THE
ADEN FORECAST
MONEY • METALS • MARKETS

AUGUST 2014 *our 33rd year*

A YEAR FOR SAFE HAVENS

It was a month for safe havens. As one crisis after another grabbed the headlines, these hot spots fueled caution and uncertainty, and investors were quick to act.

BOND HAVEN

U.S. Treasury bonds were the world's favorite safe haven. And as demand increased, they surged to a 15 month high (see **Chart 1**).

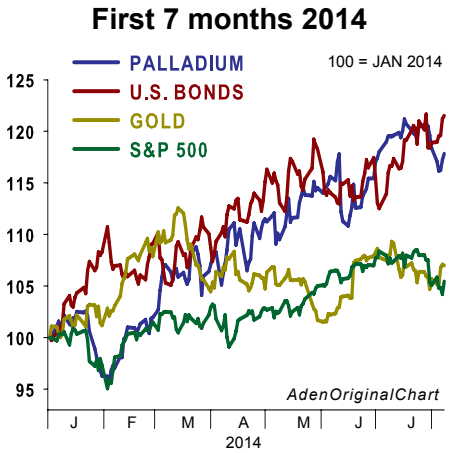
The U.S. dollar also moved up strongly, hitting a one year high. It suddenly became the favorite, thanks to the rush for safety.

Gold rose back above $1300. It has regained a position on the safe haven stage, and rightfully so.

Palladium, however, gets number one prize in the metals' sector, and with good reason...

It has soared 21% so far this year. Along with bonds, it has outperformed most of the other investment markets. And in large part, that's because of the hot spots (wild cards)...

CHART 1



HOT SPOTS

•As you know, the fighting between **Ukraine and pro-Russian separatists** has become more intense.

With thousands of Russian troops on Ukraine's border, the international community is stepping up their opposition and imposing stricter sanctions on Russia.

They're hitting the areas that'll hurt the Russian economy most, like the energy sector, defense firms, and banks.

This is being done to pressure Putin to back off on Ukraine, but so far the future is uncertain.

Meanwhile, since Russia is the world's largest palladium producer, this turmoil is fueling fears of a "supply squeeze" and it's been a big factor driving palladium higher. The same is true of growing demand, and the long strike in South Africa, which is another big palladium producer.

•The war between **Israel and Gaza** has been another ongoing tragedy driving the charge into safe haven investments.

Even though there have been several cease fires, no one knows how this is going to turn out, or when it will end.

In fact, a large part of the Middle East is reigniting and this alone is fueling concern and global insecurity...

•For now, the U.S. has reentered the war in **Iraq** where yet another tragedy is unfolding. The U.S. is resuming bombing raids in an attempt to drive back ISIS and provide some relief to the thousands of refugees.

But here too, we simply don't know how events are going to unfold.

TURBULENT TIMES

These hot spots are upsetting, to say the least. That's why they've been putting downward pressure on the world stock markets.

That's especially true in Europe. As ECB President Draghi recently pointed out, Russia's counter-sanctions could hurt the Eurozone's economy.

And unfortunately, it doesn't have much wiggle room with the economy still chugging along, despite negative interest rates.

Even though the U.S. still has

INSIDE

its own problems, the situation is better and improving.

For now, there are no signs of a recession on the horizon. Plus, the employment picture has gotten a lot better.

First time claims for unemployment benefits, for example, recently dropped to a 14 year low. This in turn boosted consumer confidence to a seven year high.

Plus, Fed head Janet Yellen has made full employment one of her top priorities and she'll do whatever it takes to make that happen.

Another positive… so far, this fiscal year's U.S. budget deficit was the smallest since 2008. That's a big deal and it's certainly a strong point in the right direction.

But there are still dislocations and many have dragged on like a big hangover since the 2008 financial crisis.

AVOIDING DEFLATION

As our dear friend Chuck Butler pointed out, half of Americans couldn't come up with $2000 in 30 days if an emergency came up.

At the same time, the Fed continues its unprecedented economic stimulus to avoid a possible deflationary spiral. This has resulted in $2.5 trillion in excess reserves.

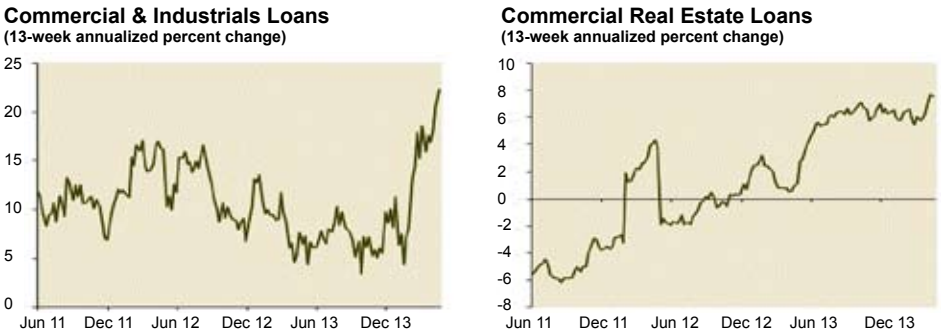
As you know, the banks have been reluctant to lend this money, which has kept the money velocity way down. But this too is starting to change and that's good news.

Banks have been lending this year (see **Chart 2**). This goes for commercial, real estate, industrial and consumer loans.

And if this continues, the velocity of money will begin to rise, which will be a huge relief in the overall big economic picture.

CHART 2

BANK LENDING TO BUSINESS HAS BEEN PICKING UP...



SOURCE: Federal Reserve Board, Gluskin Sheff

COURTESY: Dow Theory Letters

OUR STRATEGY

In the meantime, our strategy basically remains the same…

We advise staying diversified between U.S. bonds, metals, stocks and some cash. For the most part, the major trends are up in these markets and as long as they are, we'll stay with them.

Nevertheless, keep an eye on the hot spot events happening on the world stage. These will continue to affect the markets and you'll want to stay in touch, in case of changes.

A MILESTONE

As we mentioned last month, we were delighted to be part of Richard Russell's 90th birthday party in La Jolla. The party was mainly a family affair, along with a few friends, and we were honored to be there.

It was a wonderful time and it was great spending time with Richard again.

Richard's always been an inspiration and the respect he generates is a testimony to his research, integrity and down to earth insights.

We're proud to call him our friend and thought you'd like to see this picture of the three of us taken at the party.

Coincidence?

We spent a few days visiting friends and family in So. California, and it happened…

A dear subscriber from Florida wrote light heartedly, "look what happens when you both go on vacation at the same time."

When we've gone off together, the market has had sharp drops or rises. It happened again on July 31. This is obviously a coincidence but we're beginning to wonder…

Editors:
Mary Anne Aden
Pamela Aden

www.adenforecast.com
info@adenforecast.com

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The Aden Forecast
P.O. Box 790260
St. Louis, MO 63179-9927

1-305-395-6141
In Costa Rica:
Ph: 506-2271-2293
Fax: 506-2272-6261
from the U.S. dial 011 first, otherwise dial 00

U.S. & WORLD STOCK MARKETS

Correcting in a bull market

Stocks got hit this month. The hot spots overpowered the good news and it's time to be cautious, especially since these events are still unfolding.

UNCERTAINTY

Investors are nervous. They've been moving into safe havens, and stocks are not safe havens.

Still, the U.S. stock market remains very bullish. As you can see on **Chart 3**, the indexes are well above their 65-week moving averages, signaling the major trends are up.

DECLINE... HOW STEEP

So far, this appears to be a normal downward correction following the markets' steep rise.

And even though stocks could decline further in the weeks ahead, as long as the individual stock indexes stay above these averages, listed on the chart, the market will stay on bullish ground.

If so, then stocks will continue to head higher once this downward correction is over.

CHART 4

NASDAQ IS STRONGEST

So far, Nasdaq has been the strongest. And looking at Nasdaq's big picture, it's rapidly approaching its all time record high set in 2000 (see **Chart 4A**).

Plus, its leading indicator (below) has room to rise further before it reaches the major high area. This means Nasdaq still has upward potential.

MARKET LOVES FED POLICY

We realize this bull market has already been a long one.

One of the main reasons why is the Fed's super low interest rate policy. The market loves low interest rates and it'll likely keep rising as along as rates are low.

The market also loves the Fed's QE stimulus. This too has been a big factor driving stocks higher (see **Chart 5**).

But QE is due to end in October and the big question is, will the stock market be able to keep rising once the QE punch bowl leaves the party?

We don't know, but here too there are pros and cons. Basically, it'll depend on the economy... if it can stand on its own.

If not, the Fed will likely bring the punch bowl back to avoid a steep stock market decline and/or a recession.

CHART 3

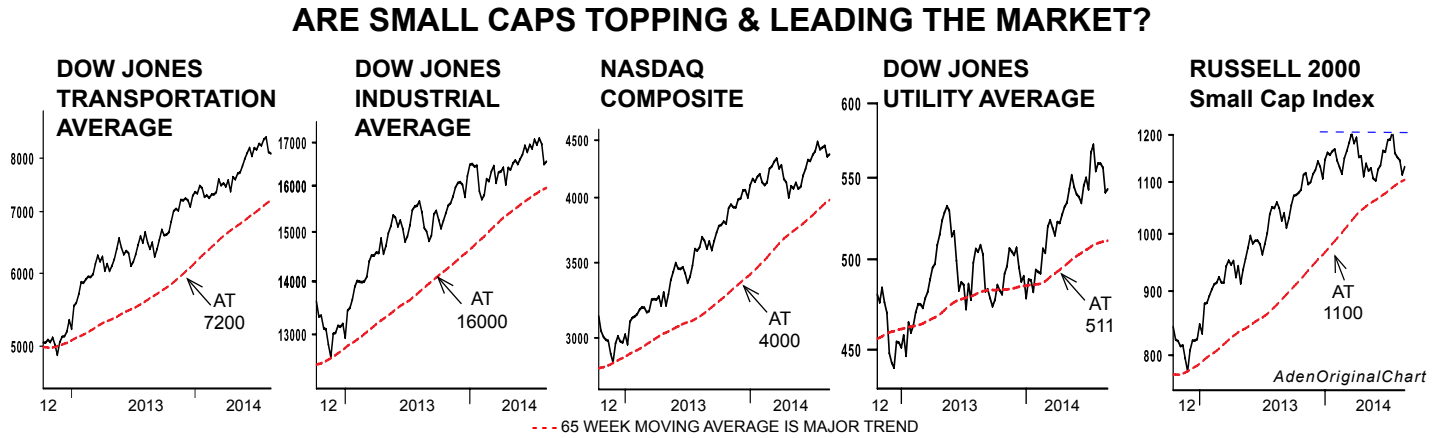
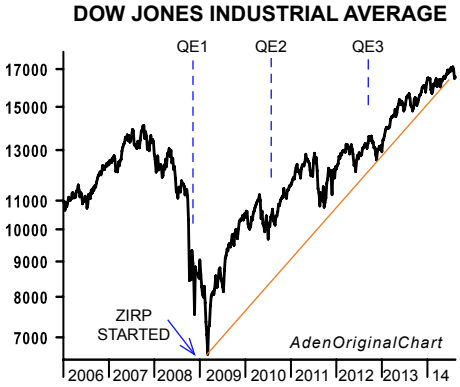


CHART 5

A FED INDUCED BULL MARKET



That's what it's done since 2008 and there's no reason to believe this time will be different. And if it does, it would be bullish for stocks.

PRESIDENTIAL CYCLE & MARKETS

A study our dear friend Steve Sjuggerud recently published reinforces this view.

Jeremy Grantham's "Presidential Election Cycle Indicator" shows that stocks have not had a losing year during the third year of a presidential term, going back to 1932.

Plus, the third year has averaged a 26% return.

Grantham's third year starts on October 1, which means we're only about six weeks away from the best time to historically own stocks.

This doesn't mean it has to happen. But it is impressive considering this indicator has been 100% accurate for over 80 years!

VIX: Watch the 20 level

Meanwhile, it's also interesting to see the VIX index rose sharply when the S&P500 fell (see **Chart 6**).

Note when the VIX hits the 20 level, it's coincided with a bottom in the S&P.

This has happened four times since 2012 and we may be in for the fifth go round.

We'll soon see but if we are, that would be yet another very bullish signal, as it would be flashing a buy signal.

SMALL CAPS LEADING?

On the other hand, the Russell 2000 is looking toppy (see **Chart 3**).

It's reflecting the aftermath of Yellen's comments that some sectors like social media and biotech stocks are "substantially stretched." And although she said the rest of the market wasn't, it threw a damper on the party.

So are small caps leading the rest of the market? It's a possibility and something we shouldn't ignore.

EUROPEAN MARKETS TURNING DOWN

Another worrisome sign is the action in the European stock markets. Because of the ongoing tensions between Russia and the EU, it's taken a toll.

Several of the European stock markets are starting to turn bearish and this is a growing concern.

As we've often mentioned, the world stock markets generally move together. And if the European markets turn bearish, it'll be a greater risk for the rest of the world markets.

Nevertheless, as you can see on **Chart 7**, the stronger global markets remain bullish. We recommended buying into these markets this month via their ETFs, which raised our stock position to 35%.

So far, so good and they haven't been affected, but that could change, depending on what happens.

KEEP YOUR POSITIONS

For now, we continue to recommend keeping the stocks you have, with one exception, but don't buy new stock positions at this time.

For the most part, our recommended stocks have held up well. The strongest ones are Hong Kong (EWH), Mexico (EWW), Microsoft (MSFT) and Nasdaq (QQQ).

There's also a good chance they're leading the way up, and the weaker markets will follow. But until this tug of war is resolved, one way or the other, we advise caution.

The weakest stocks have been IOO, XLU and EWG.

For the time being, the only stock we're selling is iShares Germany (EWG). It's showing real weakness and it's likely headed even lower. So it's best to cut our loss on this one and stay with the others.

CHART 6

VIX SOARED WHILE S&P500 FELL

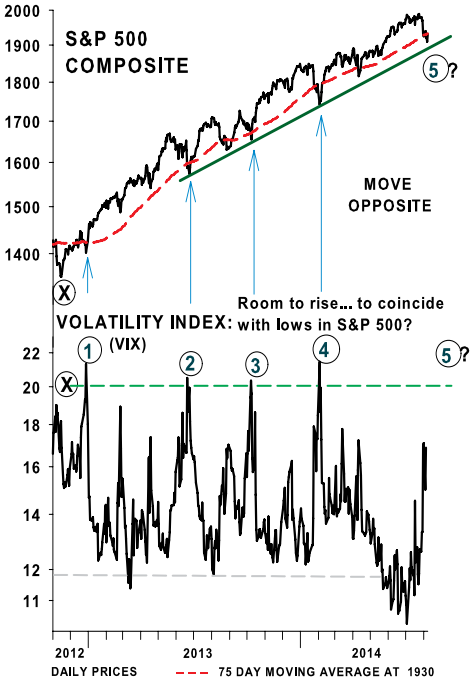
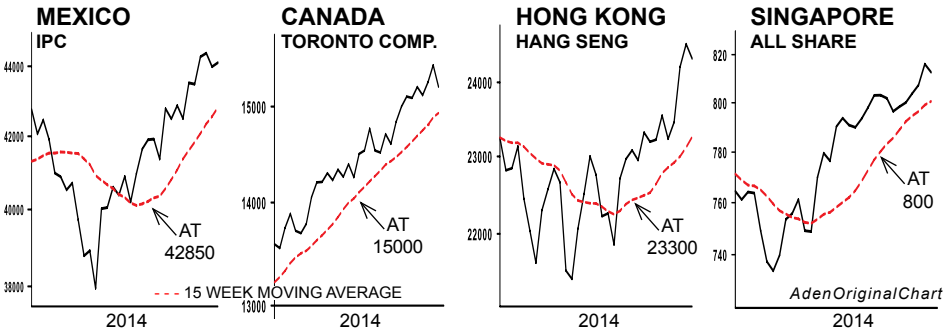


CHART 7

2014: Bullish!



U.S. INTEREST RATES AND BONDS

Bonds: A great investment

There's been a lot of talk lately about a "bond bubble." Many experts are convinced it's in the making and it's going to pop soon.

We're sure you've heard the same, that interest rates are set to rise. And in many ways it makes sense. Think about it…

BOND BUBBLE?

Bond prices have been rising for about three decades. During this time long-term interest rates have dropped from near 15% to about 2.50%. And they're currently near record lows.

The drop in short-term interest rates has been even more extreme. They've plunged from 20% to near zero over the past three decades. And they've stayed near zero for the past six years.

This leads many to believe that interest rates are near the end of their long-term decline and they're probably headed higher, sooner rather than later.

Once that happens, the bond bubble will burst.

At least that's the popular view, and there're a number of reasons backing this up, like the improving economy, a more positive jobs outlook, concerns about inflation and so on.

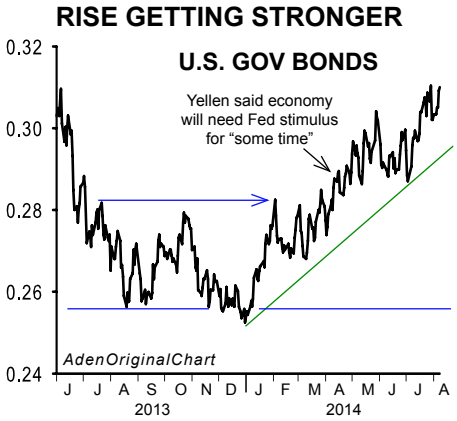
But contrary to popular sentiment, **we don't agree**. For most of the same reasons we discussed last month, we don't believe bonds are in a bubble, or that it's going to burst.

BONDS: On the rise, reasons why

In fact, the overall evidence points to the opposite…

•Bonds have been the best investment so far this year (see **Chart 8**).

CHART 8

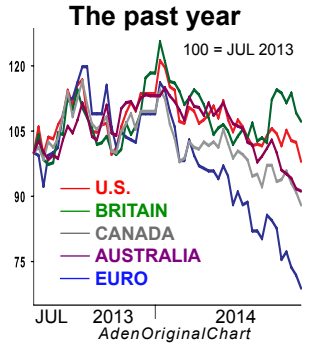


They've strongly outperformed most of the other markets and it looks like this is going to continue. Here's why…

•In a month filled with growing turmoil and global tensions, U.S. Treasuries shined as a safe haven.

Investors all over the world rushed into U.S. bonds, which were viewed as the safest of all markets while interest rates worldwide also declined (see **Chart 9**).

CHART 9



Escalating events in Ukraine, the shooting down of the passenger plane and the war between Israel and Gaza were the most newsworthy. But other events also shook the markets.

•Financial stress in Europe raised concerns of a possible renewed Eurozone scare.

In fact, this alone was a main reason why one of this month's U.S. Treasury bond auctions attracted the most demand in over eight years.

•Plus, China has been buying U.S. bonds again at the fastest pace in over 30 years.

As you'll remember, China pulled way back on their bond buying last year, but those days appear to be over.

This too kept upward pressure on bond prices, and so did the Fed.

ALL EYES ON YELLEN

Janet Yellen spoke again and, as usual, everyone listened.

She restated the economy is uncertain and monetary stimulus is still needed, despite the fact the unemployment rate and inflation have reached the Fed's initial target levels, which is when interest rates were supposed to start rising.

Oh well, she moved the goal posts.

Now she says there's still slack in the labor markets and she needs to see more. Yellen is essentially ignoring the targets and will keep stimulating the economy as long as it's needed.

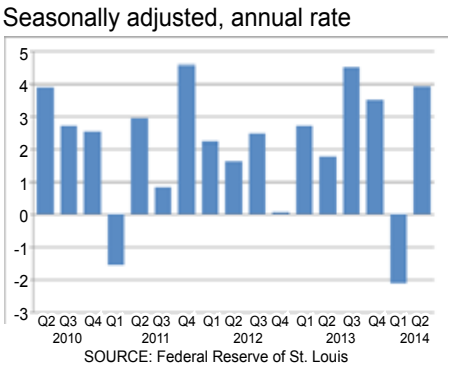
She also said **interest rates will likely stay low for a considerable period after bond purchases end.**

As you know, so far the Fed has been tapering their bond buying by $10 billion each month. They're still buying $25 billion in bonds monthly. But they've gradually been cutting back from their peak last year of $85 billion in bond purchases per month.

The plan is that once the Fed stops buying bonds in October, the economy will not need the QE crutch it's had since 2009.

Hopefully, foreign buying will

CHART 10



then remain robust and pick up the slack as the debt load continues to grow.

Will the Fed succeed? That's the big question…

WILL IT, OR WON'T IT?

For now, the debate rages on. Some feel the end of the Fed's bond buying will fuel inflation.

On the other hand, with deflationary pressures pushing on the economy, there's a strong possibility the economy could stumble without the stimulus it's become used to.

Time will soon tell. But if the economy starts stalling out, we're nearly certain the Fed will be quick to bring QE back, as it has in recent years following QE1 and 2. At least that's the message we're getting so far from Janet Yellen.

If that ends up being the case, then who knows how long QE will continue. As we've mentioned before, this could end up being a Japanese repeat where stimulus and super low interest rates have been the norm for decades.

ECONOMIC GROWTH 1%

Some of you could argue the economy's on a roll, surging 4% in the second quarter, so QE probably will end as planned. But again, we'll see…

Not to be a party pooper but we also have to remember the economy was down nearly 3% in the first quarter (see **Chart 10**).

So for the year, growth is only up 1% and that's nothing to get real excited about.

Plus, all opinions aside, we believe our technical indicators are telling the real story (see **Chart 11A**).

YIELDS: On the down slope

As you can see, the 30 year yield is in a solid mega downtrend. This tells us it's going a lot lower and as it declines, bond prices will keep rising.

If the yield, for example, declines back down to the 2008 and 2012 lows, bonds will gain another 30%, plus interest. And since the leading indicator has plenty of room to fall before it reaches the major low area, this target is not unreasonable.

The 10 year yield is similar and it's basically signaling the same (see **Chart 12**).

CHART 11

POISED TO TEST LOWS

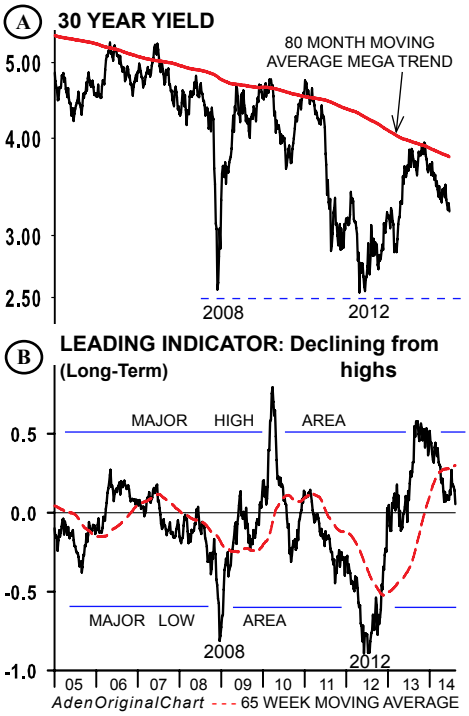


CHART 12

PRESSURE STILL DOWN

In other words, the bond market is telling us that inflation isn't going to be a concern, at least not in the months ahead.

It's also suggesting the economy will likely continue to struggle with slow growth. So basically, we'll probably see more of the same.

That being the case, we still recommend buying and keeping long-term U.S. government bonds, which we've held since February.

We also like the bond ETFs, which move with the bond price.

Our favorites are TLH, TLO, UBT and TLT. If you want to buy new positions, these are the best. Despite some volatility, they're looking good.

CURRENCIES

U.S. dollar: The darling... for now

The currency world was turned upside down this month. This came as a surprise to many investors, including us.

DOLLAR LOOKING BETTER

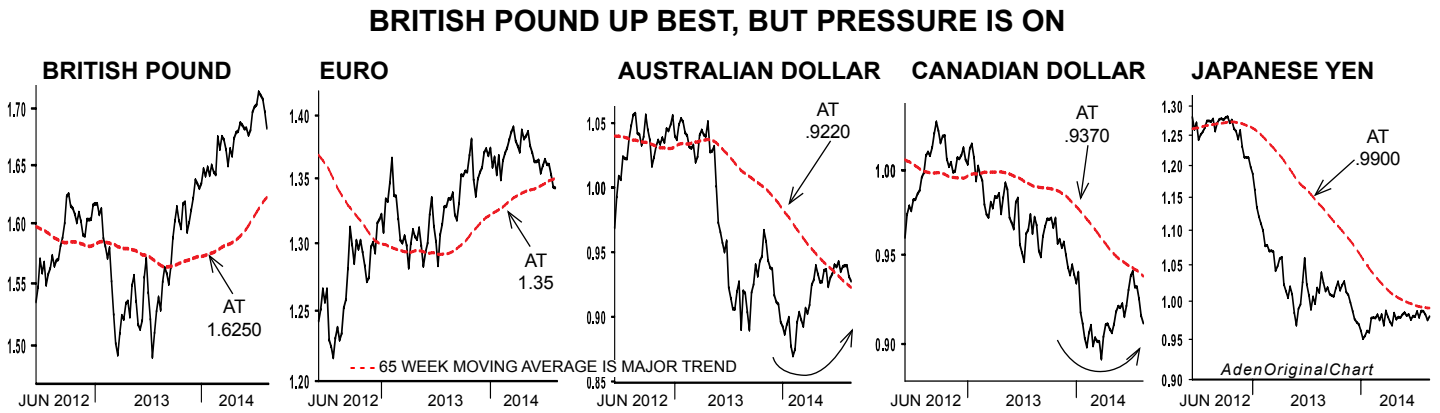
In recent weeks, the U.S. dollar was rising steadily. Nevertheless, it was still neutral to bearish. But then suddenly everything seemed bullish for the dollar.

At the end of July, sentiment turned on a dime and the dollar became the world's favorite currency. This drove all of the other currencies down, some more than others, and for different reasons.

Most important, however, were the increasing global tensions.

Ongoing turmoil between Russia and Ukraine was a big factor.

CHART 13



So were growing divisions between Russia and the Western countries, as well as the Gaza and Iraq wars. This fueled the dollar's appeal as the world's safe haven.

The world became a more dangerous place. Sanctions were put on Russia and memories of the Cold War surfaced. Investors were quick to react, but there was more.

U.S.: Better option

The big surge in the U.S.'s GDP was greater than forecast, which made the U.S. dollar more attractive than other countries.

The same was true of the jobs figures, which were the best in eight years, along with the shrinking trade deficit.

This reinforced the view that the U.S. is well on its way to a stronger economy, making the dollar even more desirable.

At the same time, mixed signs were coming out of the other major countries. And this added to the downward pressure on their currencies (see **Chart 13**).

As you can see, the British pound has held up best. But it's also feeling the heat and it's now time to sell the pound and move into U.S. dollars.

The same applies to any of the other currencies you may be holding, which we'd previously said were okay to hold.

Some of these, like the Canadian dollar have already turned bearish and it's likely just a matter of time until the others follow and turn bearish too.

U.S. DOLLAR: Best, for now

For now, the U.S. dollar is in the driver's seat. It's the only currency that looks good and it has upside potential in the weeks and months ahead.

Looking at the charts you'll see what we mean…

As we showed you last month, the U.S. dollar has been in a long-term decline since 1972 when it went off the gold standard.

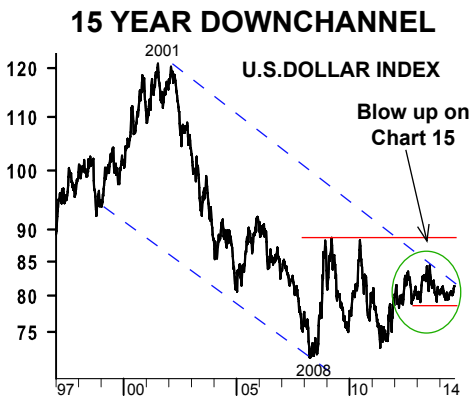
But within that big decline, there have been times when the dollar has risen strongly, like in the early 1980s and the late 1990s (see Chart 11 in our July 9 issue).

At this point, we're not saying the current rise will be as strong as these previous ones, but an upmove is clearly underway and here's what we're watching…

WHAT TO WATCH FOR

First, looking at **Chart 14**, you can see the U.S. dollar index is still trading within a downchannel that's been in force since 2001.

CHART 14



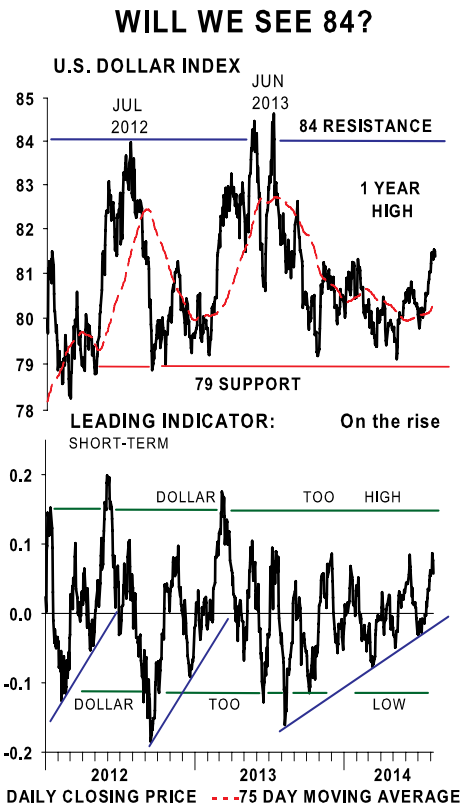
This downtrend is currently at 81.50 and it's a strong resistance level. In other words, if the dollar index can stay above this level, then there's a good chance it'll keep rising up to the 84 area.

You can see this clearly by taking a more close up view of the dollar's action since 2012 on **Chart 15**.

Note the sideways band it's been trading in since then. This band has strong resistance at 84 and support at 79.

But since the dollar index has

CHART 15



now broken above 81, it's very bullish near a one year high.

Plus, its leading indicator (short-term) is on the rise, signaling the dollar is headed higher.

So for now, it looks like 84 could be the dollar index's next stop.

The bottom line is, the U.S. is doing better than most of the other countries.

Russian sanctions are also going to make the Eurozone more vulnerable and the other currencies will likely continue to go along for the ride since they all tend to move together. That is, the U.S. dollar is your best bet for the time being.

METALS, NATURAL RESOURCES & ENERGY

A turnaround year

Gold finished its longest weekly rally since March on haven demand last month. But then it was hit, falling in its biggest decline in 7 months. Better economic news took over as the stock market rose on good earnings.

Yes, volatility set in short term in July, but most important, it didn't take away from the intermediate trend, which is still up.

That is, gold's C rise is still underway.

This has been an interesting year for gold. Clearly haven demand has been a main driver for rising gold. From tensions in Eastern Europe, violence in the Middle East, the Russia-Ukraine crisis, Israel-Gaza, and now the latest in Iraq as the U.S. launches attacks on ISIS, the world is suffering deep unrest.

GOLD RISE SIMILAR TO S&P500

It's also very interesting to see that gold has risen essentially the same as the S&P500 this year. The perception is that the stock market has been the place to be. It's been soaring and clearly worth investing in. But the perception is also that gold has been a bad investment.

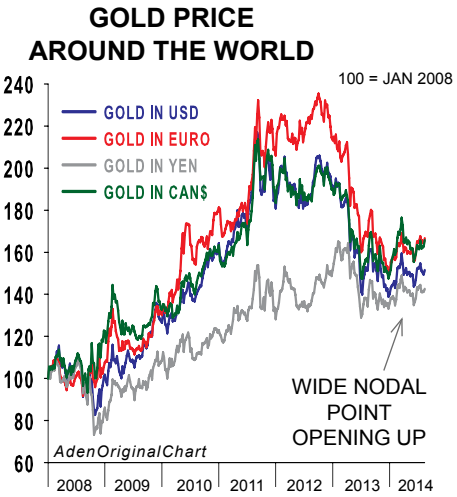
In reality, using the highs in gold on July 10 and the S&P500 on July 24, the gains this year have been 9.32% for gold and 8.51% on the S&P500.

Of course many stocks have risen much more than that, but palladium has also risen sharply this year, rising about 21%.

Taking this year alone, however, the stock market and the metals are about even.

The obvious difference is the continuous rise in the stock market since 2009, compared to the ongoing decline in gold since its 2011 highs, with last year being the big down year.

CHART 16



2014-15 TURNAROUND YEARS

We have felt (and still do) that this year could well be the turnaround year for the gold market.

Looking at gold around the world, you can see a subtle change has started this year. **Chart 16** shows the major fall and subsequent bottoming area in gold happened last year in several currencies.

The wide nodal point began opening up this year when gold started to rise from the lows.

This is a bullish formation.

August started with growing geopolitical tensions.

Gold jumped up once again on safe haven buying due to escalating tensions between Ukraine-Russia and Iraq. Plus, money moved into gold from the falling stock market.

Gold and the dollar normally move in opposite directions, but geopolitical tensions are causing

CHART 17

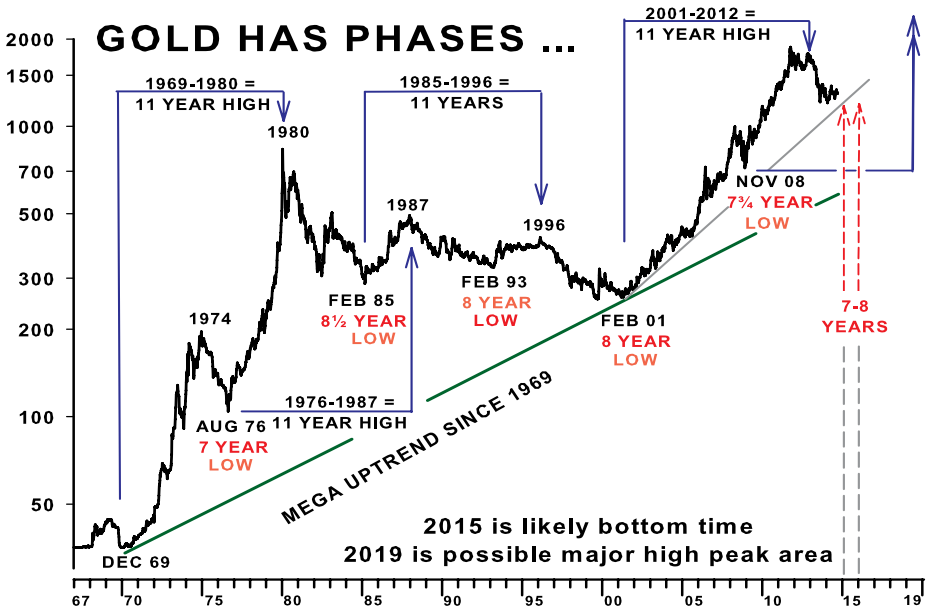


CHART 18

both to rise from different angles.

The dollar gained because the euro has become vulnerable due to Ukraine. It's affecting their economy, while the U.S. is looking better than most of the world for the time being.

BIG PICTURE: Most important

It's time to take a look and focus on gold's big picture. This eases a lot of doubt, especially when companies like Goldman Sachs are bearish on commodities. We'll focus on silver and palladium too.

Starting with gold's big picture since 1967, when it began moving freely, we've shown you the ongoing phases on **Chart 17** over the years. Impressively, they continue to work.

A cyclical market

Basically gold is a cyclical market. It's formed key bottom areas every 7-8 years since the 1960s, and it's formed major high areas every 11 years since then as well, see the chart.

If gold continues in this almost 50 year pattern, it's saying gold is poised to bottom, and begin a major rise next year.

This would be the 6th time since 1969 that a 7-8 year low has developed.

Then once the low is clearly established, gold will have a green light to rise in a strong bull market until 2019. This would mark the 11 year peak period from the 2008 lows.

Fine tuning price levels

To try and fine tune the price level, we'll first keep an eye on the 2001 uptrend.

If gold stays above this uptrend near the $1200 level, and bottoms, then this will become the springboard for much higher prices in the next major rise.

For now, **it's best to follow gold's steps.**

We started the steps in 2001 when the last bull market was getting started. It was the gloomiest time for gold, and it was the laughing stock in the investment world.

The mood is pretty gloomy today as well, and the steps will give us a good guideline.

Chart 18 shows us gold's stepping stones. First of all, gold must stay above its December 2013 lows, which is near the 2001 uptrend at $1195.

Gold is currently trying to stay above $1300, its 65 week moving average, showing firmness.

Once gold closes above step 1, the August 2013 high near $1420, it will pass the first key hurdle. It'll then have accomplished a complete bottom area, it'll be above its 65 week moving average as well as its 23 month average (see **Chart 19A**).

This would confirm a key bottom area. And it could happen during the current C rise.

Step 2 on **Chart 18** will then be the next hurdle to overcome. This $1536 level was the key bottom area after gold peaked in 2011.

This level was clearly violated last year when gold fell into a deeper bear market. Up to that point, the bear market was moderate.

Once this level is surpassed, gold will have recovered from the vicious part of the decline, and it'd

CHART 19

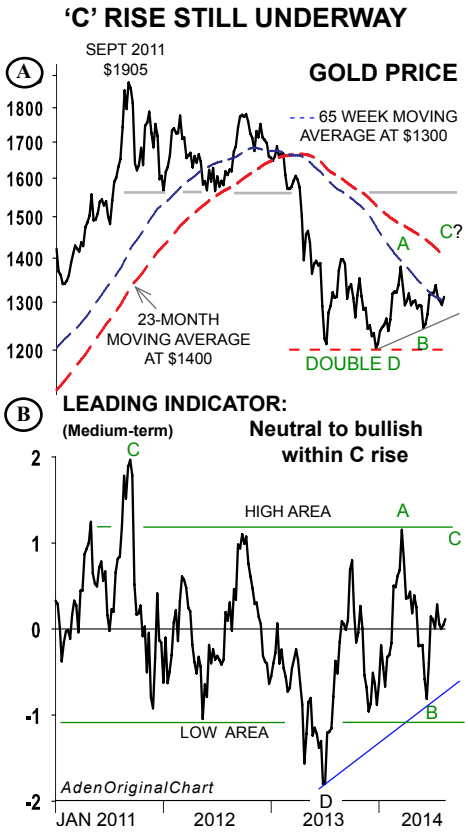


CHART 20

CHART 21

be another bullish factor for gold's rise.

From there, the $1800 level will be the next hurdle, which was gold's second gold peak area in 2012.

The record high area near $1905 will be the final obstacle. Once a new record high is reached, gold will be poised for a super take off rise.

Meanwhile, a C rise is underway (see **Chart 19**). And whatever step this rise surpasses will be a big plus in the big picture.

SILVER: Big Picture is bullish

Silver is similar to gold (see **Chart 20**). It's still in a major uptrend since 2002 within an almost 50 year uptrending channel. Its leading indicator, B, also reinforces a positive outlook as it bounces up from a major low area.

Silver tends to outperform gold when gold and copper are both bullish. With silver now starting to outperform copper, it's a first subtle bullish sign for all of the metals.

Like gold, we'll also follow steps for silver. **Chart 21** shows silver resisting at its 65 week moving average. But as long as silver stays above its key support lows at $18.70, it'll stay within its 2002 uptrend.

Once silver rises above its February highs at $22, it will cross the first hurdle step. The August 2013 highs will then be the second step to surpass at $24.70.

Meanwhile, the 117 year old London silver fix is coming to an end this week. Price rigging scandals have resulted in the Libor rate and the gold fix becoming things of the past.

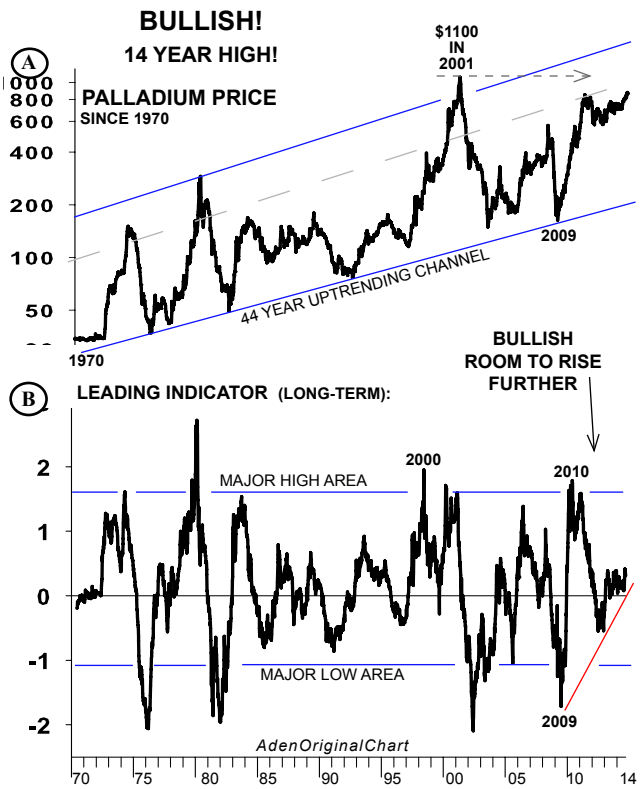
This in turn will allow for a better, more transparent market.

PALLADIUM: In its own league, but also leading

Palladium has risen 21% this year. It's clearly one of our star performers.

It's been in a perfect storm type of situation this year. But actually it's been holding up firmly near its 2010 high (see **Chart 22**).

CHART 22



Palladium is produced by Russia and South Africa. The ongoing Russian uncertainty has been keeping palladium strong. The long strike in South Africa gave the extra push upward.

The big picture of palladium is bullish. **Chart 22** shows palladium approaching its 2001 record high area, as it continues heading towards the top of its 44 year upchannel.

Its indicator has plenty of room to rise further, which backs up a

CHART 23

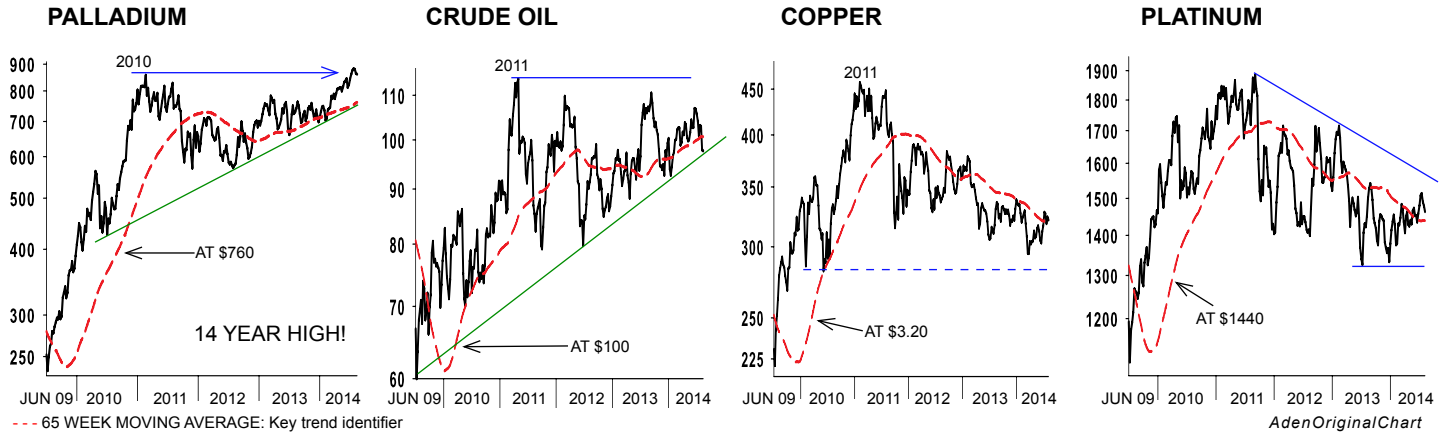
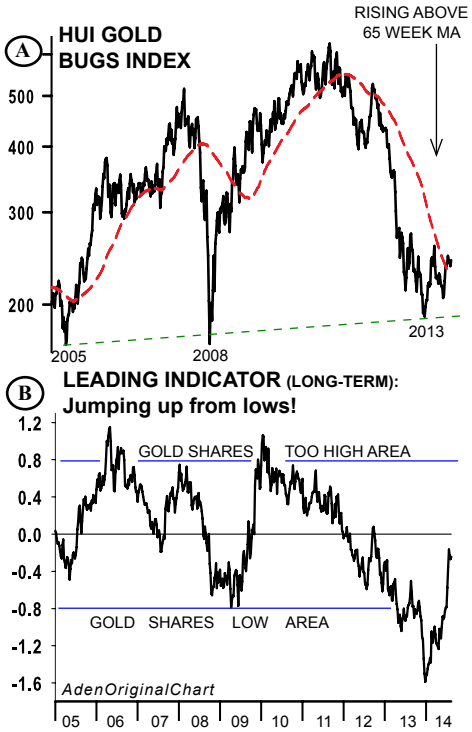


CHART 24

GOLD SHARES: Ready to rise



bullish scenario. Palladium is very bullish above its 65 week moving average at $765. Technically and fundamentally, palladium is set to rise much further.

You want to stay onboard!

GOLD SHARES: another plus

With gold shares bottoming in the most bombed out level it's had in many years, it reflects a good value today. Note on **Chart 24,** the HUI Gold Bugs index is rising above its 65 week moving average for the first time since the crash began in 2012. This is bullish action.

Plus its indicator is starting to soar from a super low level! This combo shows a classic case of a sector that should be bought and just held for a few years.

Our good friend, Rick Rule, said it best... when a market is down say 75%, it's precisely 75% more valuable and it's 75% less risky.

This applies to gold shares, in any currency terms, including gold. **Chart 25** shows the gold shares to gold ratio. As you can see, gold shares are starting to rise more than gold.

Most impressive, the ratio is rising from the bottom side of a 46 year downchannel. It's starting to form an uptrend, which will most likely develop into ones similar to the 1980 and 2001 uptrends.

CHART 25

GOLD SHARES RISING MORE THAN GOLD, FROM EXTREME LOWS

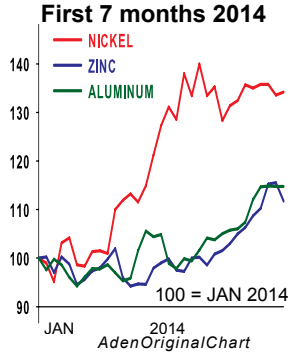
RESOURCES: A better year

Investors are taking a liking to the metals' ETFs. From zinc to aluminum, they're buying these ETFs at the fastest pace in 5 years.

Chart 26 shows the jump these base metals have had this year.

CHART 26

BASE METALS: First 7 months 2014



Copper remains sluggish and has yet to reflect the strength in the base metals. But this may be saying that copper is ready to follow.

Note copper on **Chart 23**... it's held above the 2010 lows, which is a good sign. But copper must break clearly above its 65 week moving average at $3.20 before a renewed rise gets underway.

Platinum looks similar to copper. It too would look much better above $1500.

Goldman Sachs and Citigroup are not bullish on the base metals. GS believes iron ore and copper will be down in 5 years as global supplies climb from Australia to Brazil. They also said oil's recent decline is a sign of increased output. Citi predicts this year's rally will end.

We'll soon see how it all plays out. Meanwhile, our resource and energy recommendations are doing fine. **Chart 27** shows BHP Billiton and the Energy ETF, XLE, are holding up. Both are in uptrends and we continue to recommend keeping them.

Soft commodities have been collapsing since May. They have truly been volatile, falling from the highs (see **Chart 28**). They may be entering a good buying opportunity, but we'd rather wait this one out and watch from the sidelines before buying.

The resource sector is not out of the woods yet, but it's looking better in this seemingly turnaround year.

CHART 27

RESOURCE & ENERGY

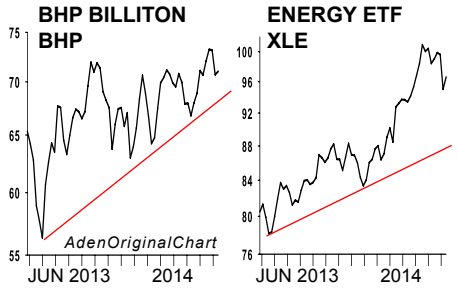
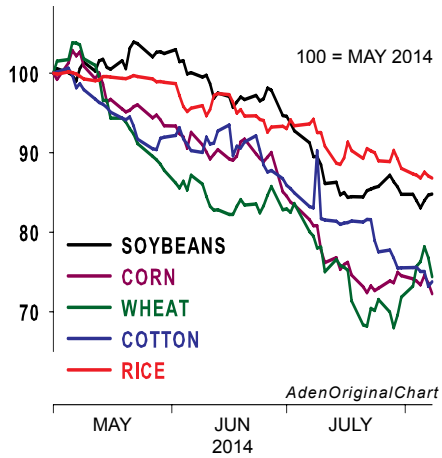


CHART 28

...DOWN LIKE A STICK!



OVERALL PORTFOLIO RECOMMENDATION

It was a month for safe havens. Fueled by global tensions, U.S. Treasury bonds were the favorite, and so was the U.S. dollar. Gold rose too, but stocks fell. As you'll see below, this resulted in a few adjustments in our recommendations but essentially they remain the same...

PRECIOUS METALS, ENERGY, RESOURCE

Volatility took over last month, but most important, the intermediate gold rise we call C is still underway. Gold shares are stronger than gold, reaching a new high this week, and it looks like it will continue. Palladium remains very strong as well. Clearly haven demand has been a main driver for rising gold. The ongoing tensions in Ukraine-Russia is keeping palladium strong. Silver is resisting below its 65 week moving average but the others are above theirs. It looks like a matter of time before silver follows. Royal Gold is our strongest share, but the others are also doing well. Physical gold and silver are best, and the ETFs are fine to keep as well. Please see the box below for our order of strength. Buy and keep your positions.

U.S. & GLOBAL STOCK MARKETS

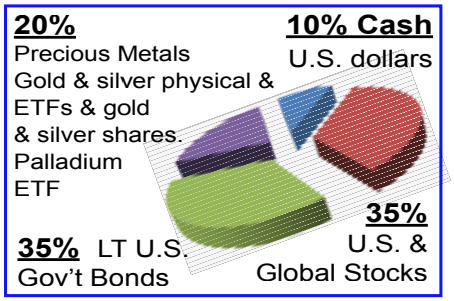
The stock market remains bullish. The decline appears to be a normal downward correction, but stay cautious. This month we recommended buying EWH, EWW, EWS and EWC. This raised our stock position to 35% (from 30%). Most of our stocks have held up well, but don't buy new positions for now. We recommend selling iShares Germany (EWG), but stay with the others.

CURRENCIES

The U.S. dollar is now the world's favorite currency. It has upside potential. The currencies are under downward pressure. So it's time to sell the British pound and any other currencies you may be holding. Our cash position is now 10% (down from 15%, having bought some stocks). Keep your cash in U.S. dollars for now.

INTEREST RATES & BONDS

Bonds have been the best investment so far this year. And this will likely continue. Bonds are bullish and poised to head higher. That is, interest rates are set to decline further. We still advise buying and holding 35% of your total portfolio in over 10 year U.S. government bonds. We also like the bond ETFs, like TLH, TLO, UBT and TLT. If you want to buy new positions, these are the best.



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

OUR OPEN POSITIONS

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Royal Gold	RGLD	Mar-14	66.04	80.66	22.14	Buy/Hold
Palladium	PALL	Jan-13	69.71	85.36	22.45	Buy/Hold
Silver Wheaton	SLW	Sep-09	11.66	27.09	132.33	Buy/Hold
Agnico Eagle	AEM	Feb-14	33.68	40.14	19.18	Buy/Hold
SPDR Gold Shares	GLD	Nov-04	44.38	125.99	183.89	Buy/Hold
Gold (physical)		Oct-01	277.25	1310.60	372.71	Buy/Hold
iShares Gold Trust	IAU	May-05	4.17	12.68	204.08	Hold
Junior Gold Miners	GDXJ	Jul-14	43.66	42.61	-2.40	Buy
NewGold	NGD	Apr-10	5.13	6.29	22.61	Hold
Central Gold Trust	GTU	May-09	36.53	46.09	26.17	Hold
Central Fd of Canada	CEF	Apr-04	6.39	13.98	118.78	Buy/Hold
Silver (physical)		Aug-03	4.93	19.91	303.75	Buy/Hold
iShares Silver Trust	SLV	May-06	14.50	19.17	32.21	Buy/Hold

STOCKS & ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
iShrs Hong Kong *	EWH	Jul-14	21.65	21.92	1.25	Hold
iShrs Mexico *	EWW	Jul-14	70.93	70.33	-0.85	Hold
Microsoft	MSFT	Feb-13	28.01	43.52	55.37	Hold
Nasdaq Powershrs	QQQ	Jun-14	92.82	95.42	2.80	Hold
iShrs Singapore *	EWS	Jul-14	14.04	13.82	-1.57	Hold
iShrs Canada *	EWC	Jul-14	32.65	31.93	-2.21	Hold
BHP Billiton	BHP	Aug-13	67.68	71.48	5.61	Hold
Procter & Gamble	PG	Sep-12	68.10	81.42	19.56	Hold
iShares Transports	IYT	Oct-13	118.85	146.00	22.84	Hold
S&P Glbl Tech	IXN	May-14	87.75	89.57	2.07	Hold
iShares US Med Dv	IHI	Oct-13	86.70	100.24	15.62	Hold
DJ US Telecom	IYZ	Sep-12	25.22	29.95	18.75	Hold
Johnson & Johnson	JNJ	Feb-13	76.16	100.63	32.13	Hold
Energy Select SPDR	XLE	Aug-12	72.37	95.90	32.51	Hold
Dow Diamonds	DIA	Jun-14	169.08	165.48	-2.13	Hold
Global 100	IOO	Oct-13	72.97	76.89	5.37	Hold
Utilities Select	XLU	Apr-14	43.11	41.25	-4.31	Hold

BONDS

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
10-20 Treasury Bond	TLH	Feb-14	125.73	130.21	3.56	Buy/Hold
SPDR L-T Treasury	TLO	May-14	66.40	66.87	0.71	Buy/Hold
Ultra 20+ Treasury	UBT	Feb-14	58.00	66.31	14.33	Buy/Hold
20+ year Try Bond	TLT	Feb-14	107.78	114.76	6.48	Buy/Hold
Intermediate Muni	MUNI	Feb-14	52.69	53.31	1.18	Hold

*New position

