THE
ADEN FORECAST
MONEY • METALS • MARKETS

AUGUST 2012 *our 31st year*

SUMMER BUYS

The markets have been frustrating lately… they've been volatile and skittish. Few markets have established solid investing trends, but as you'll see this month, the situation is slowly improving.

APRIL 2011: Change started

We've taken the action as it comes, but it's a good idea to stand back and look at what's happened over the past couple of years. A picture is worth a thousand words and it helps put things into perspective (see **Chart 1**).

Here you'll see several of the major markets going back to mid-2010 and they help illustrate the story.

First, you can see that leading up to April 2011, all of the markets were rising together, and that continued following the 2008 crisis. The Fed was stimulating the economy with its QE programs and the markets liked that.

The U.S. dollar was the big exception because it was falling.

About a year ago, the environment suddenly changed (see red vertical line). The Euro crisis started heating up and this marked the beginning of difficult times. Most markets fell as uncertainty and fear took center stage.

A rush to safety gripped the markets. And despite the fact the U.S. credit rating was downgraded from its AAA status, the U.S. dollar rose. It was seen as a safe haven, primarily because other countries were in bigger trouble, and it is the reserve currency.

In recent months, the markets started settling down somewhat and we began seeing signs of a subtle change. Some markets started rising and others appeared to be bottoming. And while it's still too soon to be sure, several are showing renewed signs of strength.

BUY A BIT

The bottom line is that we're starting to buy into some of these stronger markets and diversifying for the first time in quite a while.

As you'll see, we feel it's warranted. If we're wrong and this proves to be a false alarm, we'll switch back to only safe haven investments. For now, most signs are giving the okay to wade into some of these potentially good markets.

These changes are discussed in the market sections that follow, along with the pros and cons. All of our new recommendations are listed on page 12.

Meanwhile, the global situation remains volatile and we realize that's a risk too. But we generally tend to be cautious and again, we feel it's a risk worth taking.

FAQ...

As expected, we've received lots of questions over the past months and most seem to involve these changing times. Following are some of your main concerns…

Q. Due to lack of demand, are we headed toward deflation, in spite of all the major central banks printing money? What effect would this have on metals and commodities?

A. There's no question that deflationary pressures have grown stronger and ongoing deflation is a possibility.

Normally, all of the money being printed would fuel inflation, but so far it hasn't happened… it's just a matter of when.

The fact that some of the markets are looking better is a positive sign, but time will tell. At this point, anything is possible because we're in uncharted territory.

Deflation is not good for commodities as we've seen over the past year. As for gold, it's in a different category. If deflation is combined with monetary chaos or the need for a competitive currency, for instance, then gold will shine as the ultimate currency.

The most recent example of this was in 2008. All of the markets fell sharply. Gold fell too but it quickly rebounded and held up better than the others, ending the year with a gain.

It's not a black or white situation for gold. A lot would depend on the

INSIDE

circumstances.

Q. I don't think Draghi has a clue. Any idea how he's going to pull the Eurozone out?

A. ECB President Draghi said they'd do whatever it takes to keep the Eurozone together. Options seem to be running slim but he has obtained more powers.

This drama is still unfolding and we're watching closely to see what happens. As you know, this has had a strong effect on the markets and one way or the other, that'll continue.

Q. When you say hold your cash, do you mean including precious metals?

A. No, cash means currencies only. The precious metals portion of our recommended investments is listed separately.

Q. Do you always advise when to sell certain investments?

A. Definitely, yes.

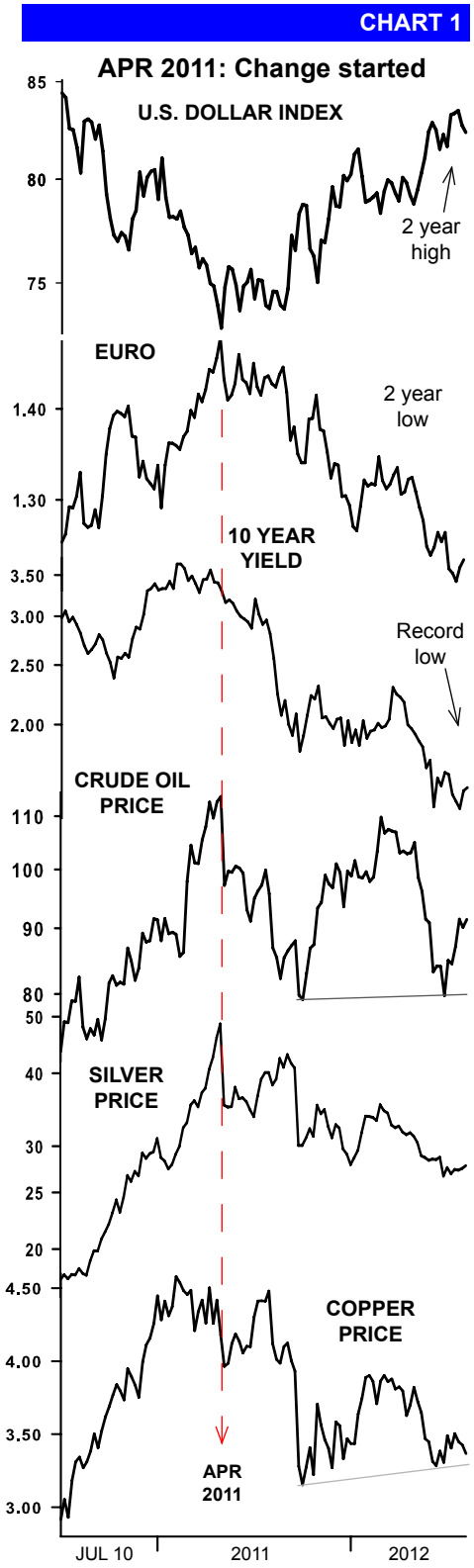
Q. When you are convinced a certain investment is headed lower, do you ever consider ETFs that would benefit from the decline, or 2x or 3x ETFs as useful?

A. We usually don't. And if we did we'd be cautious with the leveraged ones. These are trading vehicles and it's best to avoid them if you're an investor. If you like trading, they can be profitable but they are higher risk. So be careful if you decide to go this route.

Q. Are precious metals ETFs like GLD and SLV safe? Many feel they are not.

A. We know there's a lot of discussion and debate about this. The World Gold Council, for instance, claims they are safe and provides back up. Others say no, they're too risky… that the gold isn't stored, and so on.

Our view has always been to keep the physical metals. This leaves no doubts and it's the best way to own the majority of your gold and silver. But if you want to profit from the rise in metals, it's fine to buy GLD or SLV with a part of your portfolio and trade it like an index, the same way you would buy DIA for the Dow Industrials.



Q. Can you recommend a reliable gold and silver dealer?

A. Dana Samuelson at American Gold Exchange, www.amergold.com. If you have a dealer you respect, stay with them. Pricing is also important.

Q. Will the problems we face affect the forex markets?

A. Yes, they already have and that'll continue.

Q. Do you think it's okay to buy bond funds now?

A. No, we'd hold off for the time being. As you'll see in this month's Interest Rate section, bond prices are now poised to decline further, at least in an overdue downward correction, and that would apply to all bond funds. Some caution is now warranted.

Q. What are your favorite technical indicators?

A. We use several, including RSI and MACD and find they're all useful. Our favorites are our own in-house leading indicators, along with their overbought and oversold signals. For the most part, they've been consistently reliable and helpful in keeping us on the right side of the major market trends.

We also like the various moving averages, relative strength is also important. If a market or stock is strong, it tends to stay strong.

The same is true of the weak laggards… they tend to stay that way.

Overall…

We hope this has helped clarify some of your questions and please feel free to send us more. Even though we can't answer each email individually, we'll always do our best to answer in our letter or weekly updates.

We appreciate all of your notes and comments. Thank you, and thanks too for being a loyal subscriber.

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U.S. & WORLD STOCK MARKETS

Dare call it bullish

The overall stock market is looking better.

MORE POSITIVE MOVES

That's pretty impressive considering all the bad news the markets have been facing, like the sluggish economy and the European crisis, which have been at the forefront. In spite of this, the market has been quick to jump up on any good news.

The market's been volatile, but the tendency has generally been up. In other words, the stock market is taking a more positive view. It's not reacting as much to the bad news as it is to the good news, and that's a bullish sign.

It's also a sign the stock market sees better times ahead. At this point, we don't know how long this will last but as long as stocks keep rising it'll be reinforcing this message.

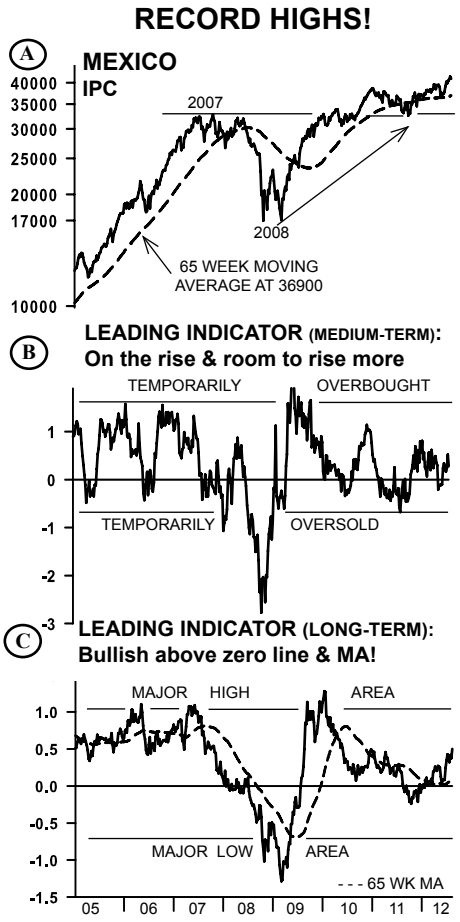
MARKET LEADS ECONOMY

As you'll see in this month's Interest Rate and Currency sections, there's still plenty to be concerned about.

We won't rehash it here, but the fact that stocks are rising despite what's happening in the world is also not that unusual.

The stock market tends to be a leader and it'll often move up when the news is bad. Plus, our indicators are signaling that stocks could rise further in the weeks and months ahead.

CHART 3



BUY SELECTIVELY

Considering the improving situation, we feel it's okay to buy a small position in some of the stronger stocks, like the Dow Diamonds (DIA), Powershares Nasdaq (QQQ), Wal-Mart (WMT), Energy Select SPDR (XLE) and American Electric Power (AEP).

We know the conditions aren't perfect, but as you'll see next, they are getting better.

First, note that all of the U.S. stock indices have risen and stayed above their moving averages, which is bullish (see **Chart 2**).

Several important indices also broke out to the upside of the sideways bands they'd been trading in. This too is positive, technically indicating stock prices are likely headed higher.

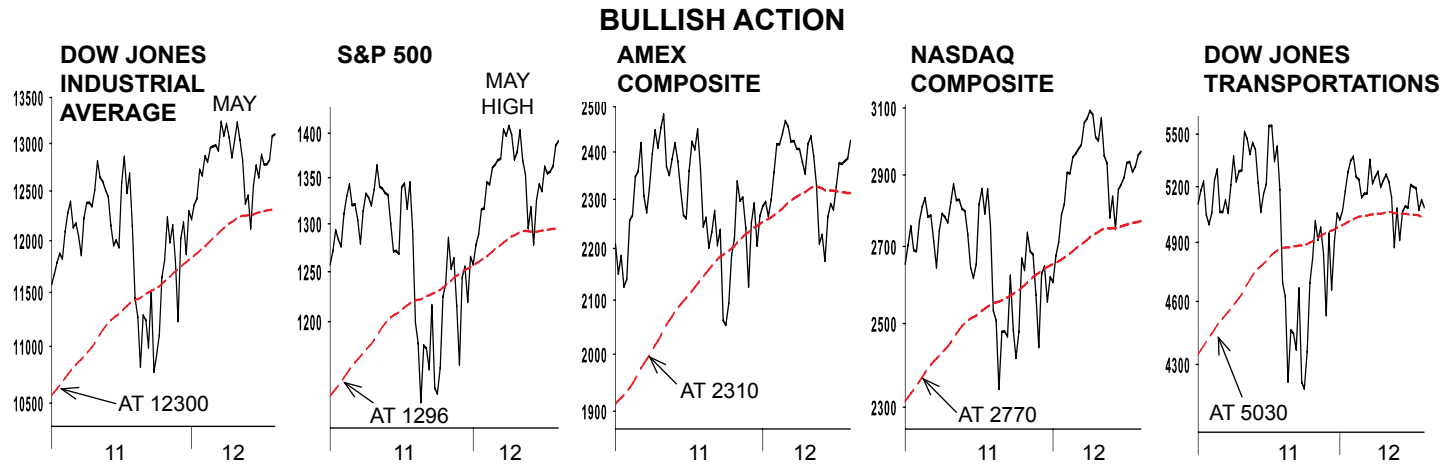
DEFENSIVELY BULLISH

The Dow Industrials provides a good example. It's been showing strength, reaching a three month high for this upmove.

Its next strong resistance level is at 13300 and a sustained rise above that level, could take it up to near 14000, which would be a big roadblock. Nevertheless, this rise would be worth taking advantage of.

We also want to maintain cau-

CHART 2



tion. If we see signs that a further upmove is not going to unfold, then we'll be quick to sell our new positions. Keep that in mind and remember that the coast is not yet clear, so stay defensive.

TRANSPORTS LAGGING

One important negative, for example, is the Dow Transportations (see **Chart 2**). It's not reinforcing the positive action in the Dow Industrials.

As you can see, it's barely risen as the Dow has moved up and, ideally, these two indices should be rising together.

Reinforcing this, the copper price is also lackluster. And since it's the global barometer for economic growth, it's not a good sign that it's lagging too (see **Chart 1**).

Bottom line... either the Dow Industrials is leading the way up for the Transports and copper, or these lagging markets will eventually pull the Dow Industrials back down. This is one of the risks we're taking, but there are others too.

MANY WORLD MARKETS BEARISH... BUT

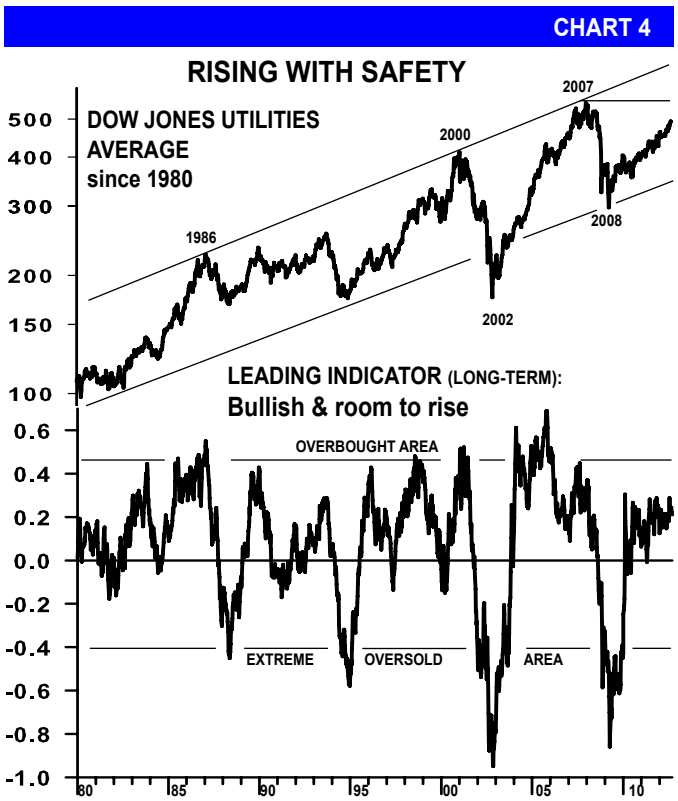
Many of the world stock markets are still bearish and that's been a concern all along (see **Chart 5**). The BRIC countries, for instance, are not looking good (Brazil, Russia, India and China) and the same is true of other markets.

But this month, several world markets joined the bulls and it looks like all of the world markets are headed higher, at least for now. Malaysia, Thailand and Mexico are leading the way. They've been the strongest and a couple are at new highs.

A closer look at Mexico provides an example of the upside potential in these stronger markets (see **Chart 2**).

First you'll see that **Mexico hit a record high**. Its leading indicator is bullish and both indicators have plenty of room to rise further before they're overbought. The other strong markets are similar.

So here too, we think it's worth venturing into a couple of these and we're recommending a small position in Mexico iShares (EWW) and iShares S&P Global 100 Index (IOO).



UTILITIES: Strong

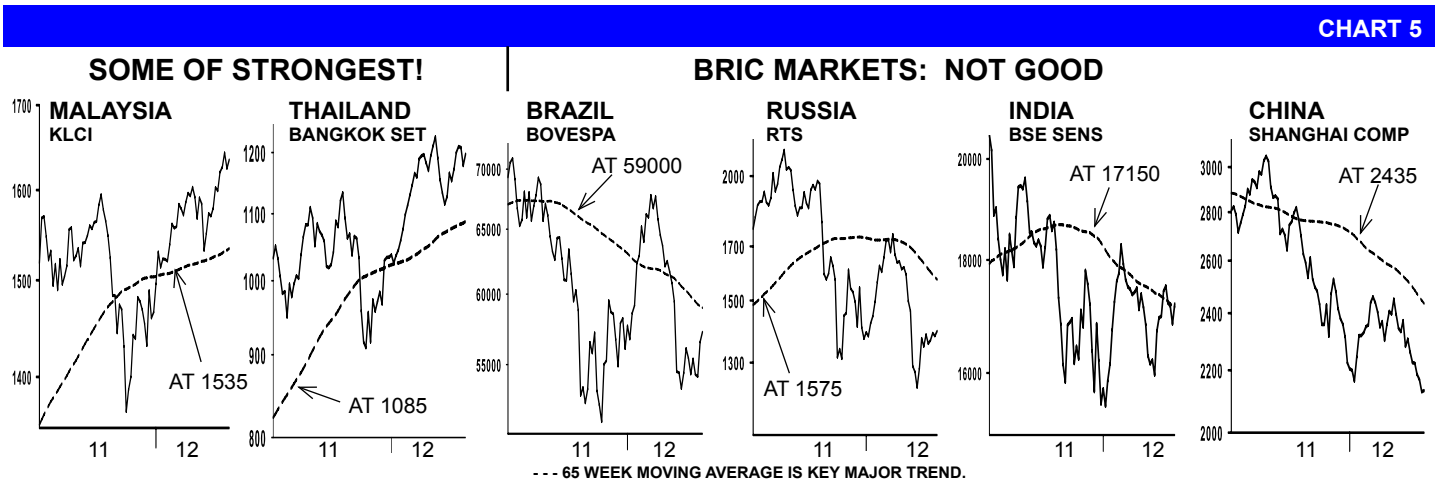
Another positive note has been the steady rise in the Dow Utilities (see **Chart 4**). While the other markets were weak or volatile, its upmove has been ongoing and it was the only index to swim against the tide.

We have steered clear of this market because the overall stock environment has been weak since last year. But now that many of the other markets are joining the parade, the risk element has decreased.

One advantage the Utilities have is their high dividends. And in this world of extremely low interest rates, that's a big attraction.

Nevertheless, even if you're starved for income, we'd invest in this sector with some caution, taking a small position. That's especially true now that interest rates are starting to rise because this will put downward pressure on the Utilities.

All things considered, this may change depending on how the markets unfold. But currently, we advise investing no more than 15% of your total portfolio in stocks at this time, diversified between some of the stronger U.S. and global markets (see page 12 for more details).



U.S. INTEREST RATES AND BONDS

Rates bouncing up from record lows

Interest rates are starting to move up from record low levels.

BONDS DUE FOR BREATHER

At the same time, U.S. bonds are somewhat toppy but they're still strong and viewed as a safe haven. That's the current status.

But you can't really talk about U.S. bonds without considering what's happening in other countries.

As the crisis in the Eurozone intensified, bond prices surged (see **Chart 6**). And if these Euro wild fires keep heating up, U.S. bond prices will stay strong and interest rates will remain low.

On the other hand, if the Euro situation settles down even temporarily, and the economy shows signs of improvement, then rates could keep rising, and that too is a possibility.

Currently, all countries want low interest rates as a way to help stimulate their ongoing sluggish economies (see **Chart 7**). This has been one of the Fed's favorite tools and a top priority. The Fed has kept rates down since the crisis of 2008. But the economy hasn't reacted the way it was supposed to.

CHART 6

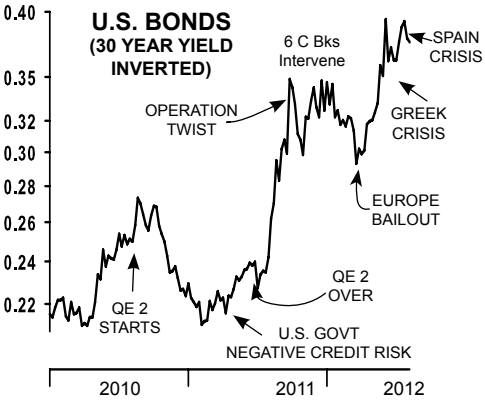


CHART 7

LOW RATES HELP ECONOMY...

Normally, low rates would be a big positive. Why? They entice consumers to buy and spend. It makes real estate more attractive and affordable, and this generally kick starts a slowing economy. But it hasn't happened this time around.

One important reason why is because unemployment is still over 8%. And if people don't have jobs, they're not going to spend no matter how many bargains are out there.

Some have called this a creeping recession or depression and in many ways it is. Although different, the picture over the past year has been very similar to the 2007-08 period (this is illustrated on **Chart 8**, which shows interest rates then and now).

...BUT

Remember, interest rates tell a story. **When they're at extremely low levels it's a deflationary sign that something is wrong.**

Note that in 2008, the drop in interest rates was quick and sharp. This was a reaction to the fast moving credit crisis. This time, it's been a slow and steady erosion, which coincides with the creeping recession theory.

This also coincides with the creeping European situation. As Europe is rocked by one crisis after another, it's become more unstable.

This has driven more investors to the safety of U.S. bonds and it's pushed U.S. interest rates to record lows (see **Chart 9**). Another big factor has been the Fed itself. **The Fed's been buying massive amounts of U.S. bonds and this too has kept long-term rates low.**

About 75% of all U.S. Treasury bonds have been bought by the Fed. In other words, the Fed is financing the U.S. debt, which is obviously a dangerous situation, reflecting the fact that few options are available. It also shows some desperation.

Still, the Fed carries on. It's been restraining itself somewhat lately, holding back on more outright stimulation, but the pressure is on.

ECONOMY & ELECTION

The economy is on thin ice and an election's coming up. Already recent forecasts show that Obama's going to have a tough time holding on to the presidency. Since 1936, for instance, no president has been reelected with unemployment above 8%.

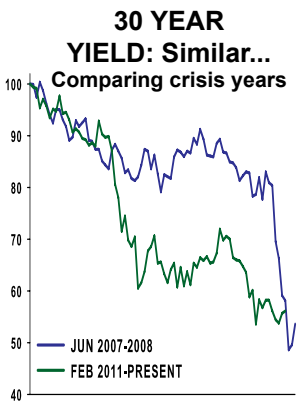
One has only to look at most of the western leaders who have come up for reelection in recent years... they've all been tossed out. The voters were upset and they just wanted change.

Low interest rates would normally help, but it didn't in those other countries. The bad economic situation had gone on too long, but it was also much worse than the current U.S. situation.

Overall, the last thing anyone wants is rising interest rates. The U.S., however, will likely see rates move higher in the months ahead. Note on **Chart 9B**, the indicator is now rising from a clear oversold area. This means bond prices will fall further, along with rising rates.

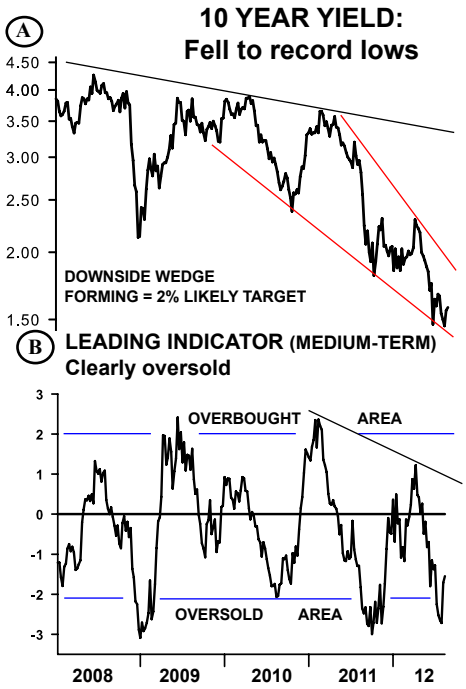
If the rise is moderate like in 2011, it won't be a big deal. The key question though is, what if interest rates rise more than expected?

CHART 8



This is something we'll be watching closely, especially since we're beginning to see a shift in the other markets. **Stocks, commodities, gold and even the currencies are showing signs of bottoming or they're already rising.** If this continues, interest rates could rise more than expected as bond prices fall, despite what the Fed wants.

CHART 9



RATES HOW HIGH?

Rising rates would normally be bad news for a vulnerable economy. But if these other markets start rising, it may not make a difference because rates would still be in a generally low area. It could be viewed as a good sign because weaker demand for U.S. bonds would suggest easing tensions and a recovering global economy. We'll see what happens.

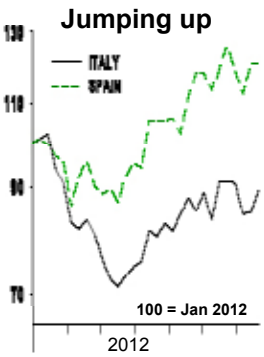
A steep rise in rates also often means financial trouble. If investors feel a country is higher risk, they'll demand a higher interest rate to buy that country's bonds (see the rise in Italian and Spanish rates, for example on **Chart 10**).

And French interest rates could be next. Few people realize that France is in big trouble. Even though it's been a Eurozone leader, along with Germany, the fundamentals are another story.

As our old friend John Mauldin recently pointed out, France and Greece are in the same boat as far as their debt situation goes. Plus, there's no sign this will be changing soon.

On the contrary, the new President has increased entitlement benefits, lowered the retirement age to 60 and increased taxes on those with higher net worth. Plus, the banks are bigger and France won't be able to help them.

CHART 10



The bottom line, the wheels are in motion and if France is the next to go, it'll be too big to bail out. The entire Eurozone, which is already in recession with unemployment at a record high, could then become a huge wild card, further affecting the world economy and the markets. Germany would be standing alone and the potential for another financial shock would greatly increase.

KEEP BONDS... FOR NOW

For these reasons and until the markets tell us otherwise, we'll stay with our strong U.S. bonds. We do, however, recommend selling a small portion of your bonds in order to buy stocks.

Of course that could change. If bonds start showing real weakness, we'll sell them. For now, we wouldn't buy new positions.

CURRENCIES

U.S. dollar: Reached 2 year high

There's a tug of war going on in the currency arena.

DOLLAR UP, WHILE EURO DOWN

The U.S. dollar is strong and it's near a two year high. The euro is still very weak. These two currencies appear to be mirror images of each other, but as you'll see, that too may not be the case much longer.

For now, like U.S. bonds, the U.S. dollar is holding on to its safe haven status. It's the currency of choice and as the crisis in the Eurozone intensified, the dollar rose further as more investors turned to the dollar because of its appeal.

With world uncertainty zigzagging, investors are insecure. There are few investments that look good. There are few ways to obtain income and despite the fundamental problems engrained in the U.S. financial system, it's better than the other options.

That's why the U.S. dollar's been rising. It's not that the U.S. dollar is a great currency. It's not. As we've shown you many times, the U.S. dollar's been dropping for over 40 years and it's only risen twice during that time.

So what we're now seeing is unusual due to the current circumstances. It's not the norm and again, it's unlikely to be long lasting.

The other currency options, however, haven't been good. Many of the currencies are still bearish. But the commodity currencies were the big exceptions this month.

COMMODITY CURRENCIES: Look good

As you can see on **Chart 14**, the Australian, Canadian and New Zealand dollars have been moving up, along with the rise in commodity prices.

CHART 11

This in turn has been partly caused by the worst U.S. drought in a generation. India and Europe are also suffering severe drought conditions and this has been driving up food prices.

As for these commodity currencies, they're looking better than they have since last year. The Australian dollar is the strongest and we now recommend buying it, using some of your cash U.S. dollars.

That is, keep half of your cash in U.S. dollars for now and half in Australian dollars.

These commodity currencies could be leading the way up for the other currencies and it's something we're also watching closely.

As you'll see next, a couple of our reliable indicators are reinforcing this.

DOLLAR BULLISH, FOR LONG?

First, look at the U.S. dollar index (see **Chart 11**).

In recent years, it's generally been moving sideways within a wide band. The dollar index has been rising since last year and it's now overbought (**B**). These overbought levels coincide with dollar tops. This is telling us that the dollar's rising days are numbered.

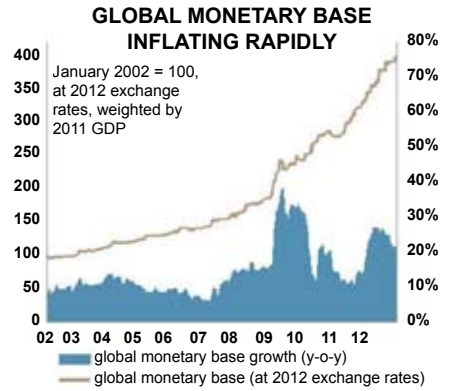
That isn't surprising considering the soaring monetary base (see **Chart 12**). Money is literally flooding the economy and the markets, and that cheapens the dollar. It's all been an effort to fight the deflationary pressures but so far it's not working.

Obama has increased spending and entitlement benefits to over 40% of GDP. This is only the second time since World War II that it's been this high. And there's a price to pay for all this spending.

Debt and spending are skyrocketing, annual deficits have been over $1 trillion for years and the Fed is subsidizing this by buying more bonds.

Currently, 40 cents of each dollar is borrowed. Unfortunately, the U.S. is following the European and Japanese models in different ways, and we've seen what's happening there. This is a formula for disaster and the dollar will probably be the first victim to feel the effects.

CHART 12



SOURCE: Reuters Ecowin, UBS
COURTESY: www.caseyresearch.com

EURO: At extreme

At the same time, the euro is now very oversold (see **Chart 13B**). Again, this coincides with lows in the euro, which means it'll probably soon head higher.

What does this suggest? Since bonds are also overbought, stocks are rising and commodities are basing, this is telling us that changes are coming and we'll be ready when they do.

It suggests the Eurozone's problems may temporarily move to the back burner, at least for the time being. It also suggests that better economic times are coming or seemingly so. This in turn suggests that safe havens will fall out of favor. That is, U.S. bonds and the U.S. dollar.

It also suggests that gold, commodities and stocks will likely rise further. Already, it's pretty amazing that gold has held up well, despite the strength in the dollar. But if the dollar soon heads lower, it'll give gold the boost to embark on a renewed rise, as you'll see in this month's Metals section.

Currently, stay with some of your dollars. It's still strong and it could go higher, to possibly the top side of the sideways band near 86.

But stay on the alert. At the first signs of dollar weakness, we'll want to switch out of dollars into other stronger currencies.

CHART 13

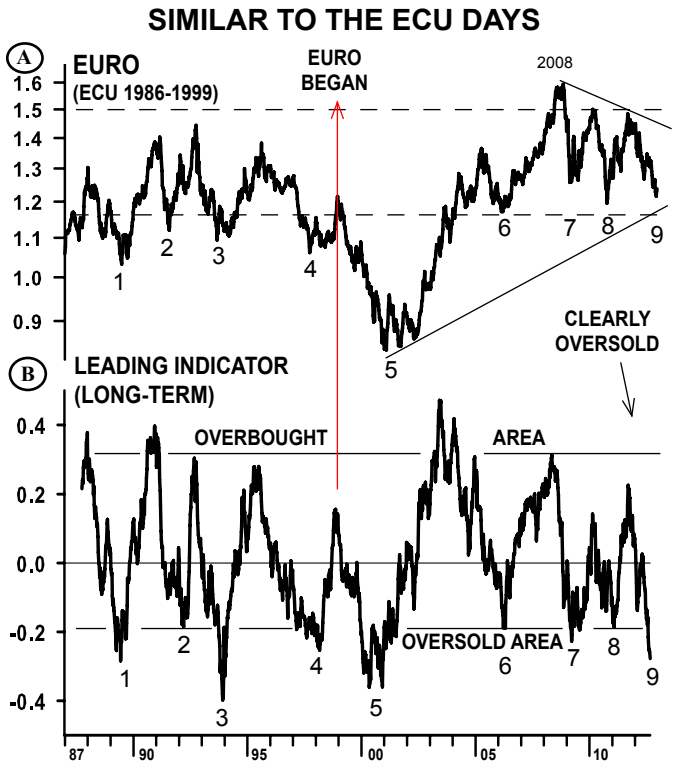
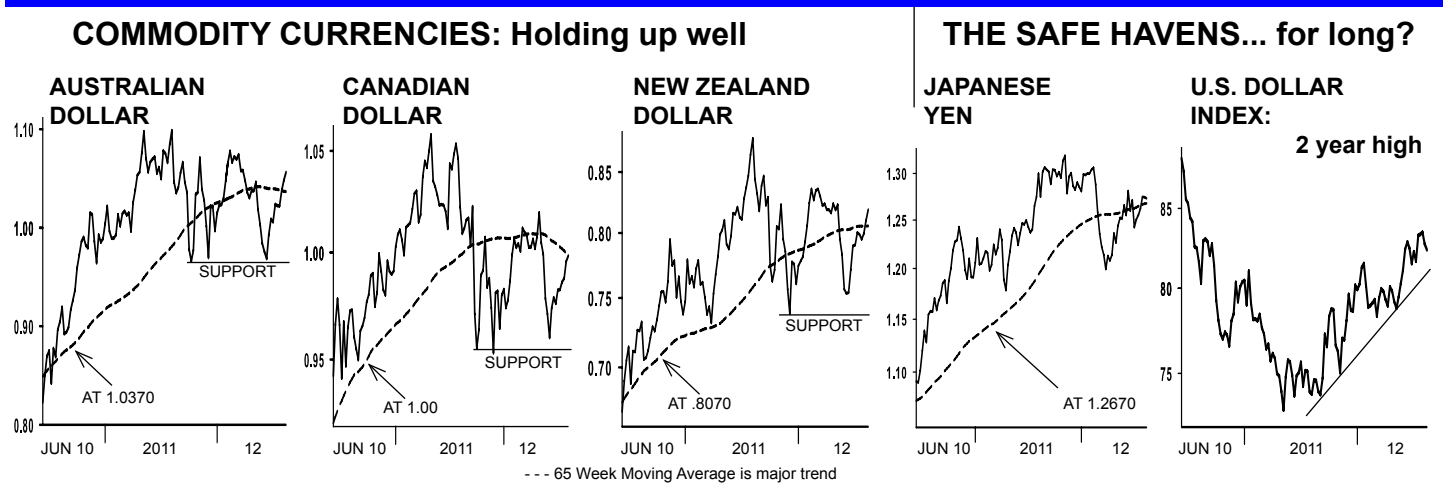


CHART 14



METALS, NATURAL RESOURCES & ENERGY

Holding up well

The one thing that stands out most about gold and silver is their reluctance to violate the December lows. For all of the sluggishness we've seen, the gold price has not broken down to clear new lows this year.

It's been almost a year now since the $1900+ record high was reached, yet the gold price hasn't declined even 20%. Think about it... considering the 170% gold rise (from the 2008 low to the year ago record peak), gold has only given back 19+%. This shows the strength in gold and you can see this below on **Chart 15**.

Gold's strength reinforces the reality of an unbalanced financial world. It's what's keeping support strong at the December lows.

In fact, looking at gold in terms of euros and the U.S. dollar, you can understand why gold is holding up.

Chart 16 shows gold in both currencies since the financial crisis in 2008. Here you can clearly see the difference in gold's strength this past year... during the longest gold correction since the crisis low.

Gold has been holding near its record highs in euro terms, and it's only declining moderately in dollar terms, in spite of the dollar hitting a two year high. This is because **the dollar's rise has been a mirror of the euro weakness, not the reflection of real strength.**

This is important to keep in mind in relation to this year's market action. It also indicates strong demand during the seasonally low Summer time for gold.

June tends to be the worst month for gold and this year is proving to be similar. Gold first fell to test the December lows in May and then again in June.

The recent low coincided with the Eurozone's bank rescue package and gold has been quietly rising with higher lows since then. It now looks like gold is ready and poised to move up in a renewed rise.

Accumulation time is drawing

CHART 15

to a close, but it's still not too late to buy new positions. Buying any time this month is good, especially near or below $1600 if possible.

Get ready for take off!

Gold will look promising above $1630, but it'll be clearly out of the woods above its 65-week moving average at $1650.

These are the numbers to watch this month.....$1536, the May closing low and $1650.

GOLD TIMING: Bottom in & poised to rise

Many of you know the ins and outs of our favorite intermediate indicator. But for the benefit of our newer readers and to refresh the main points with our older readers, we'd like to go over it.

This indicator helps us measure the timing and growth potential of each intermediate gold rise, as well as the declines. It's worked well over the years, including during the bull market of the 1970s.

In fact, our first detailed studies on gold's movements with this indicator were during the 1970s bull market, and then thereafter.

Bear markets also have these intermediate moves, but with subtle differences.

It's a fascination we have with gold. Gold is a cyclical market and its moves tell us a lot about the world and other markets. **Right now, it's telling us the 11 year bull market is alive and well.**

This leading indicator is shown on **Chart 17**. We usually show this chart each month because it's been a good guide over the years.

Overall, gold has intermediate moves we call the A through D pattern. The As and Cs identify the gold rises, and the Bs and Ds identify gold's declines.

During a bull market, the C rises tend to be the best leg up in the bull market when gold shoots up to a record high. In fact, this reinforces the strength in the bull market because if record highs are not reached, it would raise a red flag.

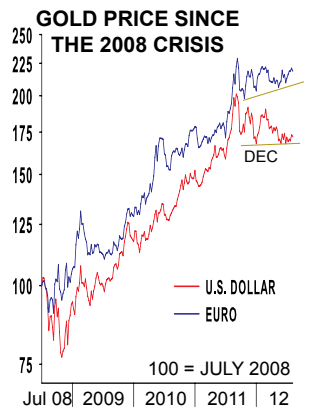
The A rises are normally moderate. But if an A rise reaches a record high, then it's reinforcing an exceptionally strong bull market. B declines also tend to be moderate, and together with the A rises, you could say it's a consolidation time... preparing for the strong C rise.

The wild moves tend to be the C rises and the D declines. D declines are the sharpest when gold corrects the most. When a bear market begins, it tends to be during a D decline.

D declines usually fall to test the 65-week moving average during a bull market. It wasn't until 2008 that gold's D decline broke clearly below this moving average for the first time in the current bull market.

The intensity of the crisis took hold, but it didn't take long for gold to jump back up. And we don't think it's a coincidence that gold then went on to have the longest and best C rise in the bull market!

CHART 16



Gold rose almost 120% from April 09 to September 11... a C rise twice as strong and twice as long as all of the C rises since 2001.

This rise has essentially coincided with the ongoing unprecedented problems we have in the world.

The best C rise before that was in 2005-06 when gold shot up almost 58%, followed by the 2007-08 rise of nearly 56%.

So where are we now?

Here's a twist and some food for thought.... Gold fell from its September record high almost a year ago and it declined nearly 20% to its December low. This fall alone could've been a D decline because the indicator fell to the low area and gold tested its moving average. The percentage decline was also in line with former D declines.

Then the 16% rise to the February high was within reason for an A rise, while the 14% decline from the February highs to the recent May lows was also normal for a B decline.

If this proves to be the case, and the B low is complete, then gold is getting ready to take off in another C rise. And if the bull market stays true to form, we'll see a record high reached before the leg up is over!

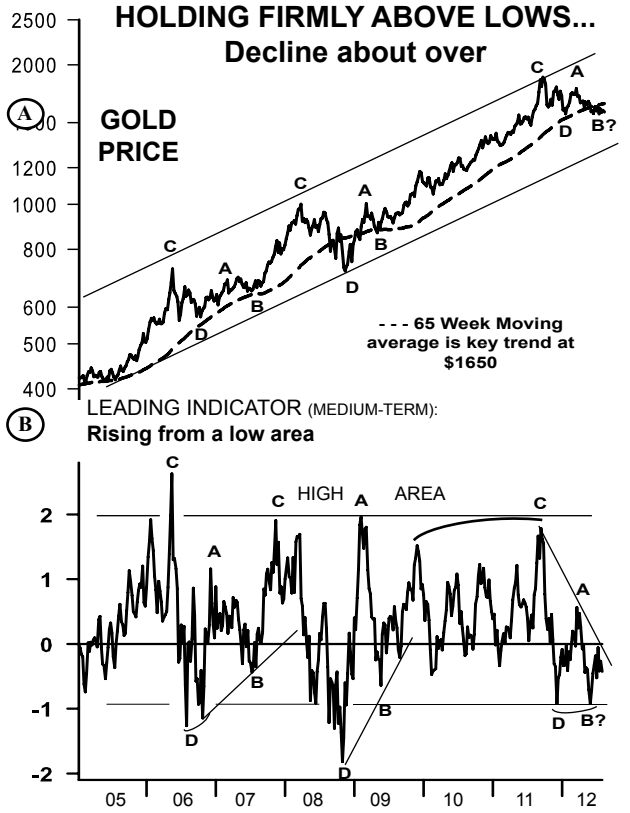
On the other hand... the other option is that gold's had an extended D decline (like we've been saying), forming a double bottom with the December and May lows. If so, then only now is the D decline near an end.

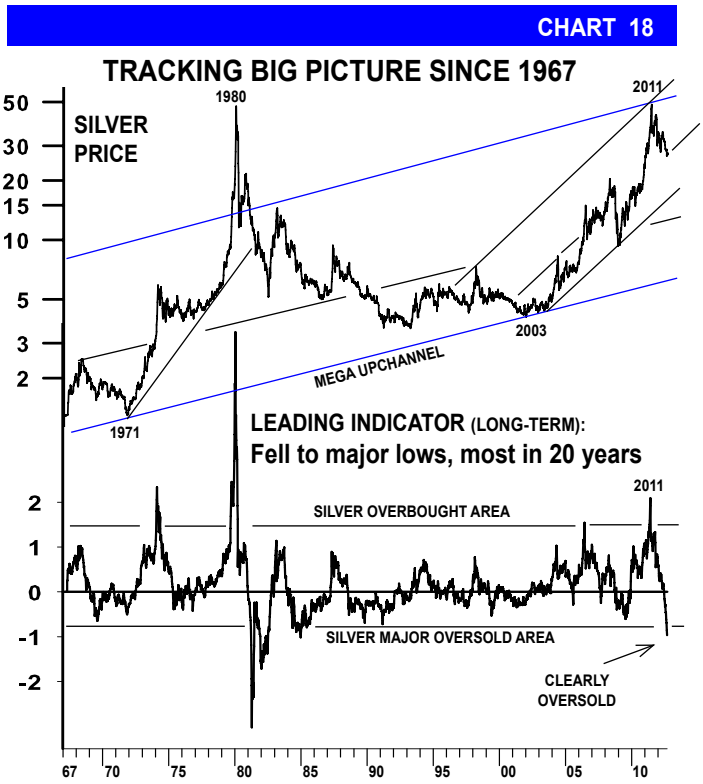
If this is the case, we could see an A and B consolidation period upcoming well above the lows, but below the record high.

In either case, a rebound rise is near. Our best bet is to keep an eye on the key levels... The $1536 level is gold's closing May low. Let's first make sure this holds.

Once gold closes and stays

CHART 17





above $1650, we could see it jump up to the $1700 level. Above $1700 means $1800 would be the next target.

If gold rises in a C rise, similar to the 2006-2008 C rise, we could see gold reach record highs near the $2200 - $2400 level.

SILVER: Barely holding on to the 2011 lows

Silver has been hanging on to its low area. Granted, it's been by a thread... but it's holding.

It's declined more than gold and it's taken longer to erase the excess. It rose an impressive 452% from its 2008 lows, and it gave back 45% since its April 2011 peak (see **Chart 15**).

The low so far was on June 28, and this is an important support level, as well as the lower side of the upchannel it's formed since 2007 when the world problems first started.

Silver has been on the bargain table for a few months now, and it's currently oversold.

You all know that silver is special. It's a precious metal and it'll move with gold. It's also a base metal and it'll move with the global economy. With both in the doldrums, it's no surprise to see pressure on silver.

Silver is also clearly more volatile than gold. That is, it rises more and it declines more. It also stays in limbo longer than gold, but once it wakes up from this lifeless state, it tends to take off like a bandit.

Silver has been moving sideways for several months now, holding heavily near the lows. It's been slipping below $27, but it doesn't last long before it pops back above it.

BIG PICTURE: Silver a good buy

It's time to look at silver's big picture again, because a great buying area is here. **Chart 18** shows silver and its leading indicator since 1967.

Silver is clearly oversold, the most since the mid-1980s.

But first note the mega 45 year upchannel. Silver reached the top side of this upchannel in April 2011. At that time, silver's leading indicator (**B**) shot up to an overbought area, the most since 1980. This told us the rise was clearly due to correct.

And now, 16 months later and over $20 cheaper, silver is at a good buying point. For now silver is holding near the mid-channel line of the past decades' bull market.

If silver continues to hold above $26 and rises back above $28.50, the lows will be in and a renewed rise within the powerful bull market would be underway. Silver could then outperform gold.

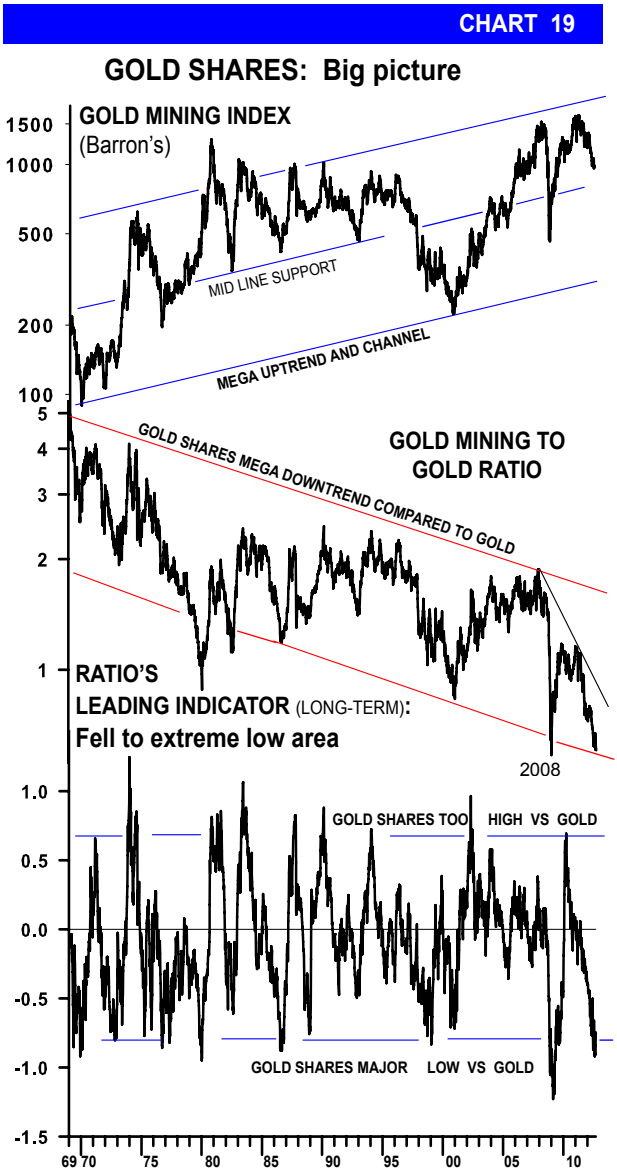
Silver has potential to test its old highs, and possibly rise to the top side of the current bull market's channel, once its 65-week moving average is surpassed at $33.

But, you may be thinking, what if the lows are clearly broken? If silver were to decline and stay below $26 for a week, we could then see it test the $20 - $22 level, which is the major uptrend support of this decade.

GOLD SHARES: Bombed out & basing

Gold shares have taken the worst beating.

They peaked with gold a year ago, but they were showing subtle



strain before then. Unlike gold and silver, the clear weakness breakdown started when gold shares broke to new lows for the year in March.

The reality today is that gold shares are clearly bombed out and they're on the bargain table too. **Chart 19** shows a good example of what we mean.

The Gold Mining index has been coming down from the top of a mega channel. It's now near the mid-line while its indicators are oversold.

Most impressive has been their weakness versus gold. It matches the intense fall in 2008 when the ratio fell to record lows, as well as its indicator.

This is clearly an extreme. Gold shares are bombed out versus just about everything, which means they're overdue for a good upmove. We don't think the gold mining business in falling into a black hole, it's just cheap.

The HUI index, for example, reached a low on May 15. It formed a higher low in July and it's now stable by saying above 395.

A renewed rise would be underway above 430, and especially above 455. Gold shares could very well outperform gold, if even in a rebound rise. Keep your gold and silver shares.

DEMAND GROWING

We know gold has been waiting for more stimulus measures by the central banks. It'll more likely come from ECB president Draghi in his effort to save the Eurozone crisis.

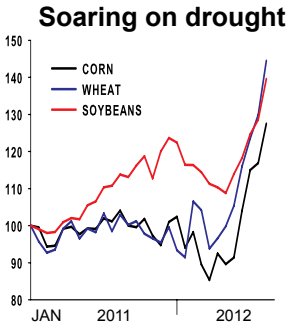
Meanwhile, other central banks continue buying gold. China was the second largest user after India last year, and according to the World Gold Council, China may expand by 13% this year.

Hong Kong's largest gold storage facility will open in September to meet rising demand from banks and the wealthy, and we're already seeing another month of heavy net gold shipments to China, via Hong Kong.

South Korea and Turkey were gold buyers this past month. Turkey bought the third highest amount on record while South Korea has been buying for a few years.

The point here is that central banks continue to be net gold buyers on an ongoing basis. It wasn't but a few years ago that central bankers became gold buyers for the first time since 1988. And the amounts continue to grow, especially since the 2008 financial crisis.

CHART 20



RESOURCE & ENERGY

The worst drought since the Dust Bowl of the 1930s has been hitting a good part of the U.S. causing the agricultural commodities to soar (see **Chart 20**).

The global sensitive materials are bottoming, and they too look poised to rise. If crude and copper, for example, rise further it'll likely coincide with a better outlook, even if for a while.

The commodities big picture tells the story best (see **Chart 21**).

CHART 21

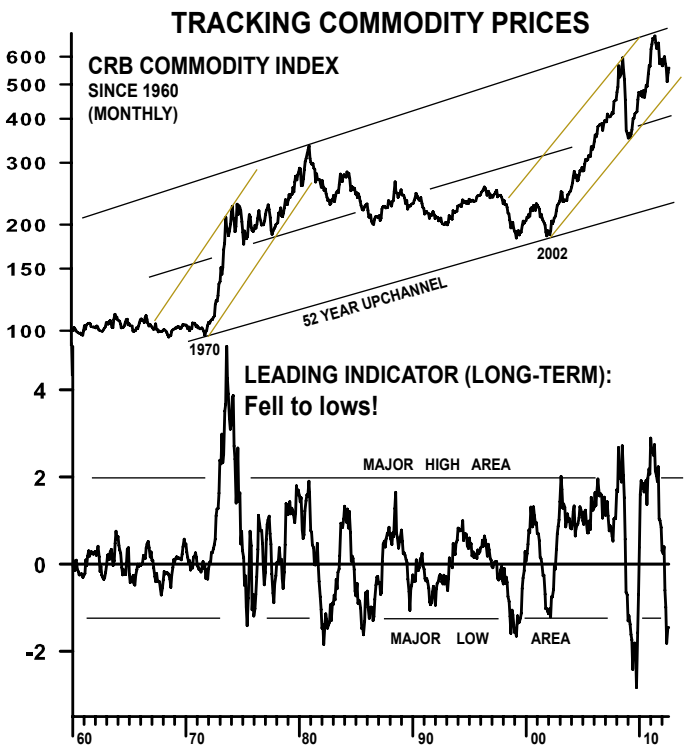
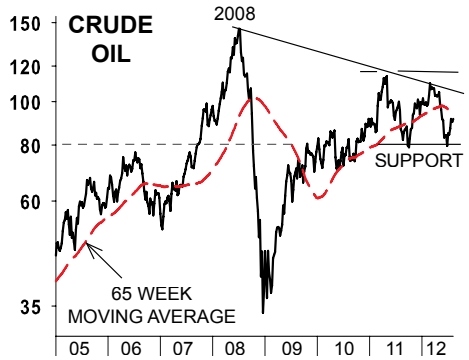


CHART 22



It shows the CRB index going back to 1960.

As you can see, the 1970s started the change, and a mega trend and channel has been in force since then. The CRB bottomed in 2003 and it was only a year ago, when it hit a record peak while the indicator reached a high area.

CRB has been coming down from the top of the channel since then, and it's now near the 2002 uptrend. Meanwhile the indicator has dropped to the low area.

This low area is important because the few times it was reached coincided with a low area in the CRB.

This suggests if the June low now holds, and the CRB index stays above 540, it could bounce up to the 590 - 605 level in a rebound rise.

Above this level it would be in a renewed bull market leg up.

This also means oil and copper are poised to rise. The crude price on **Chart 22** has strong support near $75. If it now stays above $89, and closes above $95, it could test the February highs.

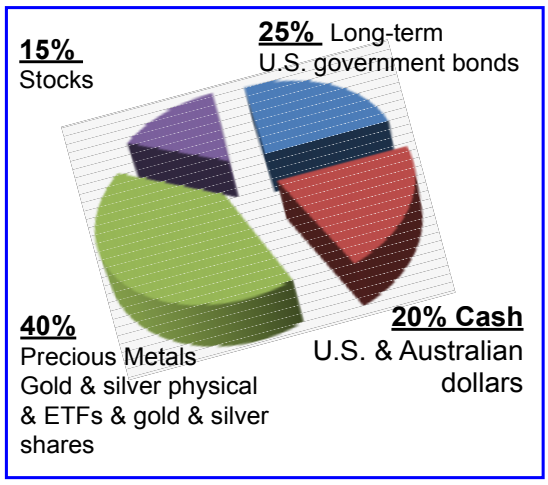
Copper has been forming a solid base since June at $3.28. If it closes above $3.50, it could bounce up to the $3.75 - $3.90 level.

The resource sector is looking better but it still has some obstacles to overcome to prove itself.

Overall though, this entire sector is indeed showing good signs of improvement.

OVERALL PORTFOLIO RECOMMENDATION

The markets are looking better this month and the drama is slowly settling down. Some markets started rising, others appear to be bottoming and several are showing renewed signs of strength. All factors considered, we now recommend buying into some of these stronger markets and diversifying for the first time in quite a while. If this proves to be a false alarm, we'll switch back to our safe haven investments. Following are our changes to the recommended portfolio...



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

It looks like a renewed rise is ready to develop. The metals are holding up impressively well, while gold shares are bombed out. In spite of the sluggishness, gold has held up well above its December lows. 2011 has not seen clear new lows. Gold is poised to rise.

Silver, gold shares and the resource sector are clearly oversold. Continue to buy and keep our recommended metals and shares.

Gold will be in a renewed rise above $1650, and so will silver above $28.50. As for the gold shares, the HUI index is stable above 395, and a renewed rise would be underway above 430.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The overall stock market continues looking better. The U.S. stock indices have stayed above their moving averges, which is bullish and stocks could rise further in the months ahead, especially if the Dow Industrials breaks above 13300. The market, however, is still risky, many individual stocks aren't looking good and/or they're overbought, so caution is warranted. Nevertheless, we feel it's okay to buy a small 15% position in some of the stronger stocks, like the Dow Diamonds (DIA), Power Shares Nasdaq (QQQ), Wal-Mart (WMT), Energy Select SPDR (XLE), American Electric Power (AEP), Mexico iShares (EWW) and iShares S&P Global 100 Index (IOO).

CURRENCIES RECOMMENDATION

The U.S. dollar is holding on to its safe haven status but the dollar is overbought and its strong days are numbered. The Australian dollar is looking good and we recommmend buying it, using some of your cash U.S. dollars. That is, keep half of your cash in U.S. dollars and half in Australian dollars. But stay on the alert. At the first signs of dollar weakness, we'll want to switch out of our dollars into other stronger currencies. You can buy the Australian dollar at Everbank, Chris.Gaffney@everbank.com or buy the ETF: symbol FXA.

INTEREST RATE & BOND RECOMMENDATION

Interest rates are still low but they're starting to move up. Currently, our leading indicator is signaling rates are headed higher. That is, bond prices are toppy and they're poised to decline further. Bonds, however, remain bullish and we recommend holding them. The major trend is up and this upcoming weakness will likely be a normal downward correction. If bonds, however, start showing real signs of weakness, we'll sell them. For now, we only advise selling 15% of your bond position in order to buy stocks. Unfortunately we bought TLT, TLO and RYGBX too late and we now recommend selling them. Also, don't buy new bond positions. Keep 25% of your portfolio in over 10 year government bonds.

* NEW POSITION

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

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

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

STOCKS AND ETFs

Wal-Mart *	WMT-NYSE
Energy Select SPDR *	XLE-NYSE
American Elec Power *	AEP-NYSE
iShares S&P Glbl 100 *	IOO-NYSE
Power Shares Nasdaq *	QQQ-Nasdaq
Dow Diamonds *	DIA-NYSE
Mexico iShares *	EWW-NYSE

CURRENCIES AND ETFs

Australian dollar *	FXA-NYSE

Big Picture

By Giraffe Rider Aug 9, 2012 Dear Reader

I had not planned on doing a column in August, but I got so many nice faxes, emails & letters, I felt I should. Here's a sample of the mail: *"I was an Hslm from 1973.To say I miss your writings is a great understatement. Though we have never met & probably never will, I miss U like a dear friend. Please accept my wishes that U will have a wonderful 89th birthday dear Uncle & live to see your 144th."* Louis Peter, Az.

--"Dear Uncle, Happy birthday come Sept. How we miss U in these turbulent times. We think of U often & are grateful to U for all U have taught us. We endlessly quote U. Thanks for the updates via the Aden's newsletter. When it arrives it's a race to the end before the beginning in the hopes there are some Uncle's Words of Wisdom. Enjoy your much-needed rest. May God hold U safe & sound. Hazel + Belinda Swart. "

--*"Uncle Harry: Miss U. Sure wish U could do a 1 page update 2x a month on how U see the world.* – Preston Henn, SwapShop, FL." Dear Preston: All the basic rules, strategies & guidelines for these times are in my writings of last 6 yrs. U might reread them. Daily politics & bankster tricks don't change the road signs, most of which are ageless.

--Uncle Harry, Be encouraged today in the knowledge that U have been a blessing in the lives of thousands, maybe tens of thousands, of people. Be encouraged too in the knowledge that the best Aden Forecast letters are those issues that come with your extra 2 pages at the end. I value U so much I've saved your autograph from the correspondence U sent to me 8 years ago. Bill Scott, Realtor, CA."

--This email will knock your sox off. I am sox-less. –Peter Nothling of Luxembourg writes: "*Dear Uncle Harry, Jesus was born in a stable in the early evening hours (just as the Jewish calendar advanced to 1 Tishri) of September 11, 3BC. Happy Birthday to you, Uncle Harry, on Sept 11. See attachment for many pages of historical details recently found. Orig published by Dr. Ernest Martin. Here is a key portion:*

-- Sundown on Sept 11, 3BC (6 p.m.) was the beginning of Rosh sha'shanah (Jesus was born very soon after 6 p.m. when the day changed from 30 Elul to 1 Tishri). The significance of 1 Tishri in Scripture is the Jewish New Year's Day (end of summer & beginning of autumn).

-- This is amazing. What a significant day for the appearance of the Messiah on earth! To Jewish people this would have been a profound occasion!

-- Could hardly have been a better day in the calendar of the Jews to introduce the Messiah to the world than the first day of the civil year.

-- It was also Noah's birthday, & the very day he removed the cover from the Ark (Gen.8: 13)."

••Friendly PS: what time on Sept 11 were U born, Uncle? Answer: early evening.

Peter, does this mean we change Christmas to Sept 11? Or have 2 Christmases? Would be great for increased church attendance (& biz) . ☺

••• Thank U dear readers/friends for all these grand messages.

••A respected science pro says of the 3 main reasons people shoot into crowds of people, the most important one (esp. re the Colo cinema shooting) is: a desperate search for fame/attention. IMO, there are 2 ways to block that: 1. The media (as I've said B4) should stop giving pg 1 headline coverage to every terrorist attack or mass shooting. If weird people found the press stopped big coverage of such action, such crime would drop dramatically. When I published newspapers I modestly included local (only) crime stories but never page 1, & never pictures, never bold headlines. 2. Hollywood & TV are to blame for violent films, which puts violence in gullible minds, all ages. Esteemed director Peter Bogdanovich has joined a new chorus calling for a moratorium on violent movies. Michael Savage says: "After the slaughter in Aurora, Colorado, I immediately blamed the actors, directors, producers for the violence in the movies." Author Paul Rosenberg writes: *"The Hollywood Entertainment complex had better pray there is no such thing as a just God. If there is, they will have a LOT to answer for: they have knowingly manipulated & polluted millions of young minds. The parents of those young minds will also have a lot to answer for."*

Off the cuff: I agree with *FT* columnist Gillian Tett: *"Junk food should be treated like tobacco & subject to controls."* Obesity is out of control & ruining society. ••• World stock mkt chart is bearish, all nations. Traders can handle bulls&bears but avg person can't. ••• There are bank walks in several nations, not bank runs. Look for this to continue; join them if uneasy, in case they become runs. Or shrink your exposure size. ••• Privacy is not secrecy, it is a citizen right, & it is preservation. We used to have it. We want it back. Esp. bank account privacy. •••• Deflation & inflation are going side by side in diff areas, as I've said B4. Gold wins with both. In deflation gold may fall in US$ terms, but its buying power increases vs all fiat currencies. ••• Iran will execute 4 bankers. That's a wee bit extreme. IMO, it would be more appropriate to take away all their holidays & bonuses, cut wages by 33% & cut customer fees by 75%. Some would rather die than give up hols & bonuses. Let them choose. ☺

Health Dept: Slash sugar intake. •• Avoid fluoride ••• Fat belly is partly due to wheat, seek gluten-free. U R what U wheat. •• Rub lemon slice on bug bites to stop itching. •• Lots of water cures some things! But don't drink public water if fluorinated. •• Many find meditation promotes long life & is a spiritual boost; makes U happy, healthy & positive. At worst it's a useful nap ☺ At best, progress. •• Paul Krugman should take a looong holiday. Take atheist Bill Mauldin with U. ••• I recom *Free Man's Perspective* letter by friend Paul Rosenberg. Tells the things in life that matter when we look up from our investments & the Net. www.freemansperspective.com. ••• Europe: the euro currency will survive a while longer. All sides realize all lose if it goes under. ••• Oil is hard to manipulate, is good inflation index

••• Old friend, outrageous interviewee, semi-contrarian, hedge fund (Eclectica, UK) wizard Hugh Hendry says (*FT* 7/18) *"We have reached a profound point in economic history where the truth is unpalatable to the political class…the problem is larger than their ability to respond--& it terrifies them."* He's short Chinese state owned firms. He predicted *"financial anarchy"* in 2010. "I don't buddy-up with bankers or funds. We operate outside the accepted belief system." He says a big crash is 1-2yrs away, when it'll be buy-time. Meantime, *"Bad things are going to happen & I still think the closest analogy is the 1930's."*

Thanks to giraffe1@hushmail.com for this collection of political "wisdom.":
* *The problem with political jokes is they get elected.* - Henry Cate VII
* We hang the petty thieves & appoint the great ones to public office. - Aesop
* *If we got 1/10 of what was promised to us in political speeches there wouldn't be any inducement to go to heaven."* - Will Rogers
* Those too smart to enter into politics are punished by being governed by those who are dumber. - Plato
* *Politicians are the same all over. They promise to build a bridge even where there is no river.* - Nikita Khrushchev
* When I was a boy I was told anybody could become President; I'm beginning to believe it. - Clarence Darrow
* *If God wanted us to vote, he would have given us candidates.* - Jay Leno
* Politics is the gentle art of getting votes from the poor & campaign funds from the rich, by promising to protect each from the other. - Oscar Ameringer
* *I offer my opponents a deal: if they will stop telling lies about us, I will stop telling the truth about them.* - Adlai Stevenson, speech, 1952.
* A politician is a fellow who will lay down your life for his country. - Texas Guinan
* *Any American prepared to run for President should automatically, by definition, be disqualified from ever doing so.* - Gore Vidal
• I have come to the conclusion that politics is too serious a matter to be left to the politicians. - Charles de Gaulle
* *Instead of giving a politician the keys to the city, it might be better to change the locks.* - Doug Larson
* Don't vote, it only encourages them. – Anon.
* *There ought to be one day, just one, when it's open season on Senators.* –Will Rogers

Potpourri. Must go now. I'm waiting for the 3 kings to arrive. Maybe I should go buy some frankincense & myrrh just in case. ••• Ask an atheist: Why is there something rather than nothing? ••• "Every cell in our body is replaced over a 7yr period," said Edgar Casey. How to capitalize on that nextime, via reader Anthony Cain. ••• Also, in light of Mark Skousen's Fibonacci forecast that I'll reach age 144 once I make 89, on Sept 11, my life insurance co. called; want to renegotiate my life policy ! ☺ . •• I leave U with this: *"If it wasn't for the last minute, nothing would get done."* anon. ☺ H&K, God bless U all. Bye from Giraffe Rider.