THE
ADEN FORECAST
MONEY • METALS • MARKETS

AUGUST 2013 *our 32nd year*

A CHANGING WORLD

It's been a while since we've talked about debt and deficits, and there's a good reason why…

WAYWARD PATH

We felt we'd dissected the subject so much in the past, we were starting to sound like a broken record.

Plus, most of you already know the U.S.'s finances are in big trouble, and it's a similar story in most of the other Western developed countries.

Nevertheless, many stock markets are rising, and the global economies are mixed but they're chugging along (see **Chart 1**).

But are things really getting better? Unfortunately, the answer is yes and no. In some areas, the economy is indeed improving, but looking under the surface it's not a pretty picture. So this month we'll revisit what's happening…

Since we last left off, debt, deficits and money creation have continued to soar. Many feel this doesn't affect them, but it does.

Whether you're rich, poor or in between, you'll feel the results of government actions that have gone haywire, one way or another.

Using the U.S. as an example, we've often discussed the inevitable consequences of the path the government has taken over the past few decades.

In a nutshell, we've mentioned the heavy price that will be paid for the massive debts, unprecedented deficit spending and aggressive monetary policies currently in place.

In fact, it's already happening. Most significant is the decline in the U.S. standard of living, which is becoming ever more obvious.

This month, we came across several informative articles along these lines. And while it's not necessarily happy reading, it's a reality we all need to know. So what follows is a condensed, combined version of some of these reports…

THE INVISIBLE POOR

For starters, it was surprising to see a recent AP survey showing that a huge 80% of U.S. adults are near poverty, unemployed or they rely on welfare.

We knew the number was high but 80% was much greater than we expected. (Coincidentally, we've recently been in touch with a few old classmates due to an upcoming reunion, and found that many of them include themselves in this 80%.)

In addition, pessimism among whites about their economic future has jumped to a 26 year high and economic insecurity engulfs more than 76% of those surveyed.

This huge group is being called the "invisible poor" and they're generally congregated in suburbs, in the U.S. heartland, and in the industrial Midwest.

HOW DID THIS HAPPEN?

Many of our colleagues have been calling for an economic collapse for years and with valid reasons.

But this is different… It's been a slow and steady deterioration and most people don't know what hit them.

As our friend John Mauldin points out, the big change is the precipitous decline in full time jobs, which started in 2002 and accelerated after the financial crisis of 2008.

Median income has slumped because so many people can't find work, and if the Fed's trickle-down monetary policy isn't changed, then income will keep falling.

As a result, this breeds conditions for a new underclass, as well as political and social instability.

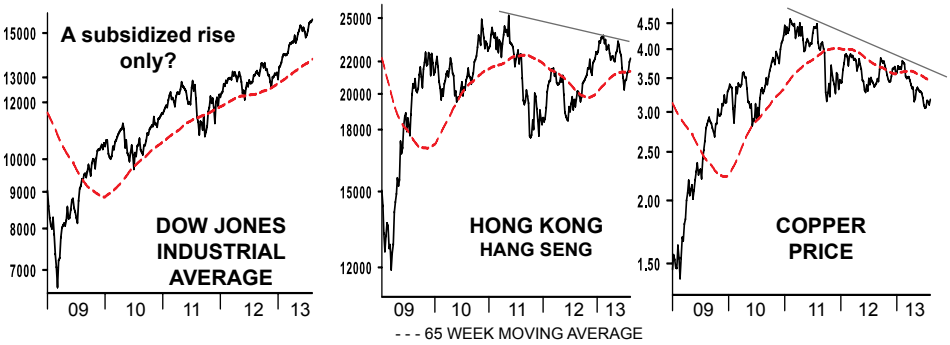
The bottom line is that nearly

Even though we're a little late to the party… we're happy to report we're now on Twitter, Facebook and Google Plus. We'll occasionally be posting comments and interesting articles there and we hope you'll check in from time to time.

INSIDE

CHART 1

USUALLY DECLINE IN A SLOW GLOBAL ECONOMY



100 million people are collecting food stamps, unemployment or disability. And with only 60% of the adult population working, they simply can't support the 40% that are collecting benefits.

In addition, nearly 80% of the working people are living paycheck to paycheck, so they can barely take care of themselves.

It's become overwhelming for a large segment of the population and, sadly, suicide has become the primary threat to working age people.

Unfortunately, all indications suggest this is going to continue.

THE BOTTOM LINE

Debt is exploding and it's keeping a lid on growth. It also means more and more dollars are being created out of thin air to pay for the growing, ongoing expenses.

And with 10,000 baby boomers retiring every single day for the next 18 years, we can assume they'll be paid in dollars that'll be worth much less, probably bordering on monopoly money.

The country is essentially broke and the situation is similar to what we've seen in several European countries. Hitting closer to home, it's like Detroit, which recently filed the biggest municipal bankruptcy in U.S. history.

As Porter Stansberry noted, the only real difference between the U.S. government and Detroit is the U.S. can print its way out of trouble. But no nation in history became wealthier printing money and buying its own government's debts.

In every case, inflation soon destroyed the economies and wiped out private savings. In other words, printing trillions in new dollar bills won't prevent the inevitable bankruptcy of the U.S... sooner or later.

POWER SHIFT?

Our dear friend Richard Russell has often mentioned that the average age of the world's greatest civilizations has been about 200 years. Is that what we're seeing... the beginning of the end of the U.S.'s top global position?

It could be. Looking at history as a guide, all of the great powers eventually stretched themselves too thin due to military expansion and expenses at home.

The U.S. is following the historical script, just like Britain, Spain, Rome and dozens of other great powers have before them.

But where we part ways with some of our peers is we don't think this will trigger the collapse of Western civilization.

But it will mean change and you want to be prepared for it.

WHAT TO DO

It's important to be flexible, open and accept the markets for what they are. Recognize that markets aren't as free as they were. Diversify your investments, ideally geographically as well.

You want to keep some core holdings in gold because it will offset the decline in the U.S. dollar, which will eventually become worth less, as it has over the past few decades.

Keep in mind, this change isn't going to happen overnight. It'll take time but we're fairly certain what we've seen so far will likely continue.

Why? There have been no fundamental changes to indicate otherwise, regardless of who's in power.

So who will take the U.S.'s place on the world stage? As we've mentioned before, the most likely candidate is China and, again, nothing has happened to suggest otherwise.

On the contrary, the majority in 23 countries believe China has already replaced, or eventually will become the world's top super power.

Other emerging markets are on the rise too and they don't have the debts the old Western world has.

> ***In a crisis, be aware of the danger--but recognize the opportunity."***
> *John F. Kennedy*

The Chinese are savers, they're buying lots of gold and assets all over the world. Even though their economy is slowing, millions of Chinese consumers will make a huge global difference, reminiscent of how the U.S. was many decades ago.

But again, this doesn't mean we in the West will be doomed. But it does mean we'll be faced with new challenges and opportunities, and we want you to be ready for these as this historical shift unfolds.

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

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U.S. & WORLD STOCK MARKETS

Record highs... in a sea of liquidity

The stock market is on a roll. It keeps hitting new highs, it's super bullish and it's likely headed much higher.

LOOKING GOOD

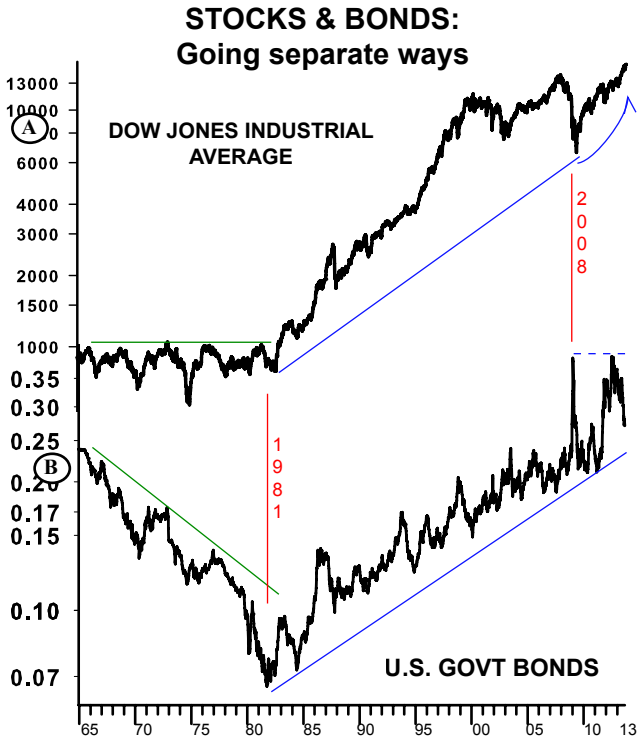
In fact, U.S. stocks have surged nearly 20% so far this year. This makes them a top global performer, pretty much across the board.

Meanwhile, the S&P500 has chalked up 25 new record highs in 2013 (see **Chart 2**).

Reinforcing the bullishness, two Dow theory bull market signals were triggered this past month when the Dow Jones Industrials and the Dow Jones Transports both simultaneously hit new record highs.

We know this doesn't seem to make sense to some of you. That's especially true considering the realities under the surface we just discussed, and the sluggish recovery... but...

CHART 3



STOCKS LOVE THE FED

The market doesn't care. It's ignoring the bad news. Instead, the stock market is focusing on the Fed.

The stock market loves the Fed's ongoing easy money. It thrives on it. And the fact the Fed again said they're going to leave their monetary stimulus in place was all the market needed to embark on a renewed bull market upmove.

The old saying, "don't fight the Fed" is playing out almost daily and truer words were never spoken.

Plus, it's not just the Fed. The Bank of Japan, the Bank of England and the European Central bank are all stimulating too. This is creating a sea of liquidity and as the sea rises, it's taking many of the global stock markets along for the ride.

GO WITH THE TREND

Many argue that it's all fake. The stock market isn't rising because of sound fundamentals. They say it's artificial and the market's only going higher because of central bank manipulation.

In large part that's true, but the price action is telling the story. That's what we focus on, along with our indicators. And regardless of the arguments or "reasons why" stocks shouldn't be rising, we'll continue to go with the price action. As you know, it essentially trumps everything else.

MORE BULLISH SIGNS

Also, in the stock market's defense, it does have other bullish factors going for it...

• The economy has been showing

CHART 2

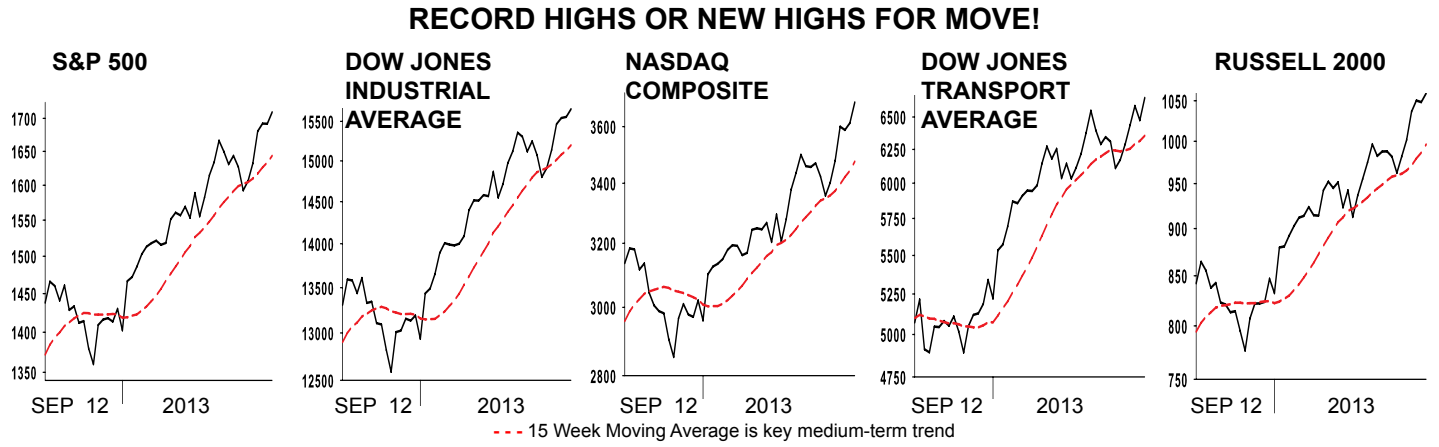


CHART 4

signs of improvement. And even though the latest GDP numbers were "adjusted" to reflect a stronger economy, the better signs in housing, manufacturing and durable goods orders were apparent before the new adjusted GDP number was released.

•Earnings have been good as well, with 70% of the S&P's companies beating their estimates. That is, corporate profits are still on the rise.

•More important, there are few investment options to pick from. Since most markets are on the decline or lackluster, the stock market is one of the few markets providing decent returns. So more investors are jumping in, driving prices higher.

In addition, as we showed you last month, stocks are not yet super expensive based on the historical price/earnings ratio. They remain near average levels.

And even though long-term interest rates are rising, they still have a long way to go before they'll adversely affect stocks. Again, this is based on the historical relationship between stocks and interest rates.

On the contrary, bond prices are falling sharply and that's driven many investors out of bonds and into stocks (see **Chart 3**). Note that since 2008 these two markets have been going their separate ways and this division is gaining momentum.

Greg Guenthner also pointed out a very interesting comparison between this bull market rise in relation to bull markets going back to 1900. The bottom line is, the current bull market since 2009 has been shorter and less powerful than most post crash rallies over the past century. It's still well below the average, telling us it has lots of room to rise further. Our technical indicators are reinforcing this as well.

How high could stocks go?

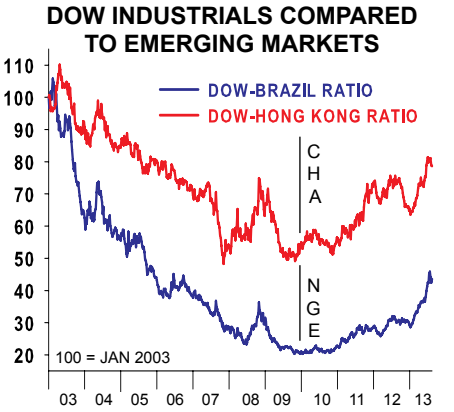
Since most of the stock indices are at record highs, it's more difficult to provide a target because there are no resistance levels.

But based on the 280% average bull market rises over the past century, a rise to 24000 on the Dow Industrials would not be unreasonable. That would be about a 50% gain from current levels.

On a point and figure count, Richard Russell notes the next upside target for the Dow is at 16600.

And if the Nasdaq reaches its old high, which would not be unusual since most of the other stock indices are at record highs, it could move up to near the 5000 level.

CHART 5



We'll see what happens and continue taking it one step at a time. **For now, the U.S. stock market is the best overall market.**

So continue holding the stocks you have, which are mostly doing very well. If you want to buy new positions and increase your stock allocation, buy JNJ, QQQ, KBE, IYT, XLY, RTH, IYG, PEJ and DIA.

They're the strongest.

Microsoft took a hit due to disappointing earnings results, but it's still okay to hold. A few of our other recommended stocks have been lackluster to weak but we'll hold them too because they'll likely get swept up with the tide.

FOREIGN MARKETS

Most of the global stock markets haven't been as strong as the U.S. market (see **Chart 4**).

Germany is obviously an exception. But many of them are picking up steam and starting to join the bullish upmove and that's also a positive sign.

Many analysts are talking about how cheap many of the emerging markets are. But comparing the Dow Industrials to Brazil and Hong Kong, for example, you can see on **Chart 5** that the Dow is stronger.

So we'll stay put for the time being. For now, the stock market will stay strong with the Dow Industrials and Nasdaq above 15160 and 3470.

U.S. INTEREST RATES AND BONDS

Rates holding near 2 year highs

Interest rates took a quick breather in July, only to jump up again. They've essentially been holding near the two year highs.

CHOMPING AT THE BIT

This isn't surprising considering long-term interest rates have surged about 65% in their biggest rise in more than 50 years. That is, the 10 year yield went from 1.64% in May to 2.72% last week.

Since bond prices move opposite to interest rates, bond prices have been falling sharply. This in turn has resulted in big losses in bond funds and it's making the Fed nervous.

That's why the Fed's been backpedaling, reassuring everyone that interest rates are going to stay near zero for a long time. It's also why they've been cooling it on the tapering talk.

DELICATE BALANCING ACT

As you know, when the bond market got wind of a possible tapering by the Fed, or a cutting back on its bond purchases of $85 billion each month, interest rates shot up.

Since the Fed's bond buying has helped keep rates low, less bond buying would suggest higher rates and that's what the market was anticipating. So in an attempt to settle down the long-term interest rate market, the Fed changed its tune.

Now the Fed is saying they may actually increase their bond purchases, or decrease them, depending on how the economy goes. And with unemployment at 7.4%, it still has quite a ways to go before it reaches the Fed's target level.

TO TAPER OR NOT TO TAPER

The Fed has often said it'll keep stimulating the economy until unemployment drops to 6.5%, and inflation starts rising.

This stimulation includes bond buying and low interest rates, so the Fed was simply restating what it's been saying all along. The tapering talk just threw a wrench in the works.

For now, the Fed simply can't taper. Even though the economy is perking up some, it's still lackluster and the recovery is the weakest since World War II.

Plus, unemployment remains stubbornly high, making this the longest and deepest employment recession in 60 years.

And if just the mention of tapering sent interest rates surging, can you imagine what actual tapering would do?

Interest rates would soar. That would obviously hurt the stock market and the economy, which is the opposite of what the Fed wants.

So the Fed has a real challenge ahead. Keep stimulating, but also plan on how to wean off when the time comes. Meanwhile, stimulus will continue and interest rates will likely head lower.

CHART 6

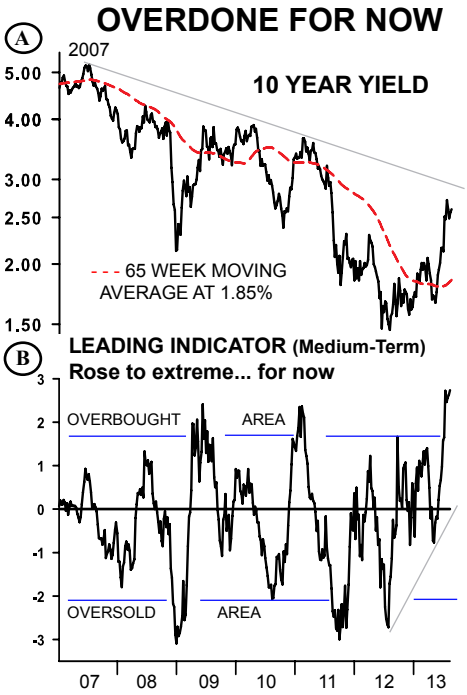
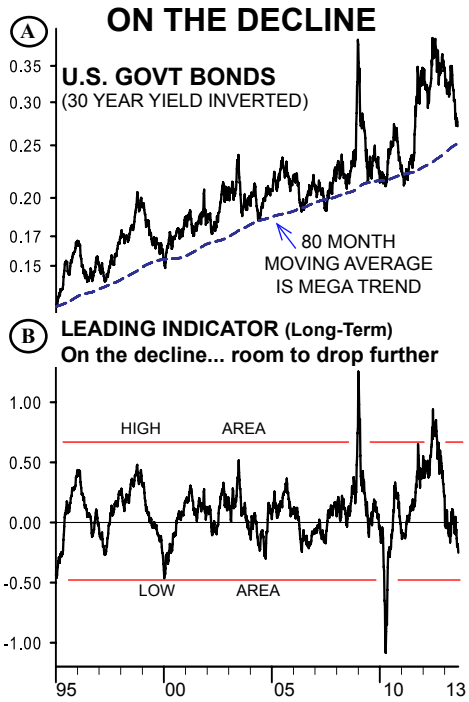


CHART 7



TOO FAR, TOO FAST

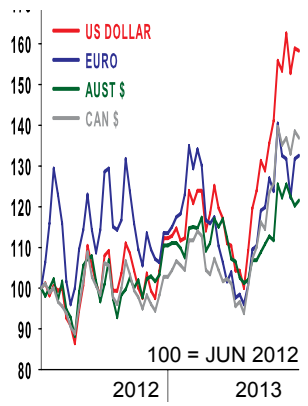
As you can see, interest rates have risen far and fast, and they're currently very overbought (see **Chart 6B**).

This strongly suggests rates will probably take a rest and decline in the weeks ahead, which would be normal following this year's steep rise.

Remember, the Fed can't control long-term interest rates, only short-term rates. But it can set the mood, so to speak, and that's what they're doing, at least for the time being.

Meanwhile, the leading indicator for bond prices has turned bear-

CHART 8



ish (see **Chart 7B**). That's not a good thing.

It's telling us bond prices could fall much lower, probably below its 80-month mega moving average, as interest rates eventually surge.

In other words, once this upcoming interest rate pause is over, rates are poised to head higher.

And as we mentioned last month, if the 30 year yield rises and stays above 4%, it would be the final signal that the bond bubble has indeed burst.

SELLING OPPORTUNITY

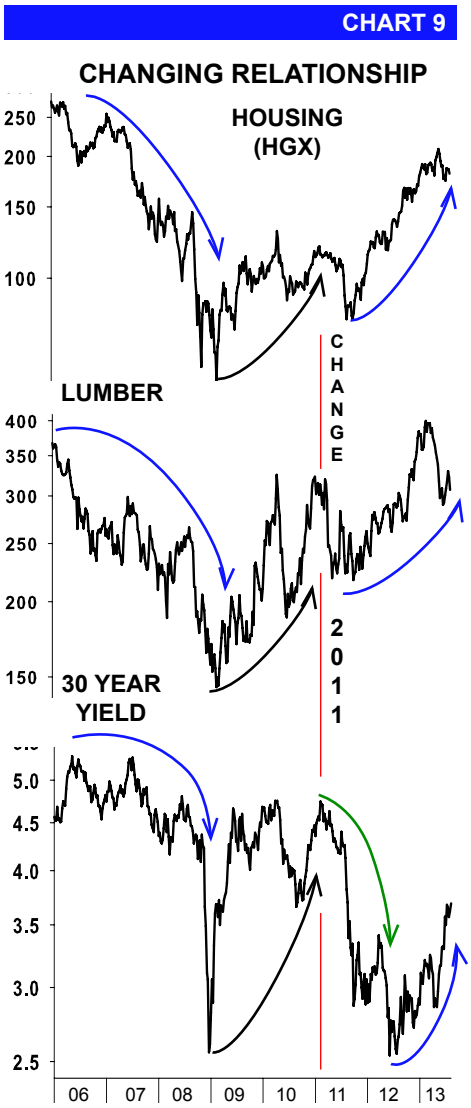
We haven't recommended holding bonds this year and it's still best to avoid them.

But if you have bonds and you've been waiting for a good time to sell, the weeks ahead will likely provide a good opportunity to get out of the market at a better price. We'll keep you posted.

Keep in mind, aside from U.S. bonds turning bearish, the major trend for all global interest rates has turned up in recent months (see **Chart 8**).

This reinforces our view that an important trend change is in process, but it probably won't be obvious until the Fall, or perhaps later this year.

Currently, interest rates will probably back and fill near their lower levels. This tells us mortgage rates will stay low since they're linked to the 10-year yield.



And as long as they do, that'll be good news for the housing sector, which has been a key factor boosting the economy.

Housing is at now near a six year high. And the price of lumber is rising, which also coincides with an upmove in housing (see **Chart 9**). So with interest rates, housing and lumber back in tandem, the outlook for this sector remains bright.

STEER CLEAR

But overall, we all know the tug of war continues in the developed world and the deflationary forces are coming out on top.

This doesn't tie in with interest rates rising on the global front. So as we've said many times, we have to stay flexible and open minded.

Nothing is set in stone and interest rates are not an exception. Since this market is so very important, we'll be keeping a close watch, especially during this time of change. And we'll be quick to keep you updated.

For the time being, however, we want to emphasize it's best to steer clear of the bond market.

CURRENCIES

Fed dominating U.S. dollar

Like the other markets, it was all about the Fed. That's basically what moved the currency markets this month, and other factors fell by the wayside.

THE FED RULES

Cutting to the chase, here's the deal…

Whenever there are comments, signs, hints or guesses about the Fed reducing its monetary stimulus, the U.S. dollar rises.

It doesn't really matter when it might happen, or by how much.

Specifics mean nothing.

If the Fed, for example, were to hint it's only going to buy $65 billion in bonds each month rather than $85 billion, that would be a positive tapering sign and it would be very bullish for the dollar. At least that's the situation for the time being.

On the other hand, when there are signs, comments, sentiment or whatever suggesting the Fed will keep its stimulus intact, then the U.S. dollar declines.

Also, if it looks like the Fed's

CHART 11

tapering is going to be delayed or postponed, that's bearish for the dollar too.

That goes for interest rates as well. By reiterating it wants to keep interest rates low, the Fed is sending a negative sign to the dollar. How so?

In other words, the Fed is saying it doesn't trust the U.S. economy to stand on its own. It's telling us the economy needs the Fed's help and since the U.S. has been the world's primary growth engine, this spooks investors and the markets.

So keeping interest rates low is a double edged sword. Sure, it helps boost the economy but low rates make the U.S. dollar unattractive (see **Chart 11**). They keep downward pressure on the dollar, which was the case this month as the interest rate rise began to stall out.

Since the Fed is currently THE biggest market mover, it's understandable that everyone's obsessed with the Fed. And the biggest obsession is who's going to take over Bernanke's position as Fed head once he retires early next year.

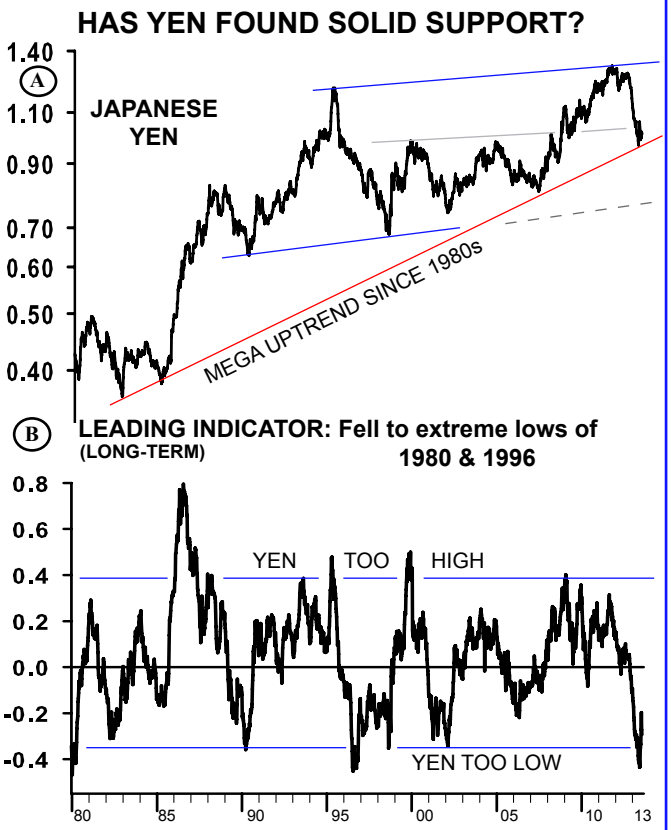
WHO'S NEXT?

Rumor has it Bernanke's anxious to go and Obama's ready for him to leave.

The name first tossed around to fill this top position was Larry Summers, a man with impressive credentials but who is known to be arrogant and not a good communicator. Even some Democrats have been lobbying against him, so this choice is not a popular one.

This has led to speculation that Janet Yellen will likely fill the post. She's currently #2 at the Fed, has years of experience and has become a more popular candidate for the job. She's also very pro-stimulus, so if she gets the job the U.S. dollar will probably continue to head lower.

CHART 13



WATCH THE DOLLAR

As you can see on **Chart 10**, the dollar index has been on the decline this month after hitting a three year high.

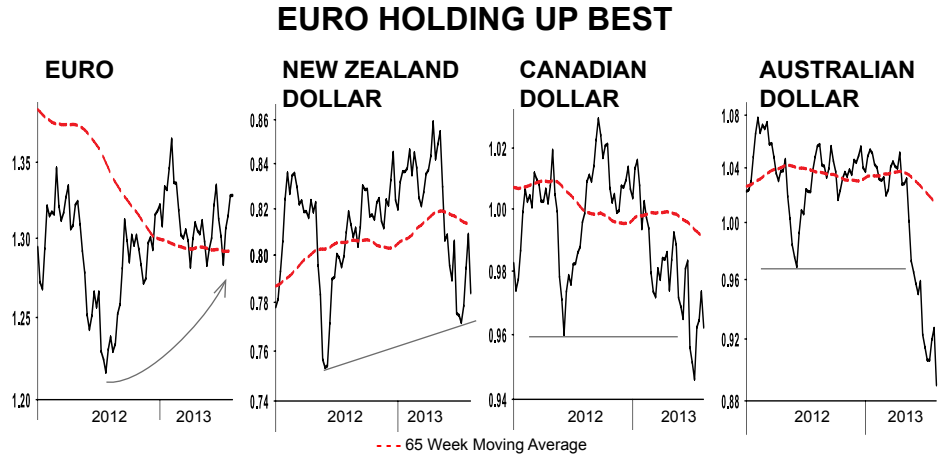
It resisted at the top side of its sideways band near the 84 level. But for now, it's still firm and bullish by staying above the 81 area.

On the downside, if the dollar index breaks clearly below 81, it could drop to the lower side of the sideways band near the 79-80 level. In that case, the dollar would still be firm, but it would turn bearish below 79.

Currently, the U.S. dollar is still the best global currency and we continue to recommend keeping your cash in dollars. But this might change if the dollar stays under downward pressure in the weeks ahead as we suspect.

Dollar weakness will likely coincide with a rising gold price. Nevertheless, we'll hang on to our dollars unless it drops below the

CHART 12



79-80 support.

Should that happen, we'd then move back into some of the international currency markets. Currently, however, these markets are still high risk.

CURRENCIES MIXED

Nearly all of the global currencies are bearish, signaling they're headed lower looking out to the months ahead (see **Chart 12**).

That is, even though most of them are technically bearish, they could rise in the weeks ahead. That'll certainly be the case if the U.S. dollar now heads lower.

As we mentioned last month, the euro still looks the best, along with the Swiss franc (not shown). These two currencies are the only ones that're somewhat technically bullish, holding above their moving averages.

But the other currencies remain very weak. And since the currencies tend to move together, either the euro will pull the others up, or the weaker currencies will drag the euro down.

We'll soon see how this unfolds but the **Japanese yen**, which has been the weakest currency, may be providing some insight (see **Chart 13**).

Note that it dropped to its mega uptrend and it'll probably hold there. With the leading indicator starting to bounce up from a super low area, this tells us the yen is likely bottoming and it's going to rebound. If so, the other currencies probably will too.

So even though **we're keeping our U.S. dollars for the time being, that may not be the case for long.** It'll all depend on how these rebound rises unfold, and if the major trends change.

If they do, we'll change too and go with them, but not yet.

METALS, NATURAL RESOURCES & ENERGY

A bombed out market is bottoming

The June lows look like a classic bottom.

Think about it. Gold had been dribbling down all year, but when the Fed began its tapering talk in mid-June, it pushed gold down to new lows.

The already bruised gold price broke down below its key $1320 level, plunging to the $1200 area in late June, only to zip back up above $1300 four weeks later.

Funds were then quick to cover their record shorts, while net long positions jumped way up.

In turn, gold had the biggest three day rise in almost two years, and it had its heftiest one day gain in over a year.

Plus, with gold at extreme oversold levels, the most since 2008, while gold shares are even more bombed out, you know the lows are near and the downside is limited.

We don't think gold was this hated in 2008.... a ripe situation for the pop up we had last month.

We're not out of the woods just yet, and we'll likely see more sluggishness, but the market is poised to rise... and it could very well be on its way up before you get our next monthly issue.

The Asian markets took advantage of this weakness and bought gold... a lot of it. And this together with the Fed continuing its stimulus program all helped to light up the bottoming action.

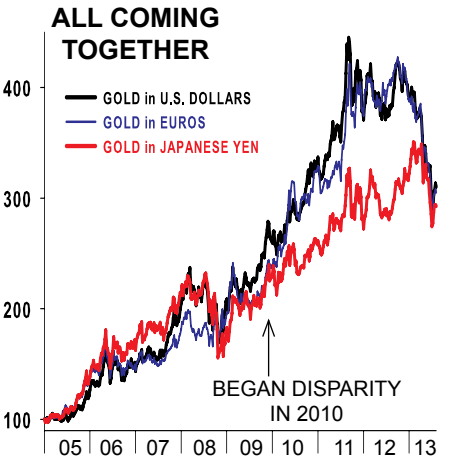
Why gold is not yesterday's paper

Gold has taken a back seat in spite of the ongoing monetary debasement. The Fed's printing is stabilizing the economy, and money is moving into the stock market and real estate, which in turn causes gold to be more lackluster.

And not to mention price manipulation... and why not, everything is being manipulated in today's times.

Plus, with deflationary pressures on the world economy, and therefore on the resource sector, this puts another drag on the gold price.

CHART 14



This can go on for a while but there comes a point when it can't last because the world's problem of too much debt still needs to be taken care of. But if we recognize this and invest according to the flow and trends, we'll change when change happens.

The $700 fall in gold in almost two years is causing gold sensitive countries like China, Asia and India to buy up gold. It's been ongoing, and especially in recent months.

In the end, price tells all, and the rest is noise and distraction. And the price today is desirable in the big picture, and in terms of many currencies.

GOLD POISED TO RISE IN ALL CURRENCIES

Gold is in an interesting situation in all major currency terms. Notice on **Chart 14,** gold is now at a low level in the three main currencies. They've all come together at a nodal point low area for the first time since the 2008 lows.

During the bull market, gold had been moving pretty close to lock-step in these three currencies up until 2010. The disparity then began when gold took off in dollar and euro terms, but not in yen terms.

CHART 15

The yen became a safe haven currency during this disparity until Abenomics took over in 2012. That is, until Japan began its largest monetary stimulus plan in history.

The yen then fell sharply at the start of this year and, as a result, gold reached a record high in yen terms.

It wasn't until April when gold then fell sharply versus all currencies.

This is now saying that gold is poised to rise in all currencies.

Keep an eye on the currencies, as they too will give us a clue as to the upcoming gold rise.

GET READY

The Summer months are a seasonaly low time period for gold. June tends to be the low month of the Summer, although August is a good second.

This means if gold stays above the June low this month, the lows for 2013 will indeed have been in June.

It almost seems too easy, but we should all be ready for an intermediate rise coming right up in the gold price. The recent sluggishness is providing a good time to buy, if you want to buy more gold... and gold shares.

That's right, the most hated market of all is completely bombed out. Chart 15 provides a good example. Here, you can see the HUI Gold Bugs index in a sharp down-channel, and it's been much weaker than the weak gold price... a double whammy slide.

May of last year was the last intermediate low. Gold shares then rose to its Sept 2012 peak area, which was the second September to reach an intermediate peak.

We now have gold shares again reaching an intermediate low, but this time from very bombed out levels.

The run-up in July now looks promising. HUI is forming a head and shoulders bottom and it's trying to break above its key moving average at 253. It's also trying to break above a downside wedge versus gold, (**B**).

These patterns will be complete once the HUI rises above 253, and especially above 285.

Once that happens it would mean gold shares are rising in a strong rebound rise, they'll be stronger than gold, and they'll have plenty of room to rise.

This would also be a bullish sign for gold!

Ben Bernanke said gold is down this year because investors see a reduced need for disaster insurance, and no one understands the gold price, including himself.

He's right, no one knows where gold is going, but we do have a good idea why it will rise, and why it rose for 12 years since 2001. But we also have to wonder why price manipulators are now more aggressive.

Meanwhile, the investing community hates gold and it bothers them that they missed a good bull market. This is one important reason why we've yet to have a blow off rise.

With the stock market rising to record highs, it hasn't been an issue, but it will at some point.

We all know that the monetary stimulus by the Fed, and other central banks, is very bullish for gold because the end result is inflationary. The central banks clearly

CHART 16

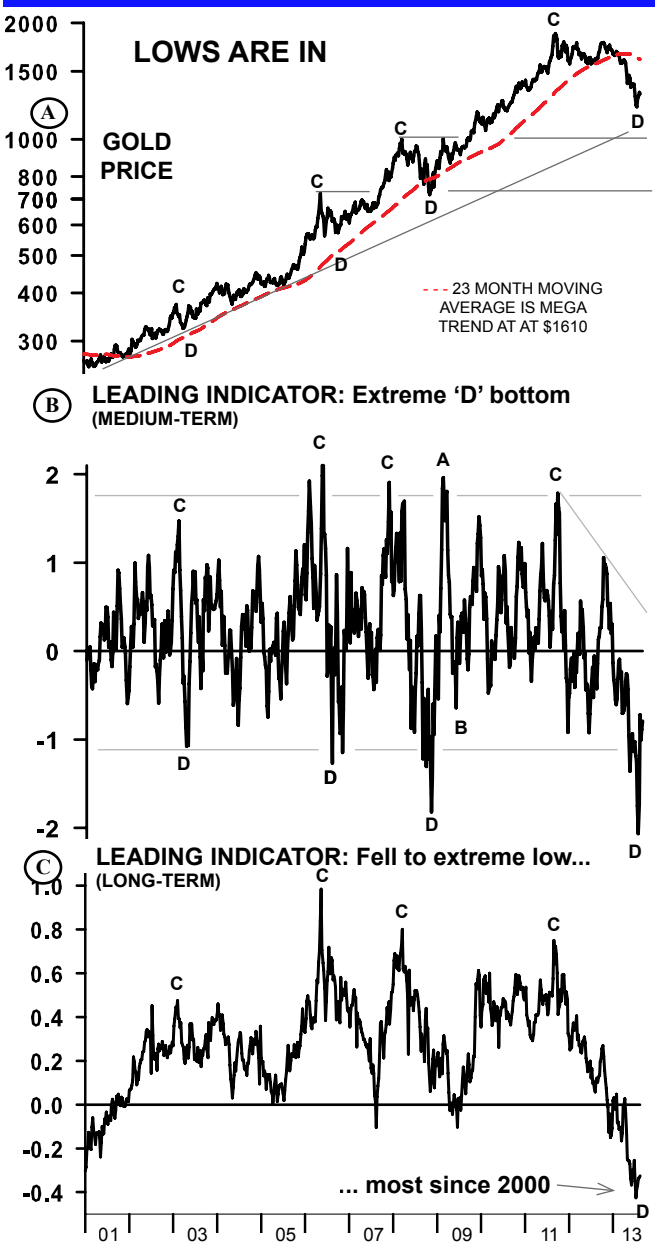
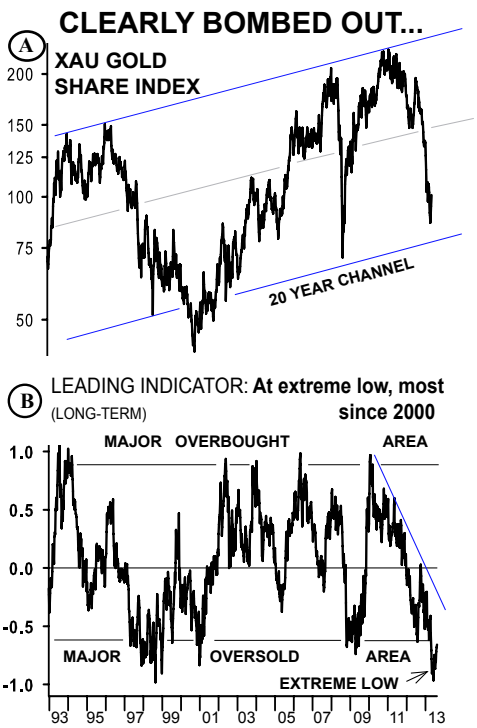


CHART 17



do not want a gold standard of any kind. It's much too restricting.

This is one key reason why China, Asia in general and India have been buying up gold. They see how cheap it is and they're taking advantage of it, just like we want you to do. We are too.

Gold Timing: Intermediate lows at hand

It sure looks like the decline we call D is over. And the more time passes, the more likely the D low was the closing low at $1211.60 on June 27.

We've been leaving the downside mentally open-ended. The $1000 level is still a major low side possibility, but for now it looks like the lows are behind us.

Just looking at the indicators, you can see why. The extreme D low on **Chart 16B** shows a bottom forming in this extreme area. This is becoming a springboard for an upcoming intermediate rise, we call A.

Plus with the long-term indicator, **C**, also at an extreme low, it backs up this springlike formation.

This month of August is a key month. If gold can stay above its June low, and especially if it stays above $1270, the lows will be clearly behind us. Again, today's low level is giving us a good opportunity to buy at good prices... and we recommend taking advantage of it.

For now, keep your eye on the the June low at $1211.60 and $1350 levels. By staying within this range, a bottom will continue to form. A break out of this range, will mark the start of an "A" rise.

Watch these stepping stone levels on the way up...

Above $1350 means gold could easily jump up to the $1400 level. Then $1450 would be the next step. The old support from that point would be the next stone at the $1536 level.

From there we could see the 65-week moving average tested at $1580, and the 23-month average would be at $1610.

If the upcoming A rise is normal, it's unlikely to surpass these stepping stones for now.

But nothing is normal about today's times, so we're open to what comes.

After that we have the $1700, $1800 and $1900 levels to surpass before getting to record highs.

Record highs are a real possibility in the future, but it's still to be seen if a consolidation period occurs first. That is, a decent rebound rise and moderate decline first before a strong C rise gets underway.

This upcoming rise, be it the A, B or C rise, will tell us a lot about the strength of the gold market. If the upcoming C rise (which could still be a few months away) doesn't hit a new record high, it'll be a first for the entire bull market and a clear bearish sign.

CHART 18

If a record high is eventually reached, it's saying the bull market is ongoing and it's strong, in spite of the almost 2 year correction that took 36% away from the bull market.

We're watching this closely!

Gold shares, silver & palladium

Like we showed you, gold shares are even more bombed out than gold and they're bottoming. This next **Chart 17** shows the XAU index more oversold than at any time in the last 20 years. The late 1990s was the only time it was close to today's extreme.

This means if XAU now stays above 85, the worst is over. And a close above 105, and especially above 110, will point the way upward for the shares.

CHART 19

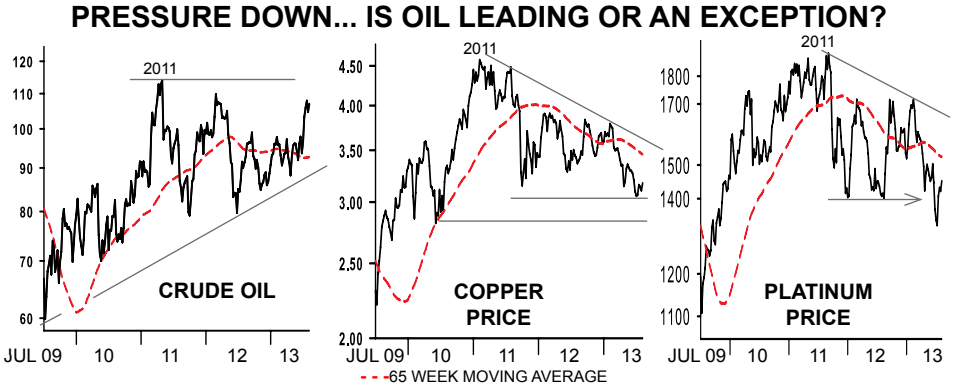


CHART 20

If gold soon starts a rebound rise while the stock market is strong, gold shares will get an extra boost.

Silver is also bottoming and basing, and it's still weaker that gold. But like gold, the downside is limited. It's oversold and it's basing above its 12 year uptrend (see **Charts 18 A** & **B**).

Silver has been less perky than gold as it continues to be affected by the sluggish global economy. Once the resource sector starts to look better it will add an extra boost to silver.

Meanwhile, it's still moving with gold, and it's poised to rise too.

Palladium is holding firmly near the recent highs. It's in a good position within the mega bull market, and it still has plenty of room to rise before reaching a major high area.

If palladium can rise and stay above 785, it could test the 2011 highs near 857. The 2000 record highs would then be the next step (see **Chart 20**).

CHART 21

Resources: Pressure remains

China's slowdown has been clearly affecting the emerging countries and as a result there's been less demand for resources. This is why the resource sector is a clear indicator as to the health of the global economy.

Caterpillar (CAT) and BHP Billiton (BHP) are two key companies that reflect the strength of this whole sector.

Caterpillar recently cut its forecast due to less demand for mining equipment. And BHP, being the largest resource company in the world, tells us a lot about the demand for resources.

Let's take a look at Caterpillar and BHP Billiton and how they've fared compared to the S&P500 over the past decade. **Chart 21** shows the ratios since 2002.

Note how much both companies outperformed the S&P500 in the years leading up to 2008, when the ratios rose the most.

They've been moving within an upchannel favoring resources, but since 2011 the ratios have been declining from the highs showing both companies underperforming the S&P.

They're now approaching the uptrends and if they hold, it's saying that the major trend still favors the resource sector.

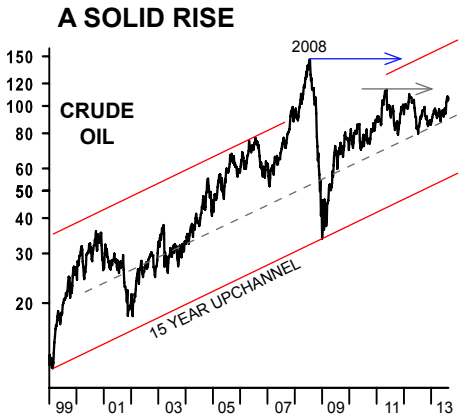
We'll be watching this closely, but for now the strength is in the general market, and it's premature to take a position in the resource sector.

Copper will also tell us when the time is getting closer. **Chart 19** shows a closer up picture of copper. Note it held at the $3 level showing solid strength. Major and final support is at the 2010 lows at at $2.84.

OIL: In its own league

Crude oil has been rising on its own.

CHART 22



It's been clearly stronger than natural gas since the 2008 financial crisis when they went their separate ways (see **Chart 23**). It's still to be seen if natural gas will catch up to the strong oil price. Time will tell, but it looks like it's just a matter of time before this happens.

For now the war in Syria and the Egyptian uprising is causing oil to shoot up.

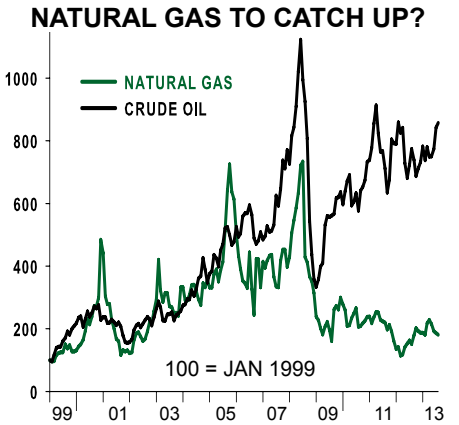
This is not the first time tensions and troubles in the Middle East have caused oil to spirt up. During the last several years, for example, oil has risen with each tension.

When looking at the oil price since 1999 on **Chart 22**, you can see its solid strength. It's in a clear 15 year upchannel and it's been holding at the higher side of this channel in recent years.

Once it rises above its 2011 highs near $114, it could then test the record high posted in 2008 near $145.

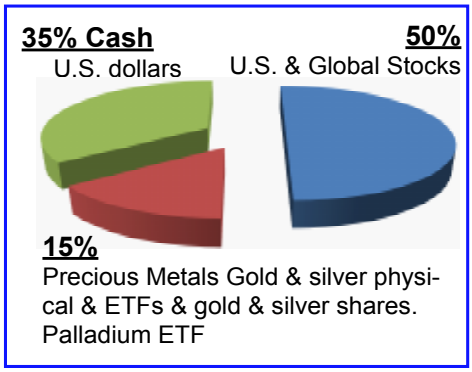
Meanwhile, crude is very strong above $91, the 2010 uptrend (see **Chart 19**).

CHART 23



OVERALL PORTFOLIO RECOMMENDATION

Again, it was all about the Fed. That's all the market seems to care about and the Fed is currently THE biggest market mover. It drove stocks to new highs while the rest of the markets mostly consolidated. For now, we continue to recommend keeping a diversified investment portfolio. This month, you'll see we've enlarged "Our Open Positions" box to include purchase prices and dates, current prices, gains and losses, as well as our current recommendation. We hope you find this more user friendly.



PRECIOUS METALS, ENERGY, RESOURCE

The gold price looks like a classic bottom has formed. Gold is at an extreme oversold area, and gold shares are even more bombed out. It's truly been tossed aside, especially with the stock market reaching a record high. But the Summer months are a seasonally low time period for gold, and it looks like once again, June will be the low month for gold. Silver is also oversold and we believe a springlike bottom is forming. If you want to buy more gold, gold shares and silver or add to your position you already have, now is a good time to be buying at a current good value level. This month of August is a key month. Keep an eye on the June low at $1211.60 and $1350 as a break out of this range will tell the next direction.

OUR OPEN POSITIONS

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Palladium	PALL	Jan-13	69.71	71.58	2.68	Hold
Silver Wheaton	SLW	Sep-09	11.66	21.93	88.08	Hold
Gold (physical)		Oct-01	277.25	1302.40	369.76	Hold
SPDR Gold Shares	GLD	Nov-04	44.38	125.70	183.24	Hold
iShares Gold Trust	IAU	May-05	4.17	12.64	203.19	Hold
Central Gold Trust	GTU	May-09	36.53	46.34	26.85	Hold
Central Fd of Canada	CEF	Apr-04	6.39	14.22	122.54	Hold
NewGold	NGD	Apr-10	5.13	6.59	28.46	Hold
Silver (physical)		Aug-03	4.93	19.72	299.98	Hold
iShares Silver Trust	SLV	May-06	14.50	19.01	31.10	Hold

STOCKS & ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Johnson & Johnson	JNJ	Feb-13	76.16	93.80	23.16	Buy/hold
Powershares Nasdaq	QQQ	Aug-12	66.86	77.03	15.21	Buy/hold
Dynamic Leisure	PEJ	Jul-13	29.44	30.70	4.28	Buy/hold
SPDR S&P Bank	KBE	Jul-13	30.30	31.90	5.28	Buy/hold
DJ US Fn SVC iShares	IYG	Jan-13	62.24	77.60	24.68	Buy/hold
Cons Discret SPDR	XLY	May-13	57.00	60.59	6.30	Buy/hold
Mkt Vect Retail Market	RTH	Jul-13	54.03	56.01	3.66	Buy/hold
Dow Diamonds	DIA	Aug-12	131.93	155.79	18.09	Buy/hold
DJ Trans iShares	IYT	May-13	115.53	118.01	2.15	Buy/hold
DJ US Telecom	IYZ	Sep-12	25.22	28.36	12.45	Hold
Energy Select SPDR	XLE	Aug-12	72.37	83.19	14.95	Hold
iShrs MSCI Germany	EWG	Jan-13	24.78	26.69	7.71	Hold
Wal-Mart Stores	WMT	Aug-12	73.68	78.77	6.91	Hold
Procter & Gamble	PG	Sep-12	68.10	81.40	19.53	Buy/hold
!Shares S&P Glbl 100	IOO	Aug-12	61.24	71.52	16.79	Hold
Coca Cola Co	KO	Feb-13	37.42	40.29	7.67	Hold
Microsoft	MSFT	Feb-13	28.01	31.70	13.17	Hold
Mkt Vect Vietnam	VNM	Feb-13	23.27	18.69	-19.68	Hold
US Global Inv Res	PSPFX	Sep-12	10.02	9.28	-7.39	Hold
Agribusiness Mkt Vec	MOO	Jan-13	54.87	50.15	-8.60	Hold

U.S. & GLOBAL STOCK MARKETS

The stock market is on a roll. It keeps hitting new highs, it's super bullish and it's likely headed much higher. Continue holding the stocks you have. If you want to buy new positions and increase your stock allocation, buy JNJ, QQQ, PEJ, KBE, IYG, XLY, RTH, DIA and IYT, which are the strongest.

CURRENCIES

The U.S. dollar index declined this month after hitting a three year high. But it remains firm and bullish by staying above 81. The U.S. dollar is still the best global currency and we continue to recommend keeping your cash in dollars, if the dollar index stays above 79. We don't advise holding any international currencies for now.

INTEREST RATES & BONDS

Interest rates took a break but they're holding at the higher levels. Currently, interest rates are very overbought, so they'll probably decline in the weeks ahead. Bonds remain bearish and it's best to avoid them. If you still have bonds, the upcoming weeks will likely provide a good selling opportunity.

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

