent state of *nanny-hood*, never ending, & in fact increasing! That easily morphs into *"rights-hood"*—another label I propose as a new term for general use to improve our understanding of words we use. Some unions & left-wingers are claiming ever more "rights" that are not valid, correct, moral, logical or constitutional. In preaching rights-hood, they change our attitude toward the role of govt. Suddenly they want us to think their claims are correct—justified, when in fact they poison the brain & undermine the social system.

Raising taxes is negative for econ growth. Lowering taxes is positive. These are cause & effect "laws." All else is waffle, twaddle & politics. ••••• Tuesday's Fed meeting was sad. They failed to do what wise men urged, ie, cut fat rate Fed pays banks that put reserves with Fed to zero. That would have caused banks to remove reserves & free them up for lending. Not doing this reveals banks control Fed & Fed is a banks cartel. That's why Thomas Jefferson said he feared banks more than standing armies.

"The restorative forces of the economy are very weak & the immediate forces in place are worsening the problem," said Joseph E. Stiglitz, Columbia University economist. "We already know it's not going to be a V-shaped recovery. I said in my book it would be more of an **L-shaped**, slow recovery. I think the answer now is a Japan-style malaise." •• ••• The euro currency is not in immediate danger; the contrary. Medium term charts are bullish vs various currencies. Muddling thru remains the likely M/T future for the euro zone.

I'm forced to agree with friend Marc Faber who says: *"Buying US **Treasurys** as a safe haven is no longer a smart play. They are still perceived as a safe haven because everybody knows the U.S. has an endless ability to print money. **The interest will be paid**. The trouble is govts can default in two ways. Either they stop paying the interest & there is a debt restructuring, as Argentina went through; or they just pay the interest now, & the principle **eventually** but by then in a {near} worthless currency. That's the way the U.S. will likely do it."* Better re-read that. •••• Financial sector/banks are falling so badly *because* they're the most leveraged! They violated the banker premise of not risking client/stockholder assets via acute leverage. Amoral, lazy & not intelligent.

Gold is still the main place to be; 50% of total assets. Not silver as it's tied to the economy-which is sliding into the future. Sell silver on rallies. Buy commod currencies (A$,C$) & big div. blue-chip stks in those curr. +3-6 month govt bills in 1st world (non-US). + lots mattress cash. ••• Mkts being moved by sentiment/ emotion, not fundamentals. Stay with safest. •••• US not learned this history: Greek King Pyrrhus said, re his victory against the Romans: *"We cannot **afford** to win any more battles like this."* •••• SX fund mgr said on *CNBC*: *"Buy&hold is dead. Our long-term is now 1-month."* I've preached against B&H for 45yrs. Be a farmer; plant, harvest, reseed, Gold shares too. Let charts guide U. Improve your chart skills. Time well spent, pays dividends. •••• I repeat: Greece should leave the euro temporarily; all sides will gain. Hans-Werner Sinn, Ludwig Max University, agrees. ••• I again warn against using ETF's of any kind, especially gold. They are only paper gold. They are ***credit derivatives***, dependent on banks/other parties. ••• A Swiss pal sez govts are stand-alone units, disconnected from society. ••• Robt Rubin, ex-US Treasury sec, says US jobless are not 9%. It's 16%, counting longterm jobless. Ex T-man Paul O'Neil sez US debt not $16 trillion but $75 trillion. They should know!

Potpourri Smile time ☺: Nostalgia isn't what it used to be. --- *"Home is a place where teenagers go to refuel."* --- Hospitality is making your guests feel at home even when U wish they were. --- *When tempted to fight fire with fire, remember the Fire Dept usually uses water.* --- Chinese-to-English translations – funny signs: *'Welcome for coming!'* --- 'Building asks a smoked visitor in the outside smoking section that you cannot smoke in.' --- *Sign on a grass lawn: 'Please do not disturb me.'* --- 'This is not a toy. Should be kept away from children made in China. --- *Sign next to a river: 'Have a careful suicide.'* •••• **Notes**: Be kind to unkind people. They probably need it the most. ----*Talk less; listen more*. --- Oddly, less is often more. --- **On growing older.** *Today is the oldest you've ever been, yet the youngest you'll ever be. So enjoy today!* --- Going out is good. Coming home is better! --- *U miss the days when everything worked with just an "ON" & "OFF" switch.* --- Think I'll go have a senior moment. LOL from your Uncle & Chevalier in shining (gold) armor, Harry @ 88 one month from today, priming the pump for the next stage ☺. God bless!