THE
ADEN FORECAST
MONEY • METALS • MARKETS

SEPTEMBER, 2009 *in our 28th year*

MARKET STRATEGY: HOW WE VIEW THE MARKETS

Welcome new subscribers. We're glad to have you aboard! The timing couldn't be better as gold surges up to its old record high. But first, let's back up a bit…

MARKETS TELL THE STORY

We all know the past couple of years have been difficult. This year, the markets have been a lot better as they rise from the lows, but the economy remains uncertain. That's generally the case in most places around the world.

Currently, there seems to be two prevailing schools of thought permeating the markets… First, the recession is near an end and the economy is poised to recover. Second, the crisis will get worse and this is just the calm before the storm. What's an investor to do?

The markets will tell us how the story unfolds. The markets always lead. They tell us what's happening. Our job is to correctly interpret what the markets are telling us, not only in regard to the economy, but also to correctly identify the market's tendencies. That's most important in making good investment decisions, and then we'll invest accordingly.

Overall, this has worked out well, resulting in double digit profits each year for over two decades, more than 80% of the time. This month, for the benefit of new subscribers, and because it's been a while since we've covered these points with current subscribers, we want to briefly review our basic strategy and what we feel is important…

WATCHING THE MARKETS

As most of you know, we follow the markets closely every day, as well as keeping a pulse on the global front. We love studying the markets, writing about them and reading about them with our objective being that our results will help you benefit, profit and gain some insight.

We like correlating the market action to unfolding world events. This helps identify and understand major market trends. We use both technical and fundamental analysis, always looking for the best investments based on the major trends, relative strength and risk versus reward.

As we've often said, the big picture and the major trends are most important. That's how you'll make the best profits over time, instead of trading in and out of markets. Invest with the major uptrends and stay with them for as long as they last. By the same token, you want to avoid big losses by selling or staying out of a market when a major trend is down.

But recognize that no market goes straight up or down. There are always corrections along the way. That's normal. We don't recommend trading corrections unless you're a trader, close to the markets and willing to take extra risk. It's much better to get in, ideally near an intermediate low area, knowing the major trend is going your way and staying with it, even if that market turns down for a month or two along the way.

We could list dozens of examples to show how well this strategy has worked. Gold is the first one that comes to mind. We bought it in January 2002 at $280 and it's now near $1,000. Sure, there have been ups and downs, but overall gold has gained 257% during that time, which is a lot more than most other investments.

How we analyze markets

As for our favorite type of analysis… Fundamentals are great. They provide the facts, which is something we clearly need to know. But unfortunately, fundamentals are usually facts that have already happened. They are limited in looking ahead, which is what the markets do, and they don't help with timing. That's where technical analysis comes in and it's our favorite. Ideally, however, the two will coincide.

A picture is worth a thousand words and that's the way we feel about our charts, prices and leading indicators. They show us what's happening and they're instrumental in signaling what likely lies ahead. That is, the major trends, over-

INSIDE

bought and oversold conditions, indicating a market is near a major top or bottom, when a downward or upward move is likely within the major trend, possible price targets and so on.

Most of our charts are based on Friday weekly closes. This strips out the daily fluctuations and provides far more insight, especially in relation to the major trends.

Our goal is to invest in the markets that have the best upside potential. We then try to find the strongest sectors within those markets, and then some of the strongest stocks within those sectors, all based on relative strength.

This will change at times and we'll then recommend selling. That usually happens when a stock is underperforming, or it goes against us, and/or there are better opportunities elsewhere.

Weighing risk vs reward

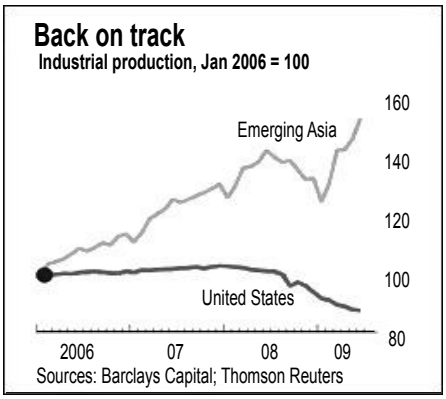
Risk and reward are also important. If a market is high risk but it looks good, we'll put a smaller percentage of our total portfolio into that market. If it's lower risk and the reward potential is high, we'll put more in.

Of course, avoiding big losses is vital as well. If a market turns against us we'll be quick to sell, even if it means taking a loss. **Cutting your losses is a key investment rule, as well as letting your profits run.**

One good way to cut losses is by using stop losses. We advise keeping a 25% trailing stop on your long-term positions in case a market dramatically turns down. And you may want to keep tighter stops on other positions (see Chris Weber's article on our website under Guest Commentary).

And finally, the economic environment or backdrop is also indispensable. In a nutshell, you'll invest differently depending on the economic conditions... whether it be

CHART 1



Courtesy: The Economist, economist.com

recession, recovery, inflation, deflation or boom times. That brings us back to what's currently happening, so next we'll take a look at the evidence and the markets...

ECONOMY GETTING BETTER

First, the economic numbers keep getting better. Back in April, we pointed out the first straws in the wind that the recession may be ending. The evidence has steadily improved since then and this month was the best yet. Two thirds of all of the economic numbers we follow were up.

This included everything from manufacturing, housing starts (for a fifth consecutive month), home sales, consumer confidence, business sales, industrial production and some spending. Leading indicators rose for the fourth consecutive month, pointing to better times in the months ahead, and home prices rose for two months in a row for the first time in nearly three years.

These are pretty impressive signs, the most since the crisis hit two years ago. The flood of money that is being thrown at the economy is having some positive effects, at least for now. The full effects will become obvious later and they won't be positive over the long haul, but that's another story (see Interest Rates and Currencies this month).

Currently, we're talking about the economic rebound and so far, so good. Remember, unemployment lags, so it'll be the last to show improvement. We're also seeing the same in other countries.

WORLD LOOKS BETTER TOO

Europe is showing many signs of improvement with Germany and France leading the way. They have emerged from recession. Asia, however, has by far been the world growth leader and the fundamentals here are the most impressive.

Asia's emerging economies grew at about a 10% annualized rate in the second quarter. They're in a league of their own and they're clearly leading the way out of the recession.

Industrial production is at a new high and it's up 36% in the second quarter (see **Chart 1**). This is amazing, especially because so many felt that Asia would remain weak as long as the U.S. was weak, mainly because Asia needs U.S. demand for its goods.

So what happened? Naysayers have often been quick to write Asia off. But the reality is that the U.S. isn't so important to Asia. It only accounted for 6% of emerging Asia's growth leading up to the crisis. Plus, Asia was not as hard hit by the U.S. crisis as other areas were and consumers were not heavily in debt. Asia's stimulus, therefore, has led to domestic spending and investments, and a strong economic recovery.

The global economies tend to move together and this is now becoming more obvious. Europe is following and eventually the U.S. will too. That's what the latest numbers are telling us, but deflation signs are still lurking overhead and at this early stage this continues to be a sign of caution.

The U.S. and the world's central banks have been fighting these deflationary forces for quite a while now because they're spooked by

Editors:
Mary Anne Aden
Pamela Aden

www.adenforecast.com

info@adenforecast.com

Published monthly by Aden Research. Also includes access to a weekly update $250 per year. Send all customer service or market related questions to Aden Research, Dept. SJO 874, P.O. Box 025216, Miami, Florida 33102-5216 or E-mail adenres@racsa.co.cr 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** every Wednesday 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 (52 weeks) $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. *Air Mail and Fax,* $90 more per year for U.S. subscribers and $220 more outside the U.S. **Make checks payable to Aden Research, S.A.**

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

them. It's something no one wants, yet prices have been dropping worldwide, so officials have used floods of money (stimulus) to offset these forces. Will they succeed?

That's the big question. The world economies are increasingly telling us that they will. The markets are indicating the same thing. But until we know for sure, we'll still be walking a fine line and the debate over economic recovery or ongoing crisis will likely continue.

We'll keep taking it one step at a time. Like we said last month, during times of confusion, it's especially good to step back, look at the evidence and the markets, and avoid the rhetoric. So far, the markets are reinforcing the evidence and these are two very important factors, tipping the scale toward economic recovery.

For now, gold, base metals and commodity prices are rising. So is copper and it's a good global economic indicator. The U.S. dollar is down. Most impressive, the world stock markets have risen strongly and as you know, they tend to lead the world economies.

As you'll see next, these markets are still looking good, despite recent weakness…

U.S. & WORLD STOCK MARKETS

Strong rise taking a rest

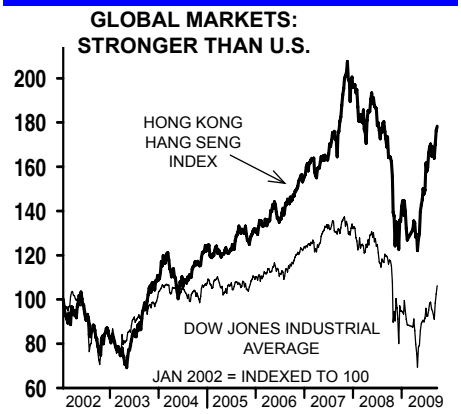
The stock market moved up again this month. Recently, however, the markets have been stalling and some are correcting downward following their steep rises this year. This is normal and the stock markets could still decline further before they resume their rises.

CHINA LEADING

China led the way down and many of the other world stock markets followed to some extent or another (see **Chart 2**). Nevertheless, the U.S. and world stock markets remain strong and bullish above their moving averages. These moving averages identify the major trends and as long as the individual stock markets stay above the levels shown on the chart, the major trends will be up meaning stocks are headed higher.

This is a strong vote of confidence for the world economy and with each passing month it keeps getting better. All of the world stock markets we follow are above their moving averages. The majority of them hit new bull market highs and the gains have been well into the double digits.

CHART 3



The U.S. stock market, for example, has gained around 50% since it hit bottom in March and it has not been one of the world's strongest. (This is clearly illustrated on **Chart 3**, which shows the Hong Kong stock market compared to the Dow Industrials since 2002.)

Some of the strongest markets like China and Brazil actually bottomed before the majority of the markets did in late 2008 and they've been calling the shots. Overall, the Asian and Latin American stock markets remain the strongest and this will likely continue.

SEPTEMBER: A WEAK TIME

For now, however, we're in September and it has historically been the worst month of the year for stocks. This doesn't necessarily mean that the stock market has to drop in September, but it probably will based on a couple of factors.

CHART 2

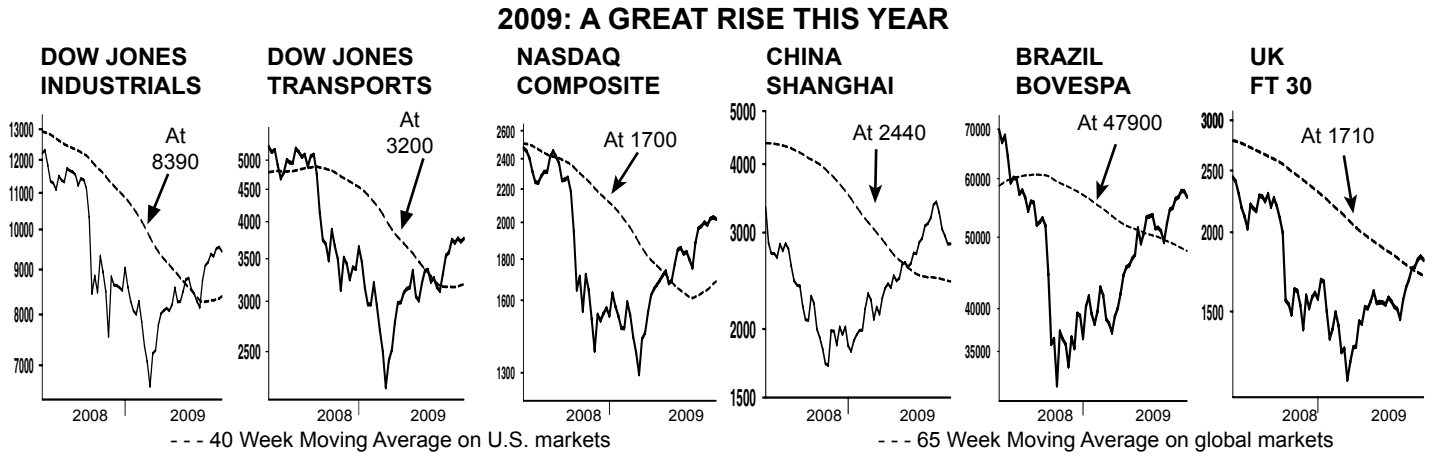
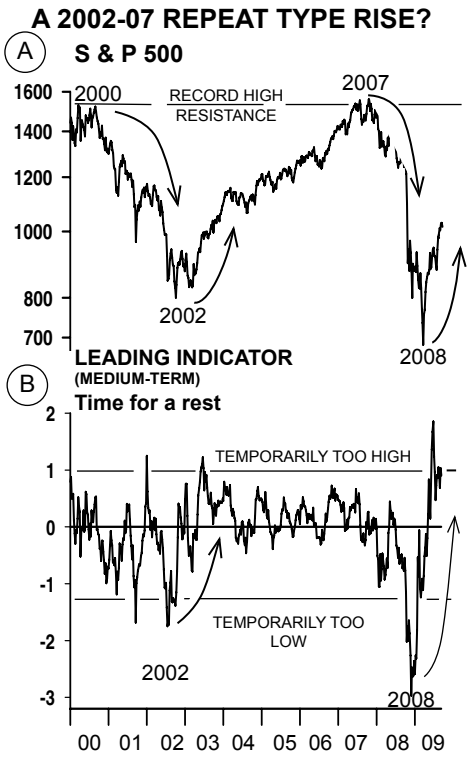


CHART 4



Aside from the fact that all of the world stock markets have risen too far, too fast for the time being, other seasonal and cyclical tendencies are also putting downward pressure on stocks this month.

Reinforcing this is the leading indicator for the S&P500 (see lower **Chart 4**). This reliable indicator gauges medium-term stock market trends and, because it's now temporarily too high, the highest since 2003, it's signaling that the S&P500 (A) is due for a downward correction that could last a month or so, before it heads higher. This will likely coincide with the growing feeling that the world stock markets have gotten ahead of themselves.

But since the major stock market trend is up, the upcoming downward correction will probably be similar to the one in the S&P500 at the end of 2003-04 when the 2002-07 bull market rise was still in its earlier stages.

STOCKS LEAD ECONOMY

Remember, stock markets lead the economy by about six months. They have their best rises early on when most investors remain skeptical or uncertain. Currently, sentiment is neutral at best, which also suggests stocks will rise further as the global economies continue showing improvement.

Plus, interest rates remain low, which is good for stocks. And as Ned Davis Research explains, stocks have risen both six and 12 months after the end of recessions in the vast majority of cases. The average bull market rise has lasted 57 months with a gain of 164% based on the last 12 bull markets since 1932.

Considering that U.S. stocks have already risen about 50% and assuming this one follows within the average, the historical record still favors about another 100% rise or so during this bull market.

Of course, there are no guarantees. Taking the poor long-term economic fundamentals into account, something could go wrong.

That's why we don't recommend putting more than 20% of your total portfolio into common stocks in the strongest sectors and markets at this time. Energy, resource and gold stocks are exceptions because they rise along with gold and commodities. They're in another category, as you'll see in our Overall Recommendations listed on page 12.

BIG PICTURE: Bullish

Last but not least are our own leading indicators, which we put a lot of faith in because of their reliability and track record over the decades (see **Chart 5**, which shows the S&P500 with its long-term indicator below since 1950). First, note that the leading indicator is still near the most oversold low area it's ever been.

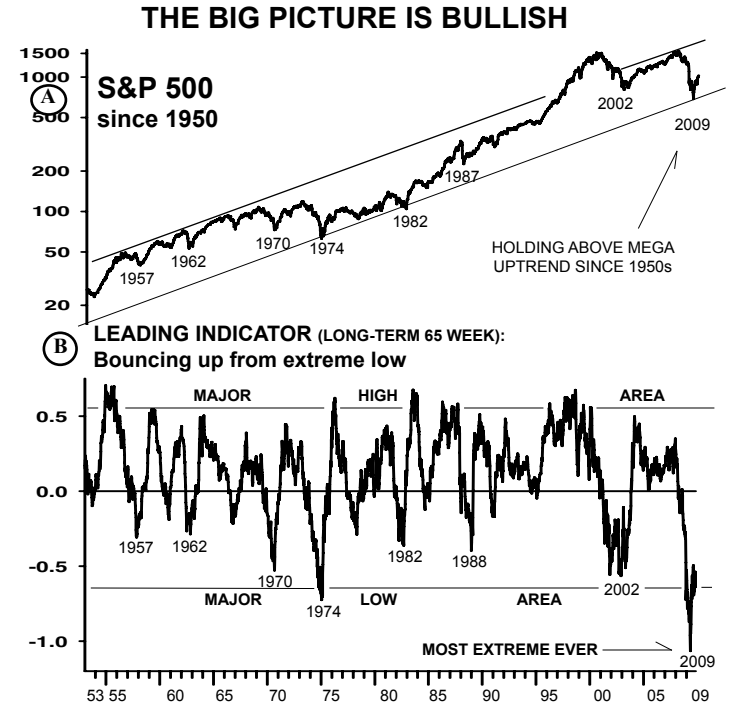
Interestingly, this type of low has always preceded significant rises in stocks (see 1957, 1962, 1970, 1974, 1982, 1988 and 2002 as examples, and the rises in the S&P500 (**5A**) that followed those lows). We believe that 2009 will be yet another example. Why? Because the market remains at a major low area and it still has plenty of room to rise further before it reaches a high area, which coincides with significant tops in the stock market.

Many very respected analysts feel that the stock market hit a decades long peak in 2000 and that a mega bear market decline has been underway since then. That may be the case. If so, the current rise may end up only being an upmove within a mega bear market.

But as you can see on **Chart 5A**, the S&P 500 has actually been in a mega uptrend since the 1950s, which remains in force. If the current rise, for instance, ends up like the one that started in 2002 and moves up to the top of the trading channel, it'll still be a rise worth taking advantage of, even if the market doesn't reach a new record high.

For now, we recommend keeping the common stocks you have as long as the major trends stay up. If you haven't bought yet, the current downward correction will provide a good opportunity to buy new positions in the strongest stocks and sectors.

CHART 5



U.S. INTEREST RATES AND BONDS

Interest rates declined this month

Interest rates declined this month. As you know, we've been expecting this for a while and rates could still fall further (see **Chart 6**). But once this decline is over, interest rates will likely head higher, probably much higher. This could happen in the months ahead. Why?

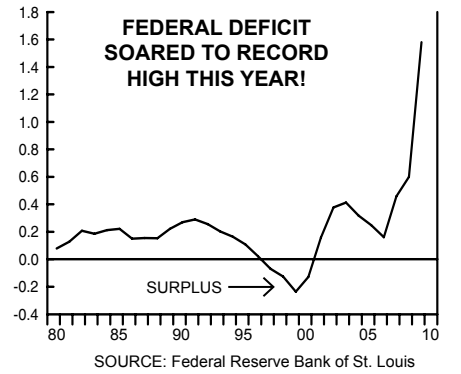
SPIRALING DEBT & DEFICITS

The debt and deficits are getting so huge, it continues to boggle the mind. As our old friend Jim Grant points out, the money the U.S. will need to borrow this year and over the next two years will be more than the amount that was borrowed in the nearly 200 years between 1789 and 1994!

This of course will keep driving the deficit higher (see **Chart 7**). Now we hear that the deficit is officially projected to soar another $9 trillion over the next 10 years, on top of the current $1.5 trillion!

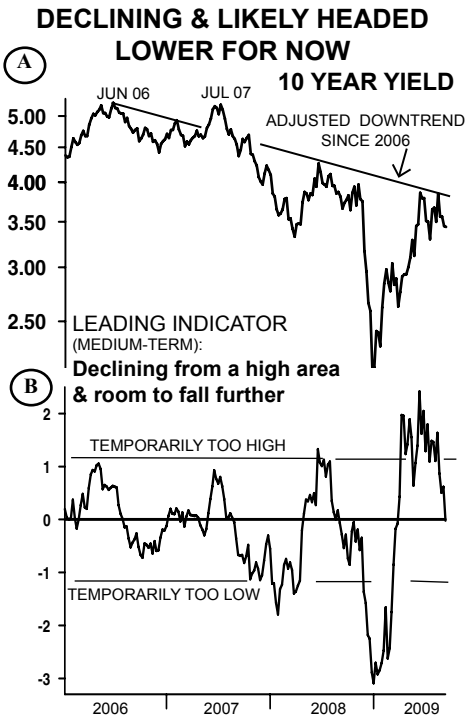
And with massive amounts of bonds coming to market to finance these deficits, the Federal Reserve (Fed) is being forced to monetize this debt because there aren't enough buyers. In layman's terms, that means printing money, which is inflationary. Several estimates put the Fed's purchases as high as 38% to 47% of the bonds and notes that were recently sold at different times. **This was obviously due to lack of demand for the bonds.**

CHART 7



SOURCE: Federal Reserve Bank of St. Louis

CHART 6



TOO MANY BONDS

But this shouldn't come as a surprise. Keep in mind that foreign investors, mainly foreign governments, are up to their necks in U.S. Treasury bonds and they can only take so much. Foreigners already own about half of all U.S. bonds.

Going back to the 1700s, never in U.S. history have foreign holdings of U.S. debt been anywhere near the levels they are now. As recently as 1970, for instance, foreigners held less than 4% of U.S. debt.

As you know, China has more bonds than any other country. It's interesting to note that China recently reduced its holdings by the largest margin in nearly nine years.

As international concern grows, we'll likely see more of this. Remember, the U.S. had a monetary surplus at the turn of this decade. But for various reasons, (wars, the economic bailout and so on), it's gotten itself into a real fix caused by spiraling spending, debt and deficits. Global investors are nervous, they're losing confidence and the end result will be an ongoing decline in the U.S. dollar and sharply higher interest rates in order to attract buyers.

So even though the Fed says they're going to keep interest rates low for an extended period, they may not have a choice as the debt keeps growing, depending on what the creditors dictate, moving into next year and beyond. It's a very vulnerable position to be in.

INTEREST RATES ARE DOWN... UNTIL

We'll know interest rates are clearly heading higher once T-Bills and the 30 year yield rise and stay above .50% and 4.67%, respectively because this will turn the mega trend up (see **Chart 8**).

Interestingly, **Chart 9** is telling us that this may happen fairly soon. This chart shows a short-term interest rate (T-Bills) and a long-term rate (30 year yield) going back to 1980, and the spread or difference between these two interest rates is shown below.

First, note that the spread is now very low (see number 4). In other words, the difference between these two interest rates is historically wide and this has only occurred three times over the past 30 years. In the previous cases, a spread this wide

CHART 8

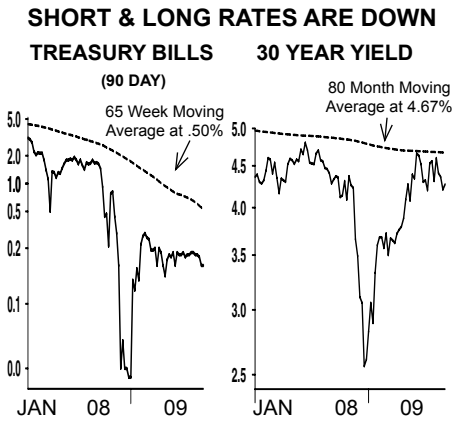
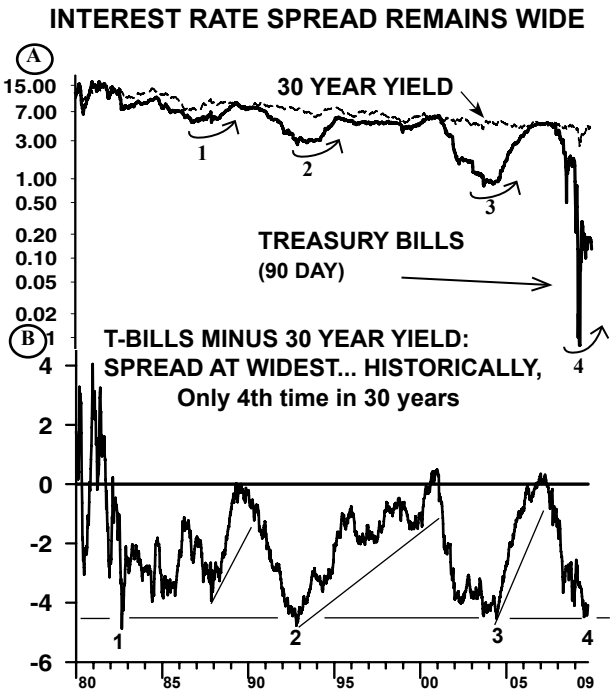


CHART 9



preceded a rise in interest rates and that will now likely happen again (see **Chart 9A**).

How can interest rates rise in the current, still vulnerable economic environment? They probably won't, at least not yet. As we mentioned, for now interest rates are poised to fall further in the near-term, which will bode well for adjustable rate mortgage (ARMS) holders. This means bond prices are headed higher. This is not unusual considering that bond prices suffered their biggest drop in 30 years this year. Following a decline like that, some sort of rebound is normal and that's what's currently happening.

But once this rebound is over and interest rates hit their lows, which will probably be in the weeks ahead, we'll be watching rates closely for a rise above those key levels, perhaps later this year.

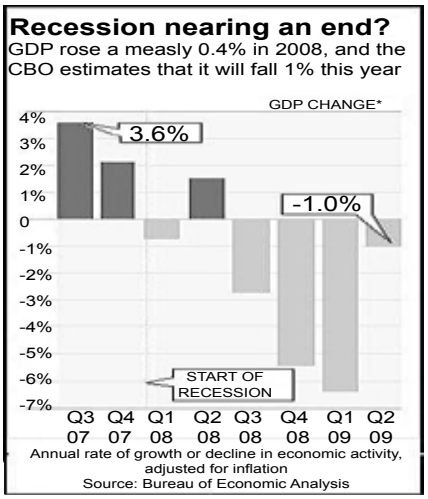
ONE STEP AT A TIME

Currently, the economy is getting better but it's not out of the woods yet. GDP is still negative but it's not as negative as it was (see **Chart 10**). Plus, inflation remains low. This provides a good environment for rising bond prices and low interest rates.

But sooner or later inflation is going to start picking up in response to all of the spending and the huge surge in money supply over the past couple of years, which has been more than double the surge prior to the 1970s soaring inflation era. Back then, interest rates hit 20% and we'll likely see rates really take off on the upside this time around as well.

Like we've been saying, continue to sit tight and let's see how things unfold. If the above scenario comes to pass as we suspect, the current bond price rise will provide a good opportunity to sell some bonds, for those of you who have them, or buy into a rising interest rate fund… but not yet.

CHART 10



CURRENCIES

U.S. Dollar: Dreary outlook

As long-time subscribers know, the outlook for the U.S. dollar is a sad one. That's not just our opinion, it's totally based on the facts… past, present and future.

U.S. DOLLAR: A sad tale

In fact, the fundamental factors for the dollar are worsening by the day as the U.S. goes deeper and deeper into debt at such a fast, intense pace. In July, for instance, the U.S. government spent more money than in any other month in U.S. history.

Remember, U.S. bonds are denominated in U.S. dollars and the U.S. is by far the world's largest debtor nation. So as the U.S.'s financial position deteriorates, so will the U.S. dollar. The ongoing debt and deficits will continue to undermine the dollar, eroding its foundation, making an ongoing fall in the dollar inevitable.

This of course won't happen right away. The dollar has already been falling for over 35 years. It's lost nearly 80% against the European currencies and even more in purchasing power over the decades. But the dollar has not gone straight

CHART 11

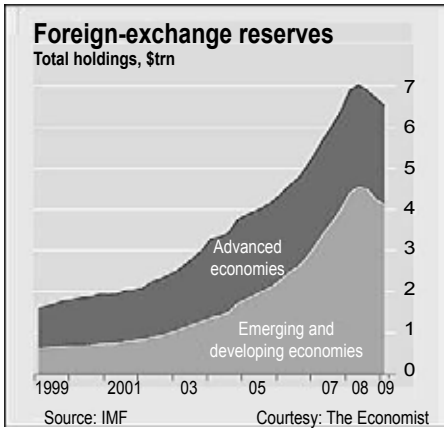
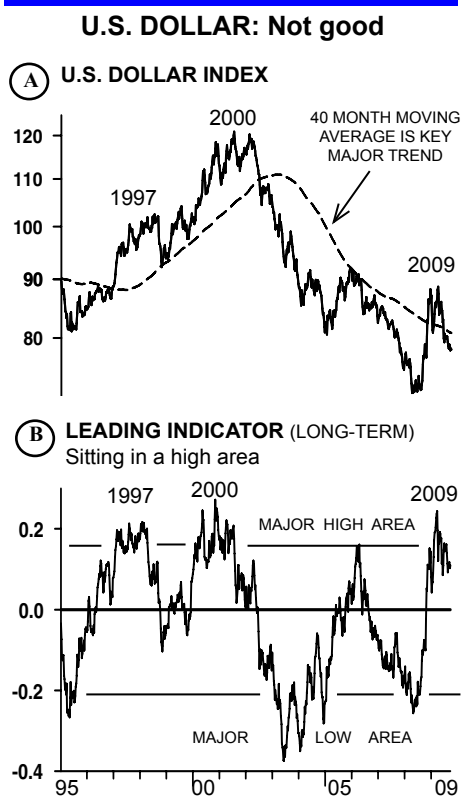


CHART 12



down. Ups and downs along the way have been normal. But always keep in mind, as long as the major trend is down, the ups will just be temporary pauses or corrections within the dollar's mega downtrend.

PROTECT YOURSELF

What can you do to protect yourself? You can diversify into some of the stronger currencies, which rise as the dollar falls, and you can buy gold since it's actually the ultimate currency. It will survive long after the dollar ceases to exist. To prove this point, consider that no paper currency in history has ever survived, but gold has. It's real, it has maintained its value for over 5,000 years and that's the longest-term track record we know of!

We feel this is now more important than it was in previous years. Why? For the first time, more countries have been voicing their concerns about the dollar and its role as the world's reserve currency. They're concerned that they have too many dollars in their reserves, which they've accumulated by buying U.S. bonds (see **Chart 11**).

This money has financed the U.S. debt but now these creditors are worried about what's happening on the spending front. So they're starting to diversify into other currencies and they'd like to replace the dollar as the main global reserve.

This is a huge deal and it's something that could really intensify the dollar's fall. The dollar is truly at the mercy of its creditors and this is not good.

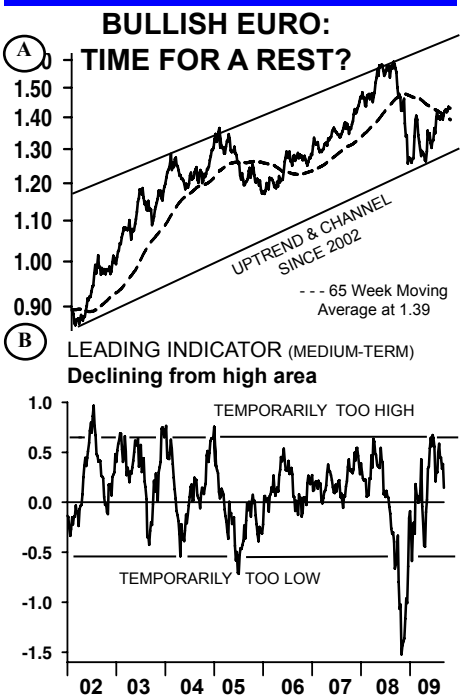
DOLLAR: Safe haven during heat of crisis

That's the big picture. But over the past year or so, risk has become the main reason why the dollar has been moving up or down.

Even though it doesn't make sense based on the big picture, when the credit crisis hit last year people turned to U.S. dollars as a "safe haven." That's because just about everything else was collapsing during the panic.

All investments were being sold off quickly and people just wanted to be in cash. The cash that seemed the least risky was the U.S. dollar, which is why it rose in late 2008 as demand increased (see **Chart 12A**).

CHART 14

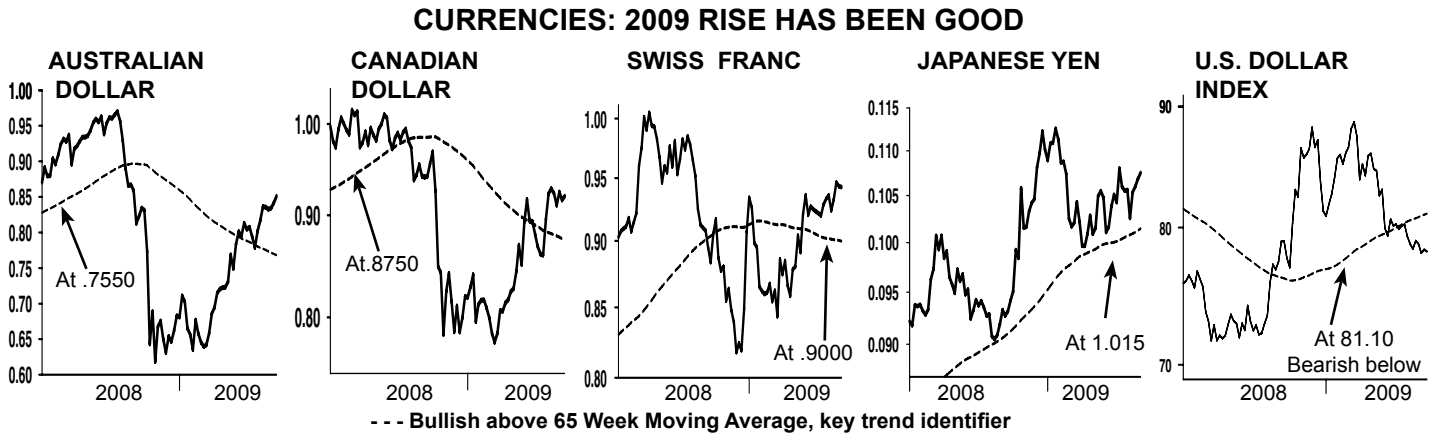


When things settled down, the dollar resumed its decline. It's currently bearish below its moving average, which identifies the long-term trend, and the major trend is down again. This means the dollar is going even lower in the months ahead.

This is also being reinforced by the dollar's leading indicator as it remains in a major high area (see **Chart 12B**). These major highs don't happen often but when they do, they precede significant falls in the dollar (see 1997 and 2000 as examples).

In the weeks ahead, however,

CHART 13



the dollar could move higher considering it fell far and fast this year. Perhaps it'll again become a safe haven due to some scare. We know this doesn't make sense either because gold is rising and they normally move in opposite directions, but anything is possible in the short-term.

CURRENCIES: Solid, yet too high for now

If the dollar does temporarily move up, it'll provide a great opportunity to diversify and buy some of the stronger currencies at a better price. We'll see what happens but this is something to be looking out for.

As you know, the currencies have been rising this year as the dollar declined (see **Chart 13**). The major trends are up, they are bullish and they're currently at or near new bull market highs. But the currencies are also temporarily overbought (see the euro's leading indicator on **Chart 14B** as an example).

This tells us that the currencies could now temporarily stabilize or possibly decline following their recent rises. This might be in reaction to some sort of renewed risk aversion, but if it happens it will provide another good opportunity to buy new currency positions.

Whatever the short-term brings, the outlook remains positive for further rises in the global currency markets for the months and probably years ahead. Base metals, oil and commodities prices have been rising, for instance, and they're poised to rise further. That will continue to keep upward pressure on the Australian and Canadian dollars because they're the best currencies from top commodity exporting countries.

In Europe, the news has been improving too. Confidence is way up across the board and manufacturing is starting to rise as well. This obviously bodes well for the euro and as the euro goes, so go most of the other currencies.

For now, keep your currency positions and buy new positions in the strongest ones.

METALS, NATURAL RESOURCES & ENERGY

Gold & Silver: The shining stars

Gold, silver and gold shares are jumping up right on schedule. Gold is now very close to its record high and all three are in 'break out' mode. The time of truth is at hand and it won't take much more strength to confirm that a stronger phase of the eight year old bull market has begun.

GOLD IS MONEY

We have often talked about gold's role in the monetary system. For many years it was tossed aside as a barbaric relic and the thinking was that it was old fashioned. Nixon reinforced this in the 1970s when he closed the gold window by taking the U. S. dollar off the gold standard. An energetic economy then became most important.

But in spite of the generally strong U.S. economy and the growing global economies since the 1970s, the dollar has been weakening. Gold has been moving up quietly this decade, because your average person or investor is still essentially unaware of its strength, but that will likely soon change.

GOLD: Strong in all currencies…

In today's world it's important that gold rise in all currencies. Why? Very simply, it will reconfirm that gold's strength is powerful and real. We think this is ready to happen.

Looking first at **Chart 15** (left side), you can see that the gold price has tested the $1000 level twice since March 2008 when it first reached a record high, and this level is currently being tested for the third time. If gold now closes clearly above $1004, it will be breaking into record high territory. This would confirm a stronger phase of the ongoing bull market and you can bet it would attract attention.

Interestingly, gold has also formed a head and shoulders technical pattern (see S, H, S). The rule of thumb is, if the NL resistance is broken on the upside, which it would if gold hits a record high, the price could rise the same distance as the size of this formation. In other words, gold could then continue up

CHART 15

GOLD STRONG IN U.S. DOLLARS AND IN EUROS

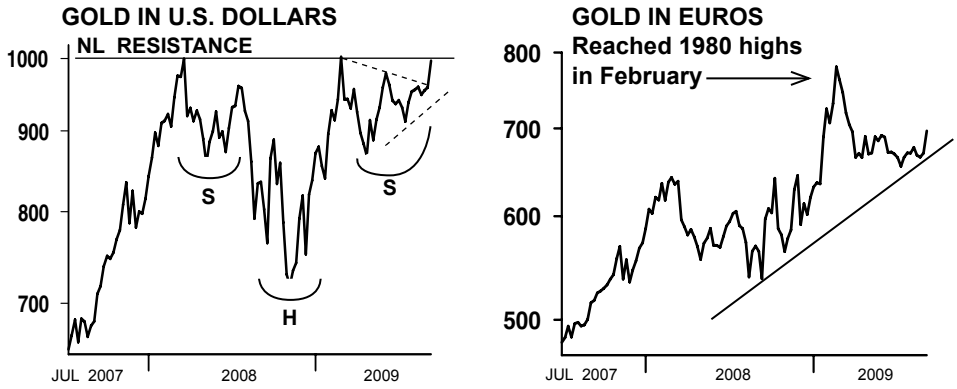
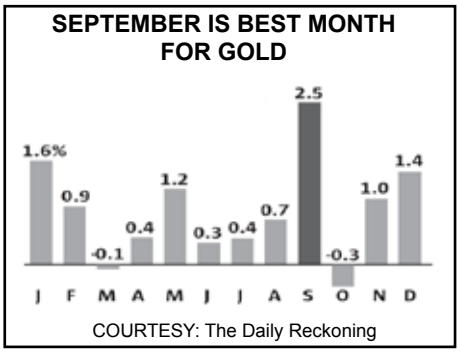


CHART 16



to near the $1400 level.

We'll soon see what happens but most interesting is that gold is also near a break out in euro terms as well (see **Chart 15,** right side). Note that it reached a new bull market high last February when it closed at its 1980 highs. The main point is, if gold can now reach a new record high in both dollars and euros it would be extremely bullish because it would be reaching a record high in the two most widely used currencies in the world.

… AND READY TO FLEX ITS MUSCLES

September is actually the best month for such a rise… seasonally. **Chart 16** clearly shows this as it identifies gold's average returns each month since 1969. As you can see, September has had the strongest price rise in gold. It's the time when gold is bought in India for their wedding season, and essentially in the jewelry industry.

Over the past months we've been encouraging you to complete your purchases before the Summer is over. If you haven't yet done so, then buy now before record highs are reached because once that happens, gold and silver will really take off.

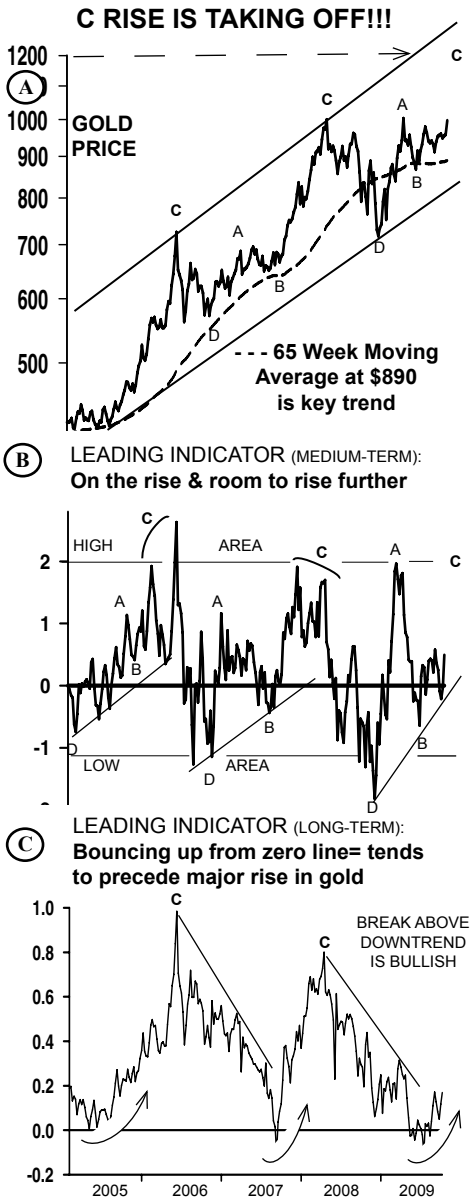
For now, what we call a "C" rise is ready to go. C rises are recurring, and they're the best intermediate rises in a bull market when gold reaches new highs (see top of **Chart 17**). This is why the current C rise is so important, because **it's the first C rise since the financial meltdown last year.**

The gold price is the central bankers' only real discipline. The Federal Reserve has created more credit and injected the most money into the system this year than any other time in its 95 year history, in order to save the economy from a deflationary collapse. But the Fed's actions, together with Obama's spending and the massive stimulus from central banks around the world nearly guarantees that the end result will be inflation.

The economy is recovering at a heavy price. And this month's gold rise suggests that inflation will eventually prevail. This will be especially true if gold clearly breaks out to record highs. **It will be saying that the government is actively creating inflation.** This is also why the current C rise is so important.

Chart 17 shows that gold has the strength and the room to rise into record high territory. The leading indicator (**B**) is poised to complete a strong C rise and the gold price (**A**) shows that once a record high is reached, gold could indeed jump up to the $1200 level as its first target. The long-term indicator (C) is also in a special situation that usually precedes a strong rise.

CHART 17



Once gold embarks on a stronger phase of the bull market, it's not inconceivable that gold could eventually reach the $2,000 to even the $5000 level before the mega rise is over in the years ahead.

GOLD: Better than stocks, currencies & bonds

The stock market and the currencies have been good investments, but it's important to know that gold is the best investment. It's stronger than the currencies as you saw, and it's stronger than the stock and bond markets. **Chart 18**

CHART 18

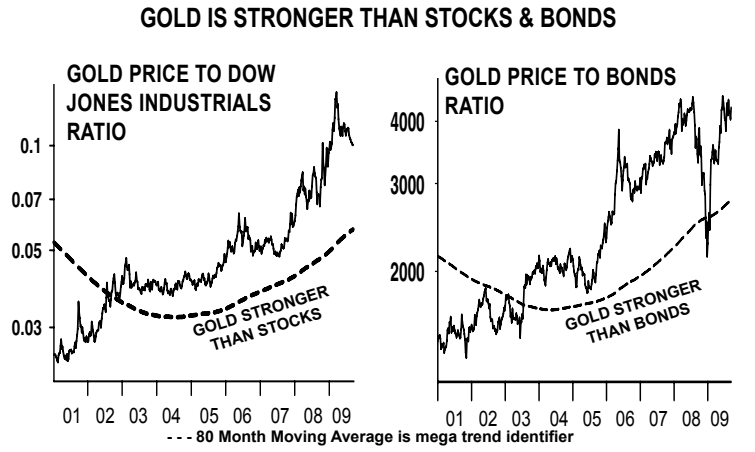
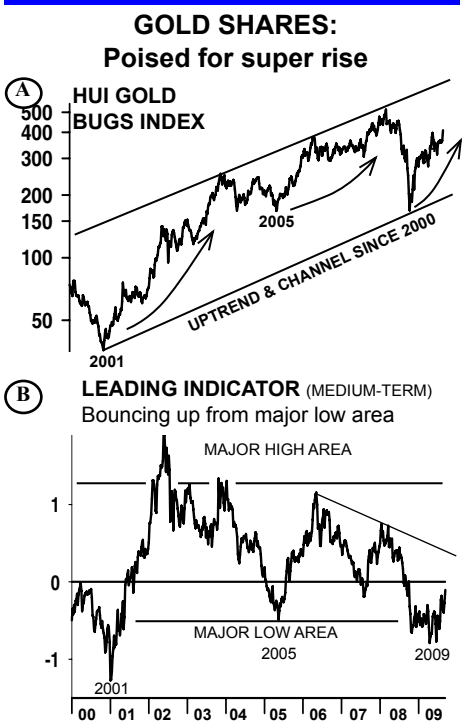


CHART 19



shows this clearly. Note that when comparing these markets, gold has been steadily stronger than the Dow Jones Industrials, and the U.S. bond market since 2001. Both ratios have been moving up since rising above the mega trend, the 80 month moving average, in 2003. This means that gold is solidly stronger and its gains have been greater.

We are invested in the different market sectors because the trends are up and we'll stay diversified as long as the trends stay up, but keep in mind that the strongest markets are in the gold and commodity sectors.

GOLD SHARES: Even better than gold

Gold shares have jumped up even more than gold in the recent run-up. Many gold shares gained about 10% in just two days! Interestingly, while September is gold's best performance month, it's also on average when gold shares tend to outperform gold, and so far this month has not been an exception. Gold shares have been stronger than gold since the lows last November (see **Chart 20A1**, which shows gold shares compared to gold).

Gold shares currently have great potential. Note, for instance, that the leading indicator for the HUI gold share index is rising from a major low area that in the past has preceded a great rise in gold shares, like in 2001 and 2005 (see **Chart 19**). So far in this decade, there has been a great rise in gold shares every four years. And the fourth year is now upon us.

For now, if the 206 level is surpassed on the XAU gold share index, it will be in new bull market high territory and super bullish (see **Chart 20A)**.

Our gold shares are doing great. Our strongest ones like IAG and EGO have risen 340% and 270% since last November, and both are already higher than last year's highs. We recommend buying new positions in the strongest gold shares and keep the ones you have.

China is now the world's biggest gold producer. It's been letting large foreign mining companies set up shop in China in search for gold. And it continues to encourage its citizens to buy gold.

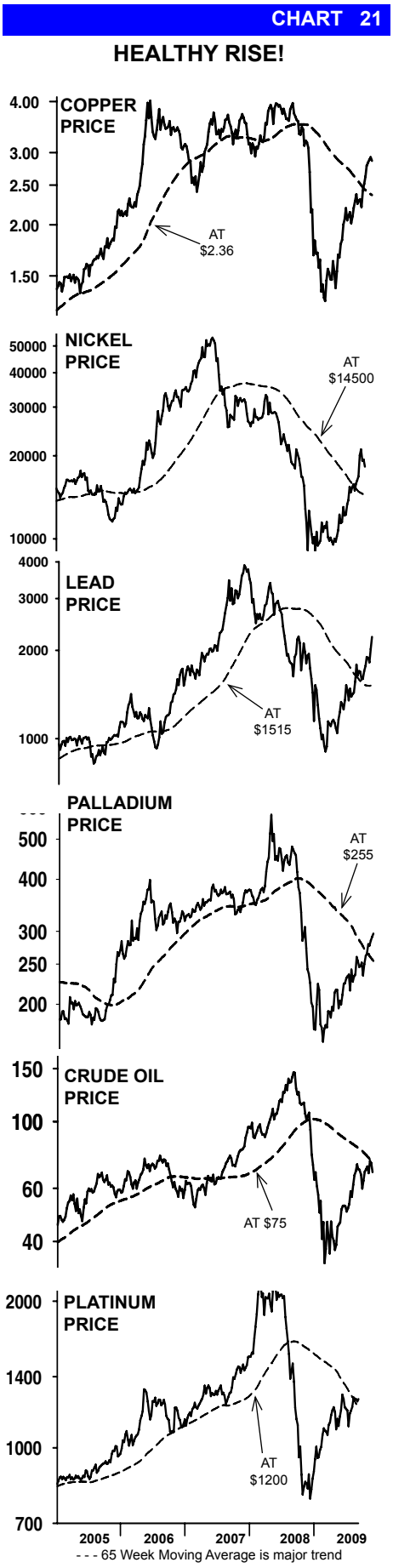
El Dorado Gold (EGO) is one company now well established in the China gold mining world. This month EGO agreed to buy the rest of Sino Gold. Once complete, EGO will be the clear leader among international gold producers in China. This Canadian gold mining company is one of the lowest cost, highest growth gold producers today and by owning EGO, you'll also have a China gold share investment. It's a clear buy and hold.

SILVER: Also better than gold

Silver is rising more than gold too. Silver had an extra jump up since rising back above its 65-week moving average last July (see **Chart 20B**). Silver was boosted by the rise in the base metals because it's both a precious and an industrial metal. If confidence in the economy continues, silver will continue to outperform gold (see **Chart 20B1**).

Investment is the main driver for silver, but it's also benefitting from the positive industrial outlook. Silver is strong above $14.40, and it's now poised to test the 2008 highs at the $19 to $20.80 level. Once silver breaks above the 2008 highs, the

CHART 20



bull market could soar.

Platinum and **palladium** have also been rising this year as well with palladium recently reaching an almost one year high. Both are strong and bullish above $1200 and $255, respectively. The fact that the four precious metals are rising is in itself a super bullish sign for the sector and the entire economy (see **Chart 21**).

RESOURCE & ENERGY: Sharp rise this year

The resource and energy sectors have been exciting. They've also been rising strongly and this is important for several reasons. Not only does it reinforce the bullish action in the precious metals, but in the recovering economy too. These markets are closely tied to the world's economic growth and as the global recession eases, demand for raw materials and oil grows.

Copper is the best barometer for economic growth. Its 120% rise this year reflects the confidence in world growth. Better signs in France, Germany and the U.S., together with China and the other Asian countries, is lifting copper to an almost one year high.

So far, the rises in the other metals have been strong rebound rises following last year's collapse.

All of the base metals are rising with copper, even though they each reached a peak at different times. Copper was the first to peak in 2006, nickel followed about a year later, and lead was one of the last to peak (see **Chart 21** as an example). So the fact that they're all rising together, above their 65-week moving averages, is another good sign for continued growth in the world.

Reinforcing this, commodity mutual fund's asset flows more than tripled, and world demand remains high. China was at it again this month as it continues searching for energy and resources around the world. Petro China is now acquiring its first Canadian oil sand company.

While alternative energy sources like wind, nuclear, gas and solar are used and will continue to grow in the future, crude oil is still the bloodline of the world. This is why crude is essentially rising on its own.

Chart 21 also shows the great rise in oil this year. Its 120% rise since February resisted this month near the $75 level, but once it breaks clearly above $75, oil's bull market will strengthen. Crude oil is poised to rise in an ongoing ascent in the years to come.

Energy and resource stocks have been rather sluggish, but give them time. This is a buy and hold sector.

MOVING WITH A V, U OR W ECONOMY

Much, however, will depend on the big unknown… will we see a V, U or W type of economic recovery?

A "V" recovery, for example, means the base metals and oil will continue to rise from here, well into 2010. A "U" recovery would suggest some sluggishness before further rises, possibly next year. A "W" recovery means we could see more weakness in the economy, which would cause volatility and a possible decline before this sector heads higher. Overall, however, as the global recession continues to ease, commodities will head higher and their future looks bright with prices rising as the years unfold.

The stock, bond and currency markets are also tied to the type of economic recovery we will have going forward. The V, U or W recovery will influence all of these markets similarly. So stay tuned.

UPCOMING CONFERENCES

Oct 7-11, 2009 in New Orleans - Hilton Hotel.

We both will be speaking at the grand daddy of investment conferences, The New Orleans Investment Conference. There will be a line up of impressive speakers. Go to: www.neworleansconference.com

Nov 21-22, 2009 in San Francisco - Marriott Marquis.

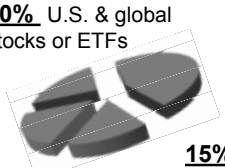
Pam will be speaking at the Hard Assets Investment Conference. The admission is free if you sign up beforehand on the website. hardassetssf.com

We look forward to seeing you at one or both of these events.

Best wishes, Pam and Mary Anne

OVERALL PORTFOLIO RECOMMENDATION

The markets are looking good. Our recommended sectors and stocks are doing well. Gold is surging, along with the other metals, the U.S. and global stock markets and the currencies. Keep the positions you have, ideally keeping your total portfolio broken down in the markets and percentages shown on the right. **For new positions, buy the strongest stocks in each sector, listed at the top of each category.** Put a larger emphasis on the strongest sector... gold, silver and gold shares.



20% U.S. & global stocks or ETFs

45% Metals Gold & silver physical & ETFs, & gold shares

15% Energy & resource stocks

20% Cash: Australian and Canadian dollars, euro or currency funds

STOCK MARKET RECOMMENDATION

The world stock markets remain strong and bullish. Some are correcting downward following their steep rises but they're all poised to rise further in the months ahead. Some caution, however, is warranted because the markets are temporarily overbought and September is often a down month. Currently, we recommend putting no more than 20% of your total portfolio into the common stocks, which are listed under "U.S. & Global stocks". (Energy, resource and gold stocks are exceptions and they're in another category.) Keep the stocks you have. If you haven't bought yet, the downward correction will provide a good opportunity to buy new positions, or only buy the strongest common stocks at this time.

PRECIOUS METALS, ENERGY, RESOURCE & THEIR SHARES RECOMMENDATION

Gold, silver and gold shares are soaring, right on schedule, in a strong rise we call 'C.' Gold is now near its record high level. If it closes clearly above $1004 it'll be breaking into record high territory, which would be very bullish. Gold could then soar because its eight year old bull market will be entering a stronger phase of the bull market. More fuel would be added to the rise if gold reaches a new high in euro terms too. Silver and gold shares are even stronger than gold, and September tends to be the best month for a strong rise. Silver is poised to test the 2008 highs at the $19 to $20.80 level. Our gold shares are super strong. The best ones are clearly IAG and EGO, but the box on the right lists our recommended shares in order of strength. By now you should have all of your gold, silver & share positions bought, but if not, buy now. For gold and silver itself, we like coins and the ETFs listed in bold. CEF is a Canadian fund that has only physical gold and silver. We are adding Silver Wheaton (SLW) to our buy recommendations because it's the strongest silver share. Copper continues to reach new highs and FCX is our strongest resource share. The oil price remains firm and it's a matter of time before new highs are reached. Keep your resource and energy shares.

INTEREST RATE & BOND RECOMMENDATION

Interest rates declined this month. They could still fall further in the weeks ahead as bond prices rise. But once this decline is over, interest rates will likely head much higher while bond prices resume their decline. If you own bonds, this current correction will provide a good opportunity to sell some bonds, buy a rising rate fund or to short bonds... but not yet.

CURRENCIES RECOMMENDATION

The U.S. dollar is weak and it's headed lower in the months and years ahead. Our recommended currencies are bullish and they're currently at or near new bull market highs. But the currencies are overbought and they could temporarily stabilize or possibly decline. If so, that'll provide a good opportunity to buy new currency positions. Whatever the short-term outcome, for now keep the currencies you have and buy new positions in the strongest ones, which are the Australian and Canadian dollars, and the euro. The New Zealand dollar is also strong. We also manage currency accounts. For info, write info@adenforecast.com

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

Iamgold	IAG-NYSE
Eldorado Gold	EGO-AMEX
Silver Wheaton *	SLW-NYSE
GoldCorp	GG-NYSE
Kinross Gold	KGC-NYSE
Agnico Eagle	AEM-NYSE
Mkt Vectors ETF	GDX-AMEX
iShares Silver Trust	**SLV-AMEX**
Central Fd of Can	CEF-AMEX
SPDR Gold Trust	**GLD-NYSE**
iShares Comex Gold	**IAU-AMEX**
Central Gold Trust	GTU-NYSE

U.S. & GLOBAL STOCKS

Turkish Invest	TKF-NYSE
Templeton Emg Mkts	EMF-NYSE
iShares Mexico	EWW-NYSEArca
Gldn Dragon China	PGJ-NYSEArca
SPDR Consumer Dis	XLY-NYSEArca
iShares S&P Glbl Tech	IXN-NYSEArca
Prshrs Dynamic Soft	PSJ-NYSEArca
iShares S&P Tech	IGM-NYSEArca
Nasdaq ETF	QQQQ-Nasdaq
Dow Diamonds	DIA-NYSEArca
Japan Smlr Cap	JOF-NYSE

RESOURCE & ENERGY SHARES

Freeport McMoran	FCX-NYSE
BHP Billiton	BHP-NYSE
RioTinto	RTP-NYSE
Cameco	CCJ-NYSE
Denbury Res	DNR-NYSE
Suncor Energy	SU-NYSE
Transocean	RIG-NYSE

CURRENCY ETFs & FUNDS

Australian Dl Tr	FXA-NYSE
Merk HD Cur Inv	MERKX-NSDQ
Canadian DL Tr	FXC-NYSE
Euro Currency Tr	FXE-NYSE
Franklin Temp Hard	ICPHX-NSDQ

*** New Positions**

Note: All of the shares, funds and ETFs are listed in order of strength in each section. Buy new positions in the strongest ones. The gold and silver ETFs are listed above in bold.

