THE
# ADEN FORECAST
MONEY • METALS • MARKETS

SEPT 2010

*our 29th year*

# STRUGGLING ECONOMY TRYING TO RECOVER... WITH HELP

Confusing times. As long-term readers know, this happens from time to time, actually more often than not, and this is again one of those times.

You see it on the news where everyone is debating, or simply arguing that their view is correct. It's in the newspapers and on the net.

## OPINIONS WIDESPREAD

In fact, it's hard to remember a time when analysts and commentators were so divided. Opinions are all over the place.

That's especially true in the political arena. Should the government provide more assistance or not? Should it do all it can to avoid a recession, or let the chips fall where they may? Should it keep building up massive debts? Is the U.S. becoming a socialist state?

And it goes on from there... Is Obama ruining the country? Will more freedoms be lost? What about the war? Rich versus poor? Higher taxes? Is climate change real or not? Is the U.S. following in Japan's footsteps? Will jobs ever return or are they gone forever? What about housing? Is it unrealistic for most people to own a home? What lies ahead?

You name it and people are divided. Hatred and anger are brewing and uncertainty reigns. The markets are reflecting this and so is the economy.

One month things are looking better, then they turn down... and so it goes, on and on. Volatility has become the norm because investors are nervous. They're confused and they really don't know where to turn, who to believe or what to do.

## RISK..... RISK AVERSION

So where does this leave us? As you'd expect, the markets are behaving just like the investors who are buying and selling. They're mixed.

One day risk aversion is in and everyone's scared. The next day risk is back and investors are feeling pretty good again.

But when you stand back and look at the big picture, all of the divisions, nervousness, uncertainty and political views generally **boil down to one thing... the economy.**

Yes, in most cases we believe it's that simple.

The economy has been faltering. GDP in the U.S. only grew 1.6% in the second quarter. The jobless recovery remains jobless, raising the question if this has been a recovery after all.

We know it was driven by government stimulus and now that most of the stimulus has been used up, the economy is having trouble making it on its own. This raises another question, can it? Based on the evidence, it doesn't look like it.

## ECONOMY DEPENDENT ON FED HELP

Jobless claims have been climbing, hitting an eight month high. Without jobs, people can't spend, make their payments or much less, buy a house... and the numbers this month were eye opening.

Home sales plunged 27% to a 15 year low and mounting foreclosures were largely to blame. There's simply too many houses on the market, which drives sales and prices down (see **Chart 1**) In fact, new home sales reported its slowest month in nearly 50 years.

This shows that without the homebuyer tax credits, the housing market wasn't able to pull out of its slump. It was being propped up by the housing stimulus and once it ended, housing continued on its downward path.

Remember, housing has usually been a leader. It's led the way out of recessions in seven out of the last eight cases. So this is either one of the exceptions, or the economy is still in trouble. And again, the evidence is leaning on the trouble side.

INSIDE

## FED TO THE RESCUE

Concern has been growing that the economy's headed for a double dip recession, or an outright deflation. And the Fed is concerned too. It's gone back to saying that it'll do whatever is needed to boost the economy to keep it from slumping, and it's starting to take action…

The Fed recently began buying more U.S. government debt in the hope of keeping the economy afloat and they're ready to do a lot more.

In other words, the Fed has said many times they're not going to let the economy go down the drain. Their response has been low interest rates and stimulation. That is, spending even more money.

Japan has been doing this for many years and it hasn't solved their problems. But nevertheless, the Fed is following in their footsteps.

In Japan's case, real estate prices never came back and neither did stock prices. Their boom ended with a long, drawn out bust. Is the U.S. doomed to the same fate? We can't be sure but so far, the similarities are striking.

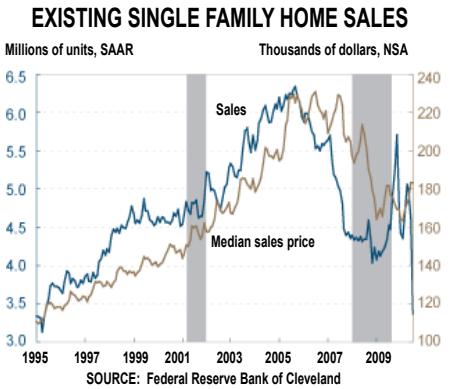
## ACTIONS SPEAK LOUDER THAN WORDS

While we obviously don't know what the Fed is thinking, with their actions we can see what they're doing. They know what worked before. **It was spending and stimulation.** And if it worked before, it'll work again.

So if more debt, a bubble here and there, a weaker dollar and eventual inflation are the inevitable results, then that's the way it'll be. There's really no other choice because the alternatives are unimaginable.

More unemployment, a deeper recession, a possible depression, a housing collapse, more bank and business failures, and social unrest are all possibilities… and they're out of the question.

**CHART 1**




By their actions the Fed has shown, time and time again, that whatever the ultimate consequences, they're better than the alternatives and they simply won't let it happen.

Many argue, let nature take its course. Let the markets correct their excesses, pay the price and then move on. This is fine from an academic viewpoint, but the government doesn't work that way.

Increasingly, over the decades, it feels it has an obligation to "fix things." That's what the majority of voters expect and that's what the government does.

Socialistic? Yes, but it's been that way for a long time and we don't see this changing any time soon. What does this mean for investors?

## MARKETS REACT

As we discussed last month, the markets will tell the story. And this month the story was most revealing.

The stock market fell sharply, reflecting its nervousness about the slowing economy and the possibility of a double dip recession.

The bond market was even more impressive.

It surged as long-term interest rates plunged. This too was for the same reasons, along with a flight to safety that drove investors to bonds since there were few other options available.

## BRIGHTER SIGNS

Currently, however, the markets are starting to look better, and so is the economy. The latest numbers are showing some improvement, for instance, in manufacturing, confidence, retail sales, jobs and even home sales.

It's still to be seen if this will continue, but if it does it'll be a big relief. As you'll see in this month's issue, the worst might be over, at least for the time being. That's what the markets are beginning to indicate but we need to see more.

Meanwhile, stock and bond volatility can be expected in the period ahead until the outlook is clearer.

**The real winner this month has been gold.** Once again we saw that when things are uncertain, gold shines.

It doesn't matter if there's concern about deflation, inflation, double dip… whatever, gold is showing its true colors as the safe haven, like it has for thousands of years.

In fact, the current environment could not be better for gold. As gold approaches its all time record high, it thrives during times like this. And if the Fed kicks in with more stimulation, which is very likely, it'll put even more upward pressure on the gold price.

As for the other markets, whichever way they go from here will be very important. For more on this, read on…

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

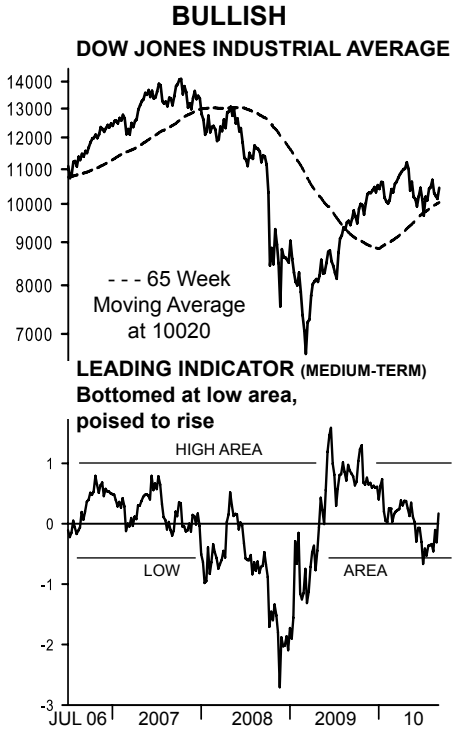
1-305-395-6141
In Costa Rica:
Ph: 506-2271-2293
Fax: 506-2272-6261
from the U.S. dial 011 first, otherwise dial 00

# U.S. & WORLD STOCK MARKETS
# Volatile and edgy... but still bullish

The stock market took investors on a scary ride this month. The market dropped steadily, pretty much across the board, affecting nearly all of the world stock markets.

At times it was touch and go as many investors bailed out of stocks, turning to the safety of bonds instead. For those who held on it was a seat of the pants experience. As the news continued to worsen, the stock market fell hard as doubts about the economy grew stronger.

CHART 3




## STABILIZING

The Dow Industrials broke below the psychologically important 10000 level. The news was about as grim as it could be but that ended up marking a key point.

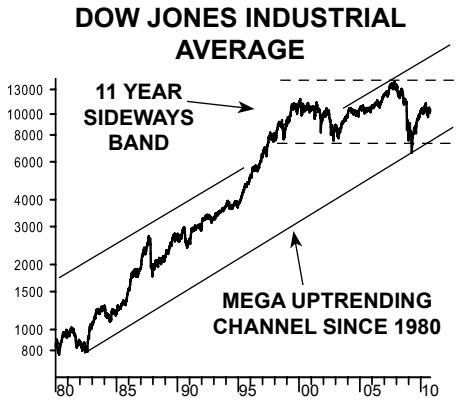
As is often the case, stocks then started moving up again. Better economic news, along with assurances by Bernanke, somewhat boosted optimism. The news out of China also improved and that helped too.

As the month of September began to unfold, things were starting to look better. And while it's still too soon to know if this is going to last, so far, we are seeing some positive signs.

Keep in mind, however, that the market has been very sensitive, insecure and uncertain. It's been bouncing around like a yo-yo. Also, September is historically a bad month for stocks. That's when some of the biggest market drops have occurred. That doesn't mean it has to happen again, but overall, caution is still warranted.

So where do we currently stand? Here's the situation...

CHART 4



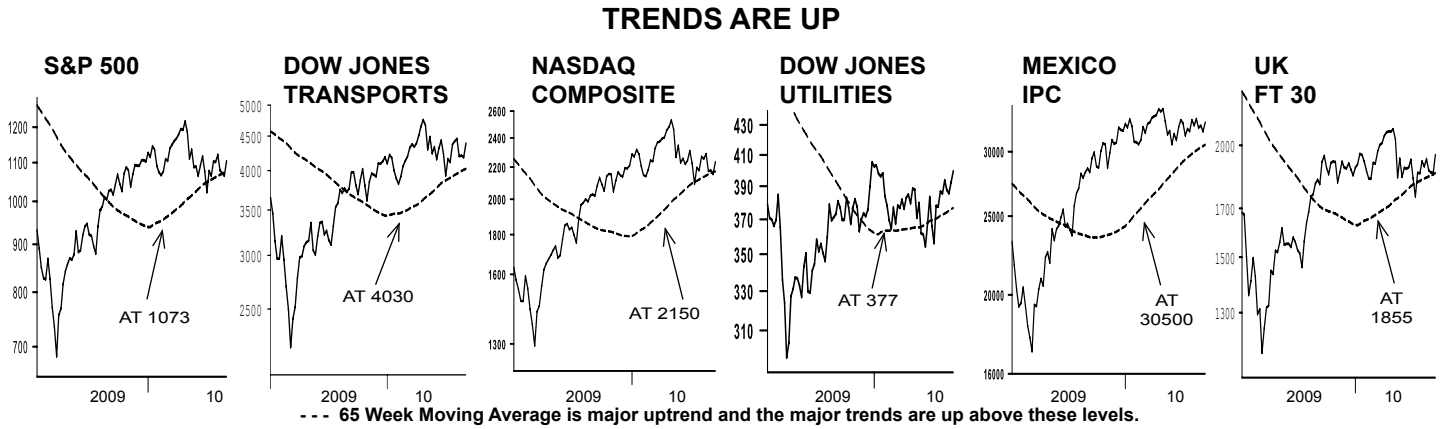

## MAJOR TREND STILL UP

As you can see on **Chart 2**, despite the steep declines this month, the main stock indices held at their major uptrends. That is, the major trends remain up. Most of the indices then reached nearly one month highs and the Dow Utilities, which often lead the others, hit an eight month high.

In addition, the Dow's leading indicator has been bottoming at a low area and it's now on the rise (see **Chart 3**). The others are similar. This tells us that stocks fell too far, too fast. They're oversold and they're currently poised to rise further.

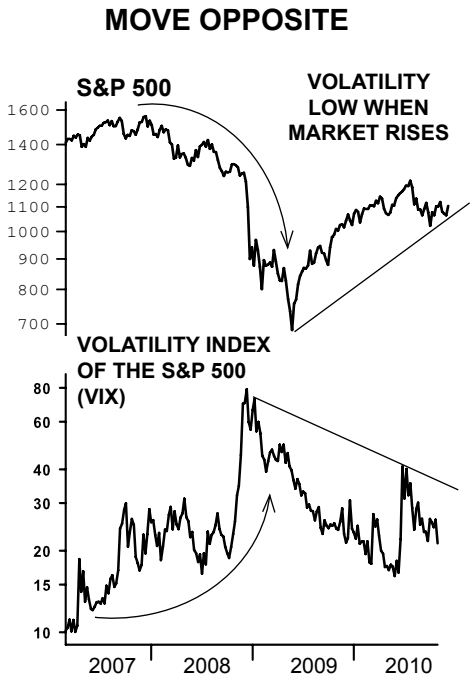
That's why we didn't sell our stocks during the weakness. Stocks are now bouncing back and we'll keep them for as long as this upmove continues.

CHART 2




- - - 65 Week Moving Average is major uptrend and the major trends are up above these levels.

CHART 5




How long could it last? That of course is the big question… it could be weeks, months or even another year or so. If the Fed takes the type of action they're suggesting and the economy keeps showing signs of improvement, then confidence will return and the market will continue to move higher.

## SHAKY FOUNDATION

That certainly doesn't mean that all will be well. It won't. The underlying economic foundation, built on massive spending and debt, is obviously unstable. This would essentially amount to another band aid and we have to recognize this. But it's been one band aid after another, and it can still result in an upmove in stocks worth taking advantage of.

That's essentially been the case since last year and the rise since then has been a good one. For now, it's still in force and it could end up being similar to the upmove in the early 2000s (see **Chart 4**). If so, then the Dow could continue up to the top of its sideways trading band and retest the highs.

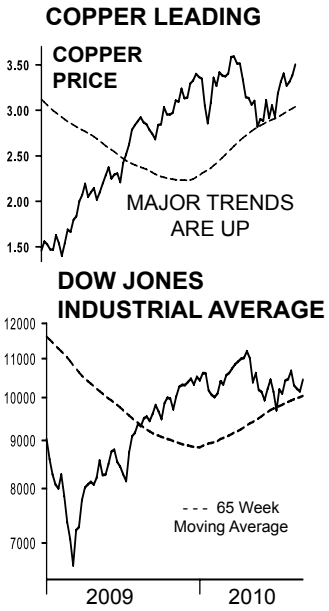
We'll see what happens. But for now, there are a couple of other positives we'd like to touch on…

One, the volatility index is declining and that too is good for stocks. Note that it surges when stocks decline (see **Chart 5**). But it's been in a downtrend since last year, despite its ups and downs, while the S&P500 has been in an uptrend.

Another positive is that copper is rising. As you know, copper is a widely followed barometer for world growth. If the global economy is recovering, the demand for copper goes up and so does the price.

And since the stock market reflects what's happening on the world economic stage, it shouldn't come as a surprise that these two markets tend to move together (see **Chart 6**). Currently, copper is at an over four month high. Like the Utilities, it appears to be leading the way and we'll soon see if that proves to be the case.

CHART 6




## ASIAN TIGERS ARE BACK

Last but certainly not least, is the strength in Asia. On the global front, nearly all of the world's economies are outpacing the U.S., but that's especially true in Asia.

Malaysia's economy, for example, recently grew near the fastest rate in 10 years and it's been our top stock performer for the past few months.

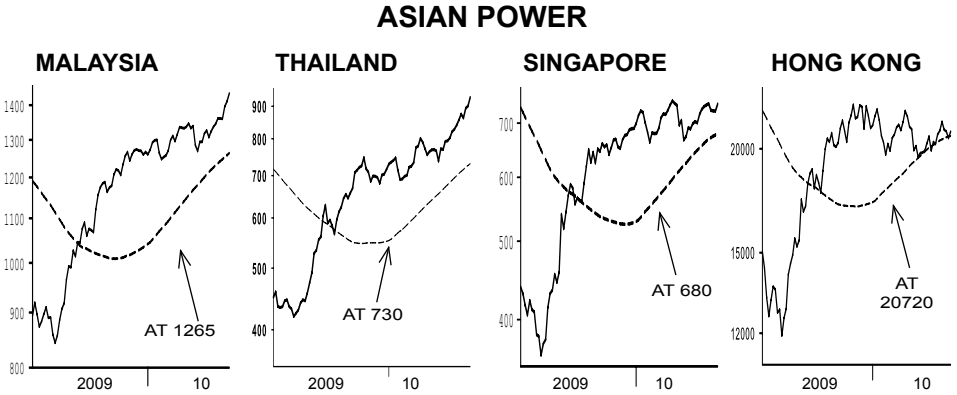
Singapore's growth is at 18%, China's is 10%, India is up 8.8% in the second quarter and it was about the same in the first quarter. This is being reflected in most of their stock markets, as you can see on **Chart 7**.

**The story is similar in other emerging nations.** These markets are clearly leading the way and it's important to stay informed on what's happening in these countries, now more than ever. They're moving and shaking most of the markets and their impact is not to be underestimated.

As our friend Dr. Marc Faber points out, "There is another point that the Superbears in the U.S. are overlooking… a huge new middle class of about two billion people with a combined spending power of $6.9 trillion annually has emerged in the emerging world. The rapidly growing ranks of middle class consumers span a dozen emerging nations, not just the fast growing BRIC countries. Our research suggests that this figure will rise to $20 trillion during the next decade – about twice the current consumption in the U.S."

Now that's clearly food for thought. This alone could keep the bull markets going and until we see otherwise, we'll let the markets tell the story and for now they're saying… stay with it.

CHART 7




--- 65 Week Moving Average is major uptrend and major trends are up above these levels

# U.S. INTEREST RATES AND BONDS

## Interest rates: Hitting rock bottom

As the news soured this month, bond prices surged. Nervous investors made safety a number one priority, so they stampeded into the bond market.

As you know, bonds have always been considered the safe haven for most investors. That's because they're backed by the U.S. government. And since the U.S. is the world's largest economy, it makes U.S. bonds very attractive.

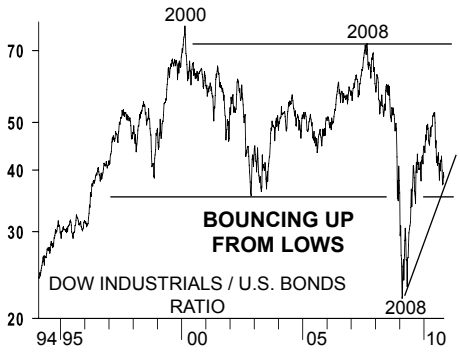
### THE RUN TO BONDS

That's clearly been the case during times of uncertainty. And when recession and deflation became the main concerns, interest rates dropped sharply and bond prices rose as demand soared, pushing inflation concerns to the back burner. That's what happened this month and it provided an ideal climate for rising bond prices.

In fact, the move in bonds was so intense it drove some bond yields to their lowest levels ever. This leads some to believe that bonds are in a bubble and increasingly, this seems to be true.

CHART 8

STOCKS COMPARED TO BONDS




Bond prices rose too far, too fast. They're way overpriced and the country's underlying fundamentals do not coincide with the recent action in bonds. But as we've seen many times before, the fundamentals often don't coincide and they can stay out of whack for quite a while.

Some investors are starting to see this and they're taking action. Some have turned to gold, which truly is a safe haven. Others are starting to take advantage of underpriced real estate deals. And others are simply going elsewhere.

### CHINESE DISCONTENT

Let's face it, the super low yields currently available are very unattractive. Most impressive and illustrating this point is that China cut its holdings of U.S. Treasury notes and bonds by the most ever!

As you know, the U.S. needs China to buy its bonds to finance its debt. It's by far one of the U.S.'s largest creditors, but China is looking out for itself. It's doing its own thing and China has so much money it can essentially do what it wants.

As our dear friend Chuck Butler notes, "Let's check the scorecard of milestones that China has reached over the past year… China is now officially the number 2 economy, size wise, in the world (surpassing Japan). China overtook the U.S. as the biggest automobile market, and they overtook Germany as the largest exporter. They are also the world's number one buyer of iron ore and copper, and they moved into #2 position as the biggest oil importers too."

That's quite a list and if you throw in the important fact that China also has the world's largest monetary reserves, you can see why it's important to keep up with what China is doing. For now, China is bullish on Europe, Japan, So. Korea and gold, which obviously hurts the U.S.

### BOND PEAK NEAR

Interestingly, Bill Gross, who runs the world's largest bond fund and is known as the bond guru, has cut back on his holdings of U.S. government bond debt too.

So far, other investors have basically picked up the slack, but for how long? With Bernanke at the helm and ready to take more action, this love affair with bonds is unlikely to last long and China may be leading the way.

If that proves to be the case, then interest rates will have to move higher to attract buyers. The U.S. dollar will also have to decline. It's really a case of supply and demand and there wouldn't be much choice.

### SOME RELIEF

Just recently, the economic numbers have been better and it's relieving some of the stress. Confidence, manufacturing, pending home sales

CHART 9

FALLEN FAR & FAST

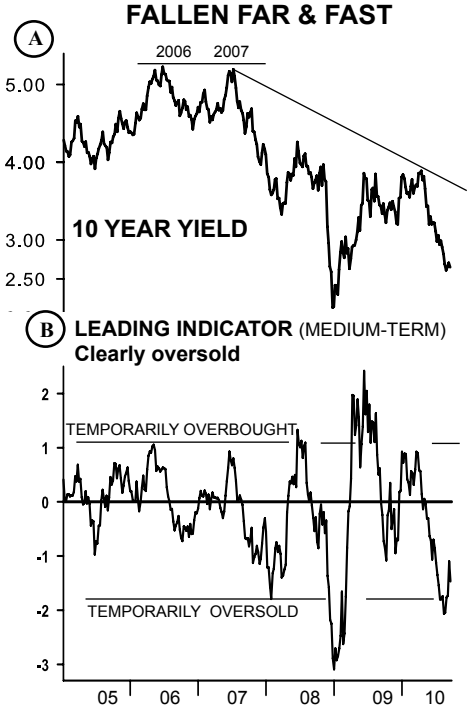



CHART 10

MEGA TREND IS DOWN

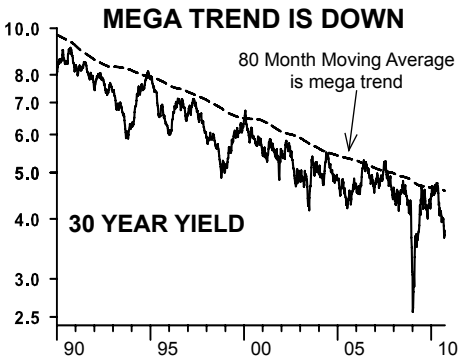
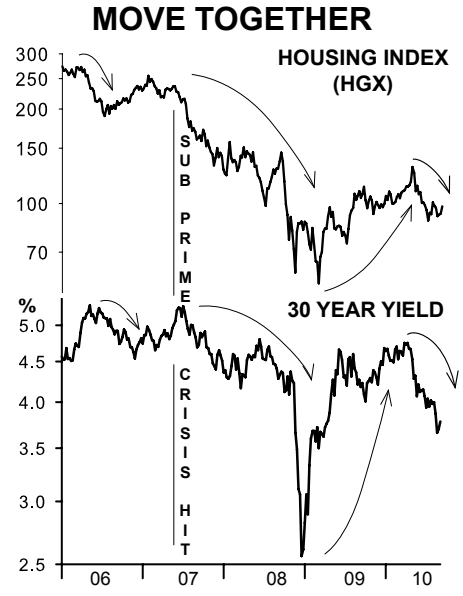


CHART 11




and spending, for instance, were up and companies added more jobs than forecast. While it's still too soon to tell if this will continue, the markets are starting to tell us that it could.

### STOCKS POISED TO OUTPERFORM BONDS

Not only has the stock market moved up but stocks are now positioned to outperform bonds (see **Chart 8**, which shows the ratio between stocks and bonds). If this ratio heads higher as we suspect, then stocks are going to keep rising and/or bonds will head lower. In either outcome, it looks like stocks will be the better investment looking ahead, not bonds.

Reinforcing this are interest rates as they are clearly oversold (see **Chart 9**). We know we've been saying that for a good while but the leading indicator is now rising. This suggests interest rates will likely soon head higher too (bonds lower).

In the current environment, it's hard to say how much higher, but at least a rebound rise is due following their steep decline. At this point, our strategy is to recoup the losses in our interest rate related investments and sell at a better price. We were wrong buying these when we did, but we plan to make the best of it, and sell at an opportune time.

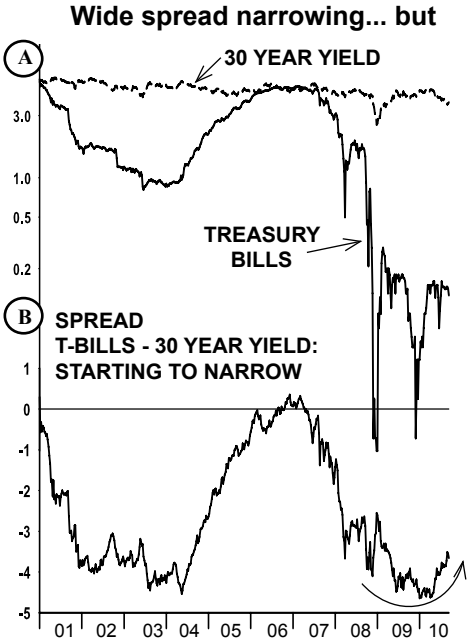
Earlier this year, the 30 year yield had been rising and it was starting to break above its mega moving average (see **Chart 10**). This would've been a huge deal, turning around the 20 year downtrend. We jumped the gun and bought a small position in these investments, but rates then resisted. They turned down, the economy stumbled and the downtrend remains in force.

### SOME LIGHT

But again, amongst the gloom and doom, we are starting to see a few positive glimmers. Aside from the latest, improving economic numbers, the co-creator of the widely followed Case-Shiller home price index says he sees "a lot of positive stuff, indicating a market beginning to recover."

If so, that would coincide with a low in interest rates since housing and interest rates generally move together (see **Chart 11**). As strange as this may seem, if rates start

CHART 12




rebounding, the housing market probably will too, which indirectly suggests it may indeed be near the lows.

Also showing some improvement is the spread between short and long-term interest rates. It's starting to rise and that too tends to coincide with better economic times (see **Chart 12**).

We'll soon see how it goes. These are volatile markets and anything is still possible. But one of the first signs that rates are headed higher would be a rise above 3.82%, then 3.95% on the 30 year yield. For now, we're taking this one step at a time and we'll be keeping you posted.

# CURRENCIES

## U.S. dollar: Downward pressure

The currency markets have been one of the most affected markets during the ups and downs in the economy.

### SAFETY WINS... BUT THEN NOT

The swings in the other markets and the economy has created a "risk is on, then it's off and run to safety" sentiment. This resulted in large swings in the currencies too. And whether they went up or down largely depended on the mood of the day, and whether they were deemed safe or not.

In more than one case, the safety rationale didn't really make sense. But again, this is just another example of the fundamentals not coinciding with the market action. Usually, sentiment is the driving factor, which is based strictly on emotions.

It grips the markets and that's just the way it is. It doesn't have to make sense. This is what makes markets volatile and it warrants

caution because in these cases, sentiment could turn on a dime.

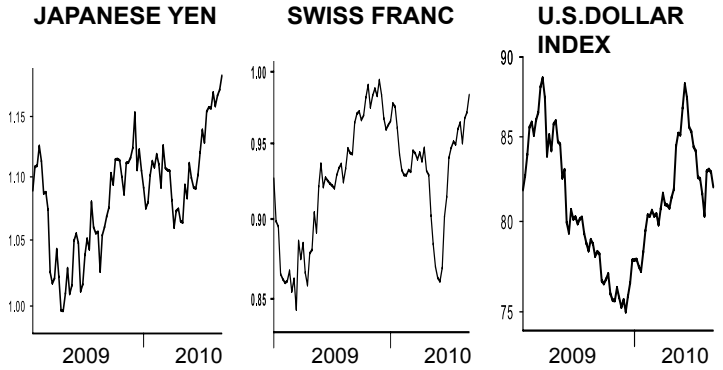
This phenomenon is explained well in the book, *Popular Illusions and the Madness of Crowds*. It's an old book but it shows that this has been true throughout history. The currencies simply provide the latest example.

## EMOTIONS DICTATE SAFETY

How else can you explain this year's strength in the U.S. dollar and Japanese yen? These two currencies have been considered safe havens, yet the fundamental factors backing these currencies are terrible (see **Chart 13**).

CHART 13

THE 'HAVENS'... FOR LONG?



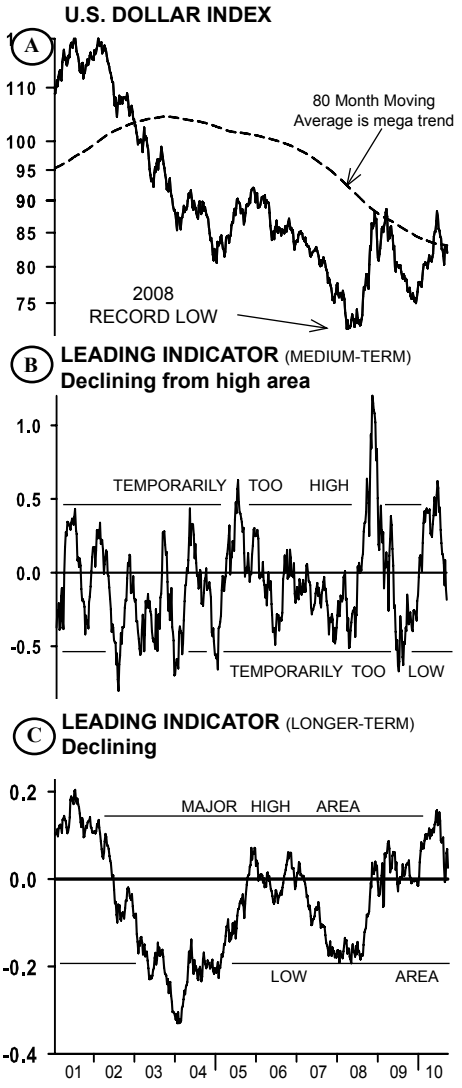

We've already discussed the U.S., but Japan is even worse. Its economy is barely squeaking by and its debt is massive. Plus, intervention to make the yen weaker is lurking overhead. Nevertheless, its rise has been super impressive but it may soon be going the way of the U.S. dollar.

As you can see, **the dollar is not such a hot haven anymore**. It's been very sensitive to the slightest hints of an economic recovery and it has declined as a result. Based on our indicators it looks like this is going to continue, which indirectly suggests an improving economy.

Note that the dollar index resisted at its mega downtrend and its leading indicators are declining (see **Chart 14**). This tells us that the U.S. dollar is going lower. And if it does, it will no longer be needed as a safe haven, which in turn means the yen won't be needed either and it'll likely follow the dollar down.

CHART 14

MAJOR TREND IS DOWN




**The Swiss franc is another story**. It's been the strongest currency in recent months, its fundamentals are good and it's also benefitted as an alternative to the debt woes in Europe. Plus, the Swiss franc has a long history as a safe haven over the decades (see **Chart 15**, which goes back to the early 1970s).

The Swiss franc is holding near the record highs, and it will likely stay strong, regardless of what happens in Europe and/or on the safe haven front. In other words, we expect it'll eventually part ways with the dollar and the yen, and continue moving up with the other currencies.

## COMMODITY CURRENCIES: Firm

The commodity currencies have been stalling due to concern about the slowing global economy (see **Chart 16**). But they remain bullish and so do the commodity markets. Big commodity demand countries, like China and India are strong, the oil price remains firm and this is all good for the Australian and Canadian dollars.

In addition, the Australian economy is looking good. It grew at the fastest rate in three years, along with consumer confidence and retail sales. This will help boost the high yielding currencies in general, especially if the global stock markets head higher as it'll defuse the safety sentiment, which has kept a lid on these currencies.

## EURO... BETTER NEWS

To some extent, the same is true of the euro but it also has other factors it's dealing with. The main concern is if the debt crisis that spooked the Euro zone a few months back is really over or not.

CHART 15

BIG PICTURE: POWERFUL

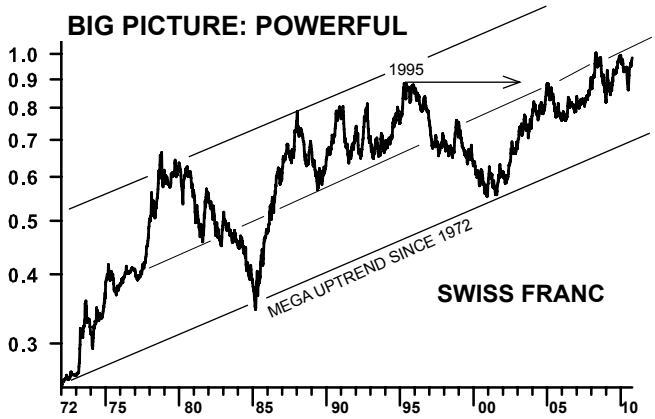
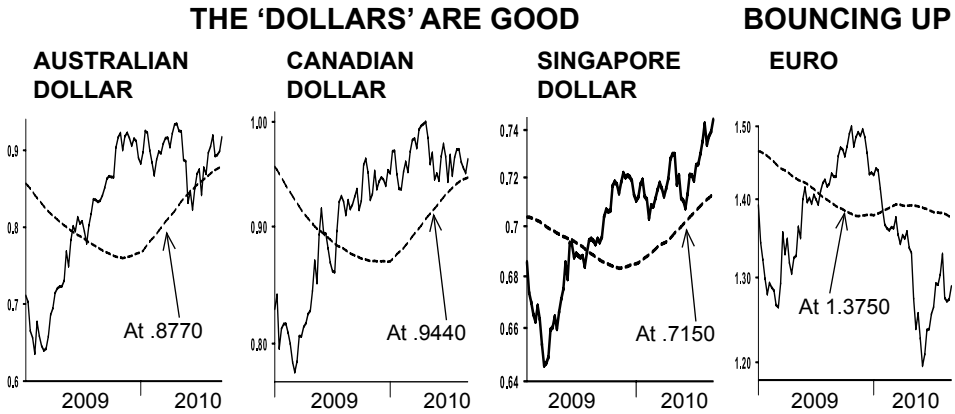


CHART 16




EU officials feel that the debt crisis is behind them. This has helped restore some confidence in the euro, along with other good results.

European exports, for instance, soared the most ever. Confidence in the economy is at a two year high and growth has been impressive, recently expanding at the fastest rate in four years.

Germany has always been known as the engine in Europe and it's again filling that role. Its economy just had the fastest growth since unification, over two decades ago. Unemployment is way down and these are all good signs that economic growth will continue in the Euro zone.

That of course will be positive for the euro and it's well positioned for a further rise. The same applies to our other recommended currencies and funds.

### WHAT TO DO...

For now, we're still keeping a small percentage in our recommended cash currency investments for a couple of reasons. These markets are not totally out of the woods yet and some caution is warranted. Plus, some of the other markets have better potential.

So keep the currencies you have and let's sit tight for the time being. If you haven't bought new currency positions, it's okay to buy now.

# METALS, NATURAL RESOURCES & ENERGY

## Gold: Strong bullish action

Gold's strength is unusual. Just when we thought that gold was finally taking a breather from its stellar rise, it quickly turned up.

Gold is again flirting with its June record high. The five week decline through July was moderate, giving up less than 8%, and this action is bullish.

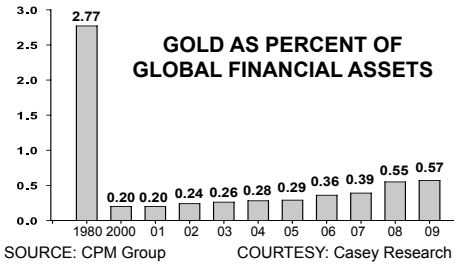
Someone is clearly buying up gold at every opportunity. Is it central banks, hedge funds or nervous investors?... We think it's all of the above and more.

Gold's decline in July coincided with growing concerns that a double dip recession and further economic weakness was imminent. But this uncertainty and fear caused a flight to safety, which pushed gold back up in an ongoing surging rise.

### NEW ERA

Many believe that gold will have a sharp decline before another up leg gets underway. While this is a possibility, it would therefore be surprising if gold now takes off in another leg up in the bull market. It's a rare time in history to see gold rise steadily for almost two years, without more than a 14% correction. This alone is why another leg up is unexpected.

CHART 17




This month, however, makes a year that gold broke up into a stronger phase of the bull market when it closed above $1,000. If gold rises from here, it will clearly reinforce that a stronger phase in a new era of the bull market is indeed underway.

Gold began a new era of rising prices in 2001. It wasn't until 2003 when silver and the resource sector followed as the real estate and emerging world started growing rapidly.

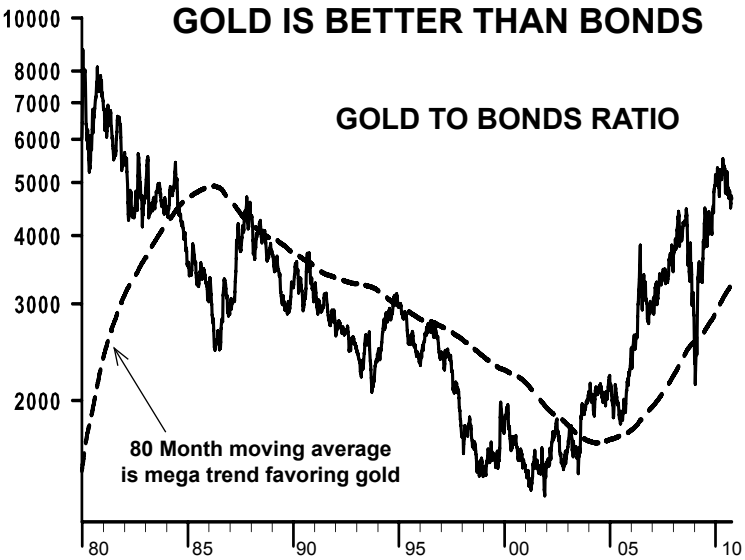
Gold's bull gained strength in 2005 when it started rising sharply versus most currencies. It wasn't until then that many realized the gold rise was real and not just due to a currency fluctuation. From there to 2008, gold shined, as did silver and others.

Most interesting is that gold was one of the few investments that ended 2008 in an up year. While it fell with the other markets during the worst financial crisis since the Great Depression, it fell much less than other markets and it was quick to rebound and end the year on the plus side.

This crisis changed the psyche of investors. Hedge fund managers started investing in bullion and gold mines, central banks bought more

CHART 18




and so did investors. Uncertainty took over and it's still in charge.

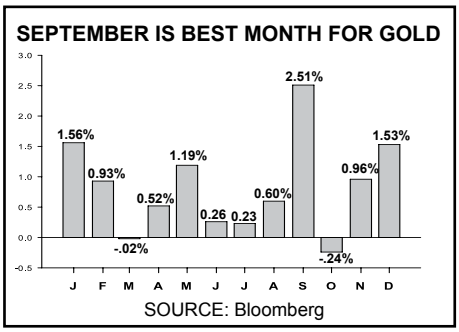
Reflecting on these events and today's reality, it's really not that hard to understand why gold hasn't declined more than 14% since November 2008, and that a stronger bull market began last year. Overall, gold and silver actually look ready for take off!

## DEMAND GROWING

Gold demand continues to grow. It surged 36% in the second quarter and the amount of gold held at exchange traded funds is way up. GLD is the sixth largest holder of gold in the world today.

But even with overall growing demand, gold as a percentage of global financial assets is still very small compared to 1980, when the gold price reached a record high (see **Chart 17**). Since 2000 that percentage has been growing but it remains at a low level.

CHART 19




This tells us that gold's bull market is still young, in spite of its 9½ year rise.

## GOLD SIMILAR TO STOCKS IN 1980-90

In fact, the gold price this past decade reminds us of the stock market in the 1980s. It had a good run but the best was still to come.

In those days, Japan was the hot stock market. This time around, it's all about China's economy and Asia.

The 1990s were filled with optimism and good times. A new revolution in technology was in full swing, which pushed the stock market to new heights.

In comparison, this next decade has the opposite outlook. While technology continues to get better, the U.S. and global economies are filled with debt, global power is shifting and we have war. This is a dark picture compared to the bright times in the 1990s.

This year, for instance, we've seen plenty of uncertainty, which has kept gold in a strong bull market.We think this is partially why today's bull market has been ignored. Rising gold represents a loss of confidence in the currency markets, especially in the dollar due to its reserve status.

It also represents financial turmoil and it's the central bank's report card. You saw this first hand this month when the Fed said the economy was faltering, that there would be more government spending and they would buy more debt. Gold rose on the news.

## GOLD STRONGER THAN BONDS

Meanwhile, bond prices have been soaring as interest rates decline. Recessionary pressures took their toll, but it looks like the bond strength won't be taking over gold's top spot. This is important and **Chart 18** shows it best. This ratio of gold compared to bonds identifies the mega trend clearly.

Note that in 2003, gold confirmed its strength over bonds for the first time in over 20 years as the ratio rose above its mega trend identifier, the 80 month moving average. It has since stayed clearly above this moving average, meaning gold has been stronger than bonds since then. (The brief dip below it during the heat of the meltdown in

CHART 20

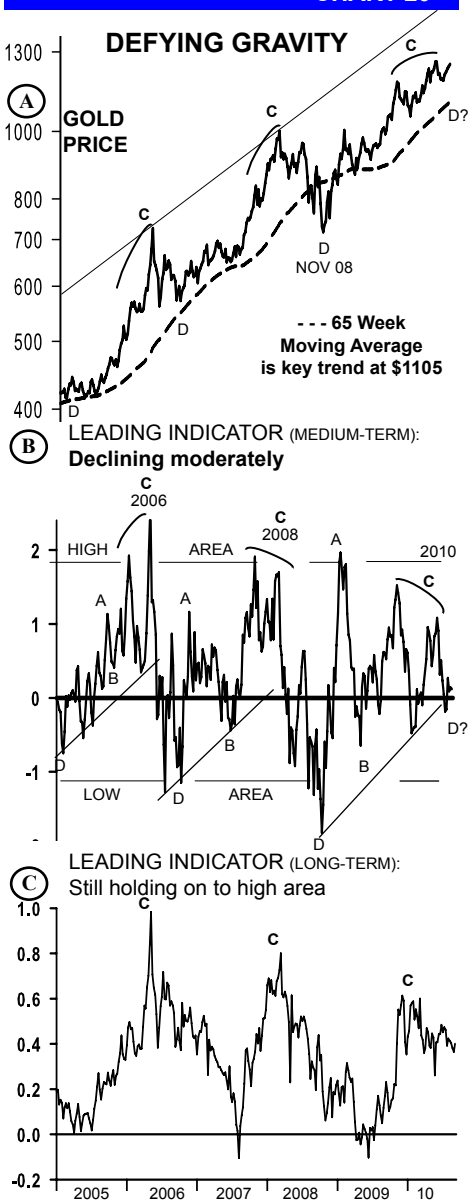
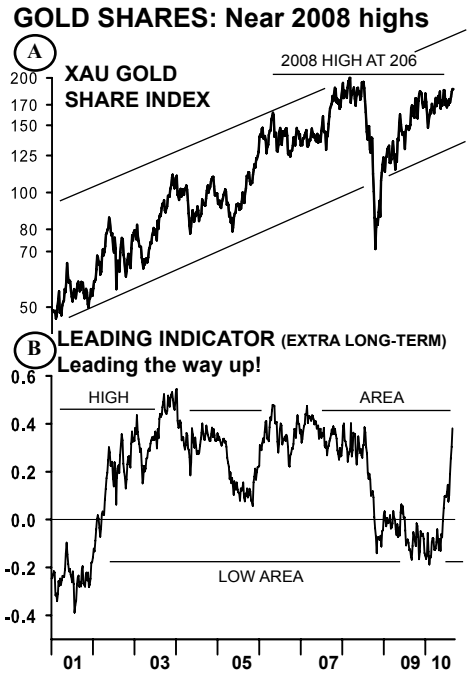


CHART 21




2008 was the only exception).

Plus, since gold reached a 25 year high versus bonds just last June, the bond strength in recent months is most likely temporary. The megatrend clearly favors gold, even if bonds were to strengthen more in the near run. This ratio is the key to the big picture and it's saying gold is the better investment... go with it.

Gold is stronger than stocks, bonds and the dollar, as well as most other currencies... and it's positioned to move higher in an intermediate rise, especially considering the seasonal trend.

**Chart 19** shows that gold tends to have its best rises in September. We are at that time now as Summer winds down and buying for jewelry begins.

## GOLD TIMING: What to watch for

So the fact that gold is rising and approaching its record highs as September gets underway is not unusual.

**Chart 20A** shows the best part of gold's bull market since 2005. Here you can see gold's strength. If the June record high at $1262.40 (basis December gold) is now surpassed, gold could then rise to the $1350 level as a next target. This would be near the top side of the rise and it would be in line with the previous peaks, labeled C.

The two indicators (**B** & **C**) are holding firm. This means if they rise from here, then we haven't yet seen the end of the C rise. Granted it's been long, which is unusual... but then again we are in unusual times.

**Keep an eye on**... $1262.40 as a clear close above it would mean a super strong upmove is underway. Meanwhile, the gold price will remain very strong above $1230, but it's strong nonetheless by staying above $1200.

On the downside, the July low and the 65-week moving average are key supports. This low is at $1162 basis December gold, and the moving average is at $1105.

Last year the $1000 - $1100 was the strong side for gold. Now the $1100 area is key support. This is indicative of a solid bull market.

For those of you who have been waiting to buy at a better price, we believe it's best to average in. A correction will come, likely in October, and when it does, take advantage of it but don't wait for it completely.

Keep new positions focused on gold and silver.

CHART 22


## GOLD SHARES: Near highs

Gold shares are rising with gold. They've been in a quiet, solid rise since November 2008 and they're approaching their 2008 highs.

**Chart 21** shows that if XAU closes above 206, it will be a clean break out. Its indicator (**B**) appears to be leading gold shares up. As long as the XAU index stays above 167, the uptrend is solid.

## SILVER: 2½ year high

Silver is starting to take off. It jumped up in recent weeks, approaching its 2008 highs, as it benefits from the gold and copper rise.

You may remember that silver outperforms gold when the resource sector and gold are both strong at the same time. This was the case in the 2003-2007 time period and it's starting to be the case now (see **Chart 22A**).

CHART 23

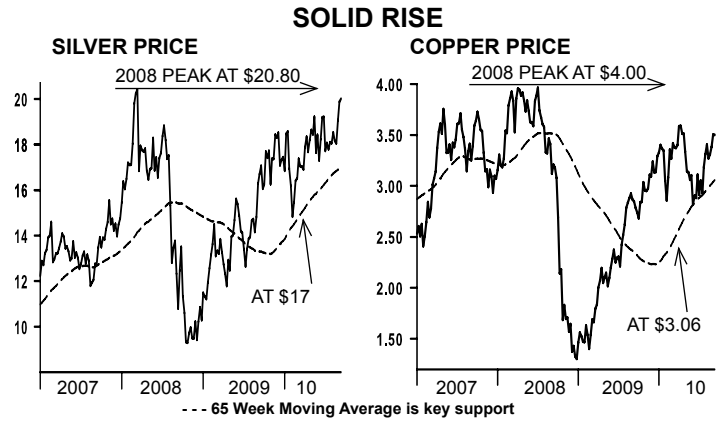
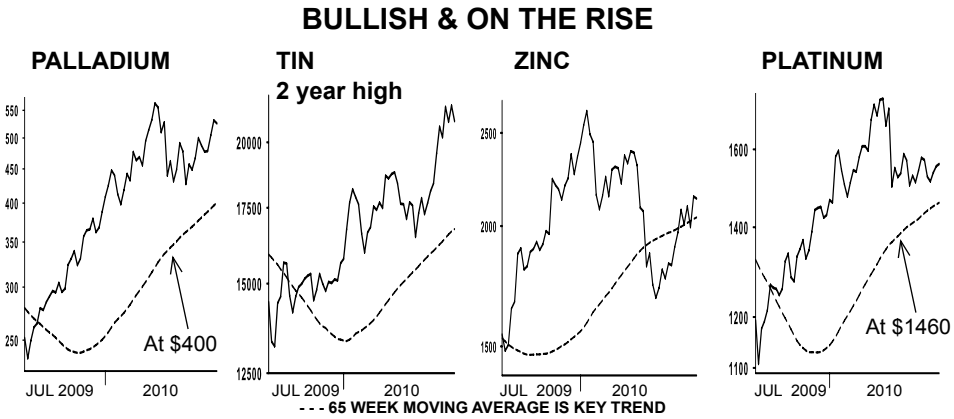


CHART 24




Silver flip-flops between moving with the base metals and moving with gold. This is why silver bubbles when both are strong together. And it's why silver tends to soar when a rise begins.

Note silver's uptrend and channel since 1990. It actually reached a low in 1990 and it essentially moved sideways during the 1990s while gold fell. Silver is strong, it's bullish and it looks ready to bounce up.

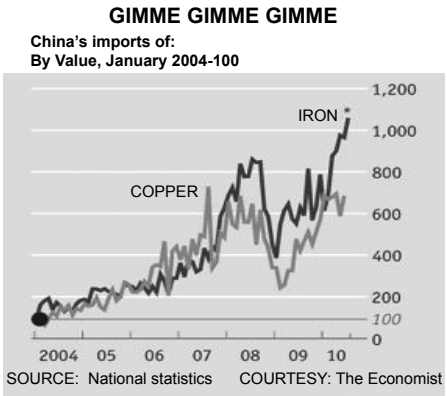
Keep an eye on **Chart 23** because once silver closes clearly above its 2008 closing high at $20.80, it will hit a 30 year high, and it could then jump up to the $25-$28 level as our next target.

Keep in mind, the $49 peak in 1980 was a clear blow-off due to the Hunt brothers cornering the silver market. The "comfortable high" was more like $35.

## RESOURCES: On the rise

The resource sector is on the rise as demand has been strong. **Chart 23** also shows the renewed rise in copper as it heads toward its 2008 high. Tin is at a two year high. The other white precious metals are looking good too as they benefit from the strong resource sector (see **Chart 24**).

CHART 25




The mining industry has been good, mainly thanks to China. Last year, for example, China took 67% of all internationally traded iron ore (see **Chart 25**). Meanwhile, it produces about 45% of the world's steel, which is five times more than the production in Japan, the second biggest producer.

In fact, steel companies recently got a boost from Obama's spending plans for transportation infrastructure to expand and renew roads, railways and runways. So whether it be emerging countries continuing to build or first world countries renewing their infrastructure, the resource sector is set to stay in high demand in the years to come.

Also when you consider that China overtook the top spot for cars, pushing the U.S. to second place, you can see the needs of an ever growing world. We believe this sector will continue to be a good investment over the long haul.

One of our favorite mines has been BHP Billiton, which has grown to the ninth largest market cap listed company in the world. Steel production provides one of the biggest boosts for BHP, but it's also the largest mining company in the world, reporting annual profits this month of over $12 billion.

BHP is emerging from the recession stronger than other miners. Rio Tinto is also a great company but BHP has left it in the dust as Rio's market cap is now two-thirds that of BHP.

Both are good companies. We've been recommending BHP since 2004 and we continue to highly recommend it for a long term position.

The agricultural market has been on the rise as well. As we showed you last month, wheat soared due to the drought in Russia, causing a loss of one-fourth of their wheat production. Other commodities are also on the rise, like coffee, cotton, soybeans, cattle, pork and corn. The bull market is rounding out into the whole sector, which is inflationary.

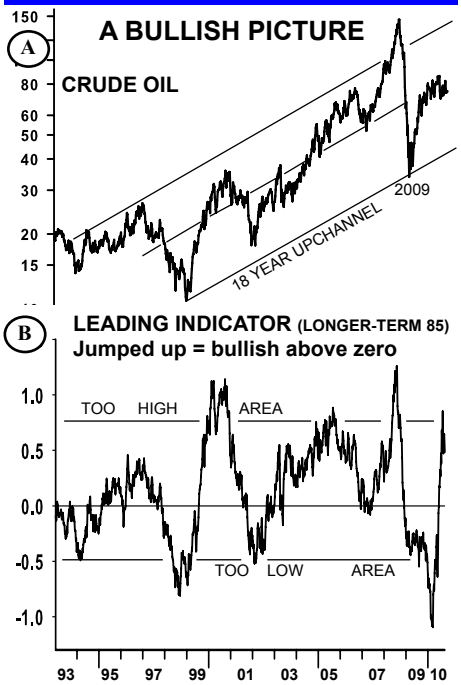
## ENERGY: Sluggish yet firm

Crude oil continues to base near the higher levels since retreating from its August high. It has been forming a more moderate rise for over a year now, but the trend is up and the indicators are bullish (see **Chart 26**).

If oil now stays above $70, and especially above $72, it's firm and stable in an upward path. But once it closes above $76, followed by a rise above $83, then a strong renewed rise will be underway. Energy is not performing as well as the resource sector this month, but it will catch up.

Meanwhile, natural gas is down, near the lows for the year, and it's been under pressure this year.

CHART 26



# OVERALL PORTFOLIO RECOMMENDATION

Investors are nervous and confused, fueling volatility in the markets. Nevertheless, despite this month's downward corrections, the major trends remain up for stocks, commodities and the currency markets, while interest rates are likely at the lows. The real winners this month are gold and silver. With some of our positions soaring and now overbought, while others are lagging and poised to catch up, we have changed our recommendations below, adding more strategy.

## PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

The gold price jumped up to test its record high while silver shot up to a 2½ year high, and both are poised to rise further. Gold and silver shares are following. The resource sector remains hot as it continues to rise. Silver is starting to outperform gold, which is a sign that both are set to rise in another leg up in the bull market.

We recommend buying new positions in gold and silver ETFs and coins only. Keep all of your open positions, but it's time to protect some by adding stop losses (see new section below). Platinum is lagging but it's ready to follow the others up.

Our resource and energy positions are similar. FCX has been soaring and we're adding a protective stop (see below). Otherwise, keep the positions you have, and buy new positions only in the following: BHP, RTP and BTU. The oil price is lagging but it's ready to follow the others, which will push up the energy sector.

Agriculture ETFs have been strong like JJA and DBR, but they are now overbought. We look forward to adding these to our portfolio on weakness.

## U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The stock market dropped this month in a steep downward correction. But the major trends remain up and stocks are currently positioned to rise further with the Dow Utilities and some of the global stock markets leading the way.

Some, like Malaysia, have soared while others have been basing. This means strategy has become more important. The most overbought positions will have stop losses added (see below). Otherwise, keep your positions and buy new ones only in: EMF, BKF and DIA.

## CURRENCIES RECOMMENDATION

Despite large swings in the currency markets, the major trends are still down for the U.S. dollar and up for most of the international currencies. Continue to hold the currencies and funds we've been recommending, but keep no more than 10% of your total portfolio in the currency markets. If you haven't bought yet, it's not too late to buy the Australian and Canadian dollars, as well as the euro and Swiss franc. The funds are fine too.

## INTEREST RATE & BOND RECOMMENDATION

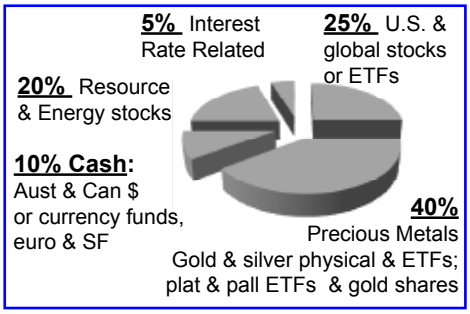
Bond prices surged this month in a flight to safety. Interest rates plunged. Bonds, however, rose too far, too fast and they're now poised to decline as interest rates head higher in a rebound rise. Our strategy is to recoup the losses in our small interest rate related investments by selling at a better price during this upcoming rebound. If you're holding RRPIX or TBT, keep them for now. If not, don't buy.

## PROTECTIVE STOPS ON OVERBOUGHT POSITIONS

Some of our positions have soared producing great profits. Since they have now moved into an overbought situation, it means two things... First, don't buy new positions in the following for now. Second, it's time to put protective stops on these positions and sell if the price declines below its stop.

| | | | | | |
|---|---|---|---|---|---|
| Silver Wheaton (SLW) | stop at | 21 | Malaysia (EWM) | stop at | 12.80 |
| Eldorado Gd (EGO) | stop at | 18 | Frprt McMoran (FCX) | stop at | 72 |
| New Gold (NGD) | stop at | 5.70 | | | |

**Note**: All of the shares, funds and ETFs are listed in order of strength in each section. Keep the ones you have on the list. The gold and silver ETFs are listed in bold.




## OUR OPEN POSITIONS

### GOLD & SILVER ETFs AND SHARES

| | |
|---|---|
| Silver Wheaton | SLW-NYSE |
| Central Fd of Can | CEF-AMEX |
| **iShares Silver Trust** | **SLV-AMEX** |
| Eldorado Gold | EGO-AMEX |
| **SPDR Gold Shares** | **GLD-NYSE** |
| **iShares Comex Gold** | **IAU-AMEX** |
| New Gold | NGD-AMEX |
| **Physical Palladium** | **PALL-NYSEArca** |
| Central Gold Trust | GTU-NYSE |
| Stillwater Mining | SWC-Nasdaq |
| **Physical Platinum** | **PPLT-NYSEArca** |

### RESOURCE & ENERGY SHARES

| | |
|---|---|
| Freeport McMoran | FCX-NYSE |
| BHP Billiton | BHP-NYSE |
| RioTinto | RTP-NYSE |
| Peabody Energy | BTU-NYSE |
| iShares Tr Glbl En | IXC-NYSEArca |
| US Steel | X-NYSE |
| Arcelor Mittal New | MT-NYSE |
| Suncor Energy | SU-NYSE |
| **US Oil Fund** | **USO-Nasdaq** |

### U.S. & GLOBAL STOCKS

| | |
|---|---|
| iShares Malaysia | EWM-NYSEArca |
| Templeton Emg Mkts | EMF-NYSE |
| iShares BRIC | BKF-NYSEArca |
| SPDR S&P Bio | XBI-NYSEArca |
| Dow Diamonds | DIA-NYSEArca |
| Nasdaq ETF | QQQQ-Nasdaq |
| PowerShrs Leisure | PEJ-NYSEArca |
| SPDR Consumer Dis | XLY-NYSEArca |
| iShares Mexico | EWW-NYSEArca |
| Prshrs Dynamic Soft | PSJ-NYSEArca |
| PowerShrs Finan | PFI-NYSEArca |
| iShares S&P Glbl Tech | IXN-NYSEArca |
| iShares S&P Tech | IGM-NYSEArca |
| Japan Small Cap | JOF-NYSE |

### CURRENCY ETFs & FUNDS

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

### INTEREST RATES

| | |
|---|---|
| Profunds Rising Rates | RRPIX-NYSE |
| Proshrs Ultra Short20+ | TBT-NYSEArca |