THE
ADEN FORECAST
MONEY • METALS • MARKETS

SEPTEMBER 2011 *our 30th year*

GROWING GLOBAL PAIN... WHILE GOLD GAINS

Once again, there was so much going on this month and there's a lot to sort through…

These are wild times. Big changes are happening and we realize it's sometimes hard to keep up.

It's actually been pretty exciting and it's hard to remember a time when so many fast-paced things were going on at the same time, all over the world. So let's take it one at a time, filter through the noise and look at what's most important…

IT'S ALL ABOUT SAFETY

First, gold soared, hitting yet another record high as it closed in on the big $2000 level. There were many reasons for this, but as you'll see in this month's Metals section, gold is really breaking away and coming into its own. It's doing what it's always done during times of global uncertainty, and these are indeed uncertain times.

Despite its volatility, gold is truly shining as the world's #1 safe haven. And with the Swiss taking dramatic measures to halt the rise in the Swiss franc, which had been one of the other safe havens, it made gold even more attractive.

U.S. bonds have been the #2 safe haven. Growing signs the global economy is slowing have given bonds a real boost. As a result, bonds have been outperforming global stocks, commodities and other world bond markets. The only exception has been gold and some of the other metals related investments.

FEAR & UNCERTAINTY REIGN

Fear and uncertainty have been the driving factors behind the markets. The whole world seems to be anxious about what's coming next.

Stocks are bearish, the developed world's finances are on shaky ground, the future of the Eurozone is seriously being questioned, banks are again undergoing stress, jobs are not available, protests and unrest are becoming more common in major cities, and a global recession has become more likely. So it's no wonder the markets are reacting the way they are (see **Chart 1**).

Meanwhile, world financial leaders are sounding the alarm. They're calling on governments to put politics aside and do more to help the deteriorating world economy, warning that the downside risks are growing… and there's good reason for this.

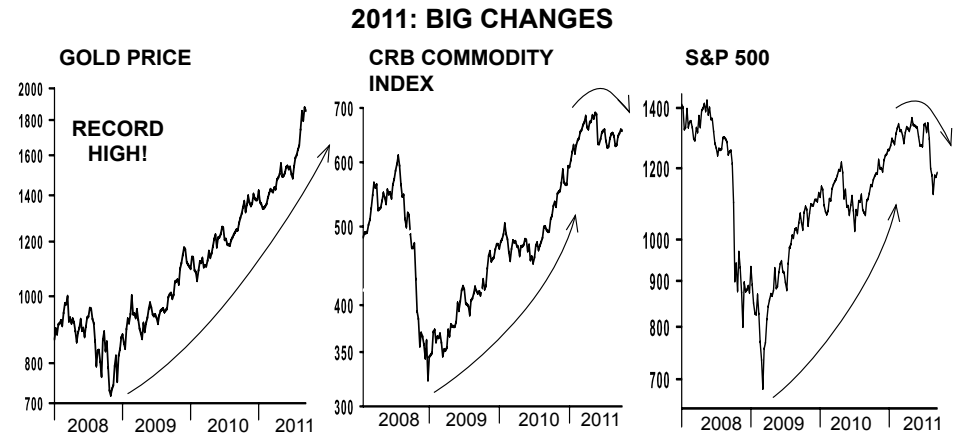
Europe in the hot seat

The situation worldwide has deteriorated rather quickly. In Europe, for instance, the European central bank (ECB) has been buying bonds of the weaker Eurozone countries, like Ireland, Greece, Portugal and Spain, essentially doing its own version of a QE program to keep it all together, at least for the time being.

But Greek bonds are plunging as interest rates soar to near 80%. This is a real red flag and it's causing concern about the big banks who have lent lots of money to these countries. That's one reason why the ECB had to step in.

INSIDE

CHART 1



At the same time, many Germans aren't happy about having to carry the load for their weaker "relatives," so this too is raising concerns about the future of the entire Eurozone. That was one important factor, driving many investors to the safety of the Swiss franc because it's not part of the Euro community.

But the Swiss franc became so strong due to its safe haven status that the Swiss authorities finally had to stop it since it was affecting their economy. They imposed a ceiling on the exchange rate vowing to defend this as a top priority.

The bottom line... the euro area is in flux and the euro is falling. The situation is still unfolding and it's still to be seen how it'll all work out.

U.S. is too

The U.S. is in a similar but different situation. People are losing faith and confidence is plunging (see **Chart 2**). Here too, you can understand why.

As our brilliant friend Chuck Butler reminded us... "We've tried all kinds of stimulus. Remember checks in the mail? Or how about cash for clunkers? Or $700 billion, or $2.3 trillion in two rounds of QE?..." Now Obama is proposing a $450 billion jobs plan, which is basically more stimulus. But the facts are, these have been temporary band-aids. They helped, but they didn't address the real fundamental problems or provide jobs.

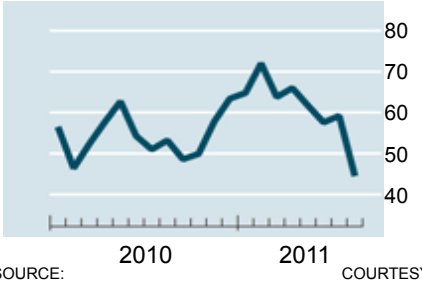
There is simply too much debt that's build up over the years, and it's still growing by leaps and bounds.

Nevertheless, everyone is starved for some good news. And anything that comes out in a positive way, could cause the markets to rebound. That's because the markets have all become extreme, and they're skittish, ready to jump for whatever reason in the opposite direction.

It could be more QE to boost the economy... at this point, any "solution" would be welcome, even though the Fed has admitted that a recovery is probably a couple of years away and high unemployment will be around for a long time.

CHART 2

U.S. CONSUMER- CONFIDENCE INDEX 1985=100



SOURCE: The Conference Board

COURTESY: The Economist

Still, the Fed will use whatever tools it can. They've said so many times, but the basic underlying situation will remain. So any rebound or correction in the markets is likely to be temporary.

This will probably add to all the confusion that's currently out there, which is why it's now more important than ever to focus on the major trends because they're telling the real story. Don't let corrections confuse you. And if you stay with the major trends, you'll be ahead of the pack over the long haul.

STAY FOCUSED

At times like this, opinions are all over the place. We receive many e-mails saying, so and so said this and you say that. What should I do?

All we can say is, we tell you what we see and what we think. For the most part, we let the markets tell us and based on this we take it a step further as to what's likely in store.

We don't claim to have all the answers. We know we don't, but we do our best to keep you on the right track. Many times this will differ from what other experts are saying.

Even the great veteran guru Harry Schultz will sometimes have a different view and, for all of our former HSL subs, we understand that creates discrepancies. But in the end, you'll have to draw your own conclusions.

We also realize that some of you have asked for more international info as to what or where to buy, outside of the U.S. So as of this month, we will also be providing the symbols on the international markets for the stocks we recommend on page 12.

RECOMMENDATIONS ARE GLOBAL

Overall, however, our recommendations apply to all investors, no matter where you live. For example, if we see gold going higher, everyone should buy. If we see stocks falling, it's global, and everyone should sell.

It's the same story with the currencies. If you live in Australia or France and the global currencies look ready to take a dive, you may want to move some of your cash into U.S. dollars or U.S. bonds... and vice versa.

The world has become a smaller place. It's far more global and you have to go with what the markets are telling us.

We know it's different and it may seem strange. But that's the reality. It often may not make sense but the markets have the ultimate say. They are always right and regardless of our personal views, we have to go along with them. As things change, we have to change with them. That's the bottom line for all of us.

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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 025331, Miami, Florida 33102-5331 or E-mail info@adenforecast.com Questions will be answered in future issues. The Editors may have a position in the securities recommended and may change such positions without notice. This publication's sole intended purpose is to provide investment-related information and opinions to subscribers. FREE WEEKLY UPDATE 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 $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.

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U.S. & WORLD STOCK MARKETS

Volatile and vulnerable

Stocks have been volatile, to say the least. Following their steep drop last month, they've been bouncing up and down, but the major trends are still down. This goes for the U.S. and international stock markets as well.

GLOBAL BEAR

This is clearly illustrated on **Charts 3** and **4**. The World Stock composite tells the story. It's declined below its moving average, which identifies the major trend and it's bearish, reflecting what's happening around the world.

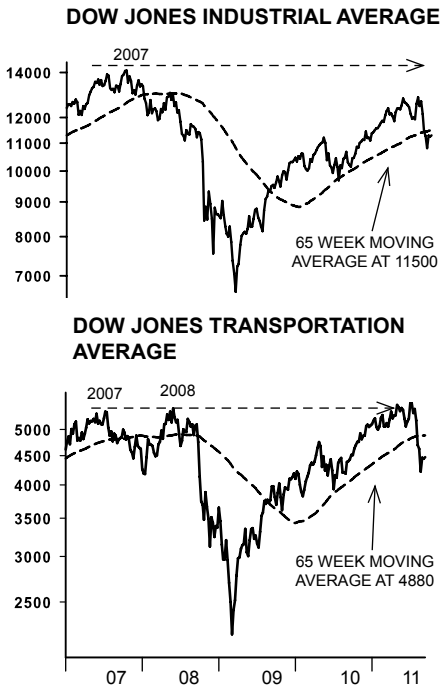
As you can see, some stock markets, like Germany and Brazil, have dropped more than others. In Europe, for instance, the strongest stock market has already plunged about 20% this year. Others are obviously worse.

The overall message is clear… stocks are headed lower and they're not the place to be right now. Even though stocks will probably soon rebound, following their steep decline, it's not really relevant. For now, the bear is in control and it's best to stay out of the way.

As we mentioned last month, events were very fast moving as mass hysteria took over. But as the dust settled somewhat, it was impressive to see how historical the action was.

CHART 3

BEARISH BELOW 65 WEEK MOVING AVERAGES



UNPRECEDENTED SWINGS

The August market swings were unprecedented. Taking the U.S. as an example, it marked the first time in the history of the U.S. stock market that the Dow Industrials moved more than 400 points for four consecutive days.

The market also experienced a plunge in the ratio with 77 declining stocks for every one that rose. The last time that happened was 80 years ago.

The market was literally in a frenzy and we don't think it's over yet. Sure, things then calmed down, but that's not unusual following such steep declines.

JITTERY & NERVOUS MARKET

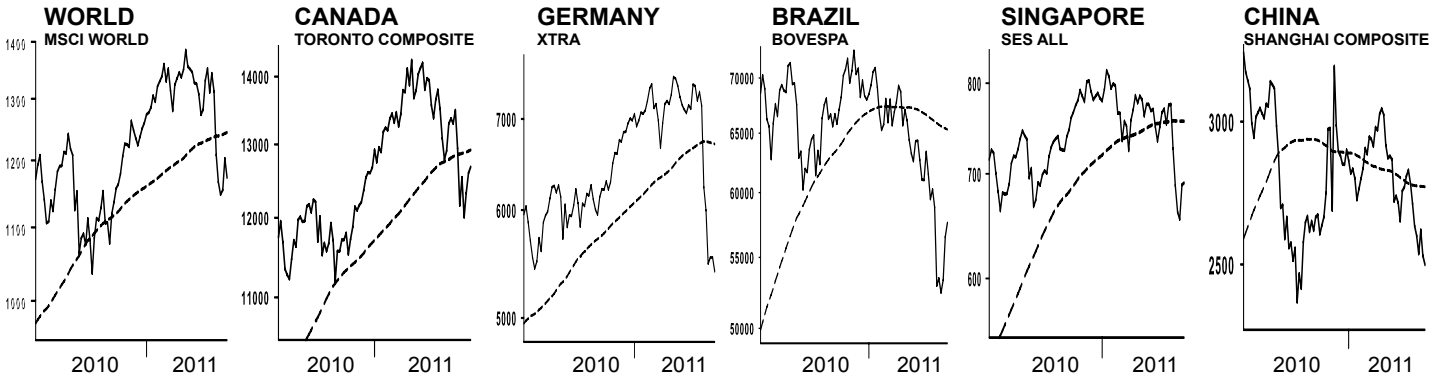
The market is still extremely nervous and jumpy. September is already setting more new records… The first few days saw the U.S. market down by the most for any September in stock market history. And today's decline following Obama's speech is reinforcing this tendency.

To refresh your memories, September has always been, historically and seasonally, one of the worst months for the stock market. This means we have to be prepared for whatever comes.

It also shows how stocks have become very news sensitive. One economic statistic, rumors out of Europe, the U.S., China, a Fed statement… just about anything could

CHART 4

GLOBAL EQUITIES ARE BEARISH



- - - 65 WEEK MOVING AVERAGE IS KEY MAJOR DOWNTREND.

trigger another sharp sell-off... or a bounce up.

GLOBAL SLOWDOWN: #1 CONCERN

The main culprits for now are the concerns about the global economy. Fears of another recession and worries over Europe's financial stability have been keeping investors on edge. That's why they've been running to safe havens.

Most important to keep in mind is that bear markets can be treacherous. And since this one has started off in a treacherous way, it's already signaling it could be brutal. So again, it's important to be prepared.

Remember, the markets tell the story. They always have and they always will. It's important to keep this in mind because it puts the situation in focus. That's especially true at times like this.

WIDE RANGING OPINIONS

As you know, the chatter and opinions go on all day long, via TV, in the newspapers and/or on the net, but this basically creates confusion. Most often, the main points are simply overlooked or ignored.

Instead, you might hear endless debate on which group of stocks are looking good, what to buy, XYZ company has good potential and so on.

This is all fine but in a bear market, it's irrelevant. Once the bear kicks in, it'll take everything with it. Some stocks may swim against the tide but it's high risk, no matter how great a company is.

RISING FEAR INDEX

The Volatility index (VIX) provides one example of what we mean. This is a fear index and it tells us when the market is getting scared. The VIX tends to rise when stocks fall (for instance, see 2008 and 2011 on **Chart 5**).

Note the VIX started rising sharply at the end of July. This was a sign that stocks were headed lower. But then, the VIX kept moving up, reinforcing that a more serious stock decline was indeed getting underway, which has been the case.

Currently, VIX is volatile near the high area. This is coinciding with the volatility in stocks as they hold near their lows.

So the action has settled down a bit, at least for the time being. But if VIX starts up again, look out. It'll mean fear is kicking in again as the bear market intensifies and stocks are going lower.

On the other hand, since stocks dropped far and fast, we could see some sort of upward rebound in the weeks ahead. That would be normal at this time.

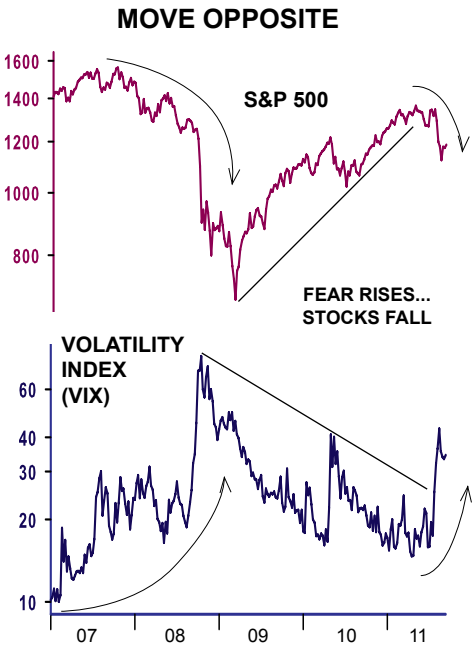
If so, then VIX will likely decline. This could tie in with more Fed easing or economic stimulus, which the stock market would probably view as bullish since it would provide hope for the economy, reducing the chances of a recession.

TEMPORARY RISE: Best scenario

Should this happen, it would likely be temporary. The writing is pretty much on the wall. That's what the global stock markets and many of the other markets are telling us. So we'd use any strength to sell if you haven't sold yet.

While a rebound rise could look enticing, keep in mind that nearly every stock market in the world is technically bearish. Until that changes, investors should watch from the sidelines. A short-term move is not worth the risk in this negative stock and global economic environment.

CHART 5



STOCKS NOT CHEAP

Plus, keep in mind that stocks are not cheap (see the Price/Earnings ratio for the S&P 500 on **Chart 6,** which goes way back to 1900). Even though stocks have been declining, you can see that they are still priced above the average historical mean (see horizontal line).

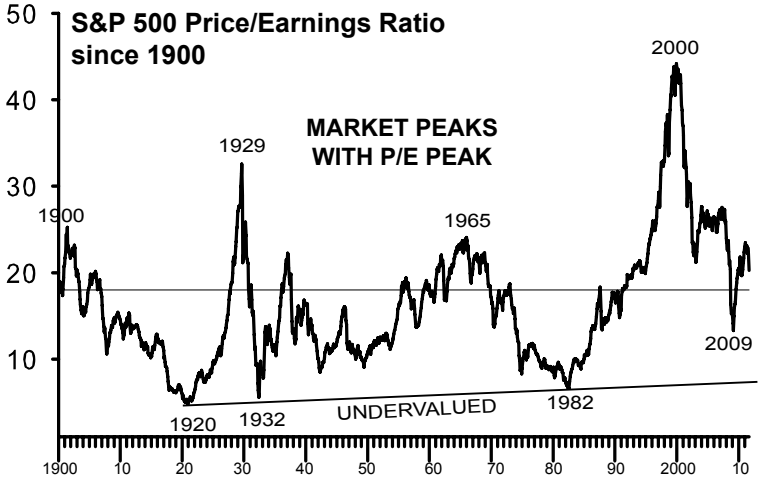
During bear markets, stocks will usually end up falling to real undervalued bargain levels, like in 1982. These levels tend to coincide with real bear market bottoms.

Currently, stocks still have a lot further to go on the downside before they even approach the undervalued area.

As for shorting, that's also risky for now since the market is so volatile.

So here too... this is yet another caution sign, reinforcing that it's best to stay safely on the sidelines for now.

CHART 6



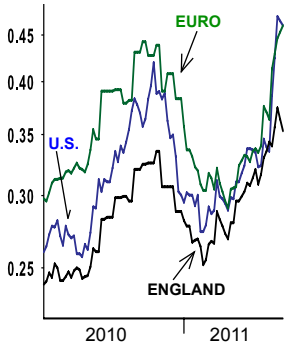
U.S. INTEREST RATES AND BONDS

Record low in 10 year yield!

Interest rates plunged this month as bond prices surged. Nevertheless, this is probably still the beginning. That is, rates are likely headed even lower in the months ahead as bonds continue to outperform most other investments.

CHART 7

GLOBAL 10 YEAR BONDS: Rising



EVEN LOWER RATES TO COME?

But wait a minute… The 10 year yield is already at a record low, how much lower could rates go? That's the strange part.

Even though interest rates are currently very low, all signs are telling us that rates could drop another percentage point or more. It'll just depend on what happens with the economy.

Currently, the overall markets are nervous, uncertain and scared, even more so than they were last month. So we're glad we recommended buying bonds last month. They're moving up nicely and they should continue to do well in this environment. We plan to keep them for as long as this bull market rise lasts.

GLOBAL BONDS: Move together

This applies not only to long-term U.S. government bonds, but to bonds in the major developed countries as well. Since global interest rates generally move together, once a major trend is solidly in place, it'll take most bonds up with it (see **Chart 7**).

The bottom line is, like the global stock markets, the world bond markets generally follow the same pattern. Interest rates worldwide are reflecting this. That's why we're also recommending BEGBX, which is an international bond fund.

Even so, U.S. bonds are basically our favorites and so far they've outperformed, rising 2.8% in August in the best gains since 2008, compared to 1.99% for global bonds. U.S. bonds also strongly outperformed stocks, across the board.

In fact, the only markets that were much stronger than bonds were gold and silver. So bonds are a good place to park some of your cash.

KEEP BONDS AND BUY ON WEAKNESS

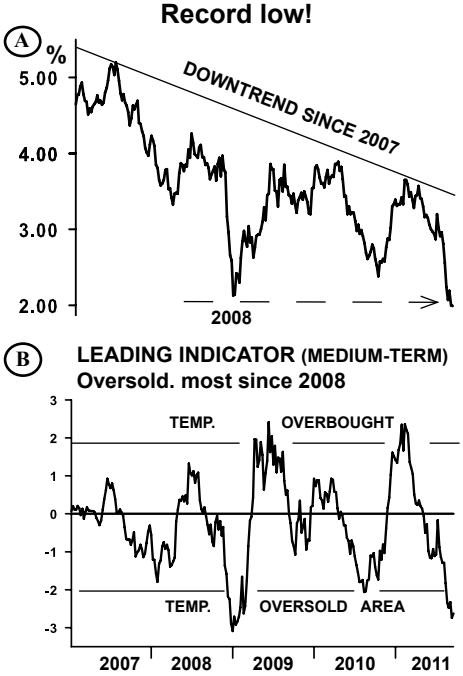
If you haven't bought bonds, it's not too late. The correction we've been anticipating hasn't happened yet.

For now, interest rates have dropped far and fast (bond prices have surged). The 10 year yield, for instance, is breaking below its 2008 support level (see **Chart 8A**). Following a move like this, an upward rebound would be normal.

This is being reinforced by the leading indicator, which is very oversold, the most since 2008, also suggesting that interest rates will likely head higher in the weeks ahead before they resume their decline. This will provide an opportunity to buy bonds at a better price, which would be good for new buyers, or those of you who want to add to your positions.

CHART 8

10 YEAR YIELD: Record low!



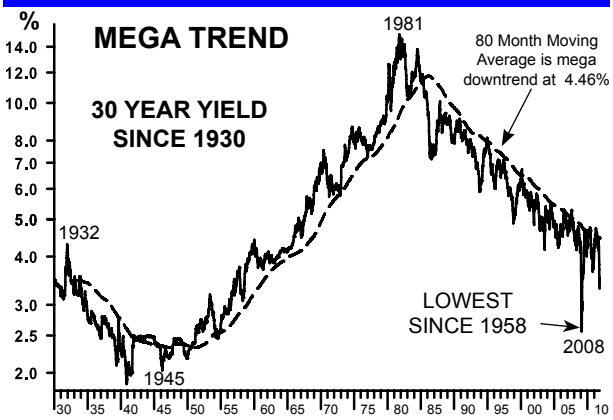
BONDS RISE IN BAD TIMES

At this point, we know that some of you may be wondering, how can you recommend U.S. bonds considering the poor fundamentals, which are becoming more dire with each passing month?

Again, it's the economy. It has taken a turn for the worse. It's nearly at a standstill and the same is true of the jobs market as unemployment remains stubbornly high.

It's the same story throughout the world. That's why we're seeing more social unrest, not only in Greece and some of the Arab nations but in Berlin, Rome and London too. Frustration is spreading. The majority of people have simply lost faith in their governments to fix the

CHART 9



situation. Plus, U.S. property values are still falling. So overall, it's no wonder that global confidence is plunging as fears of another recession become more apparent.

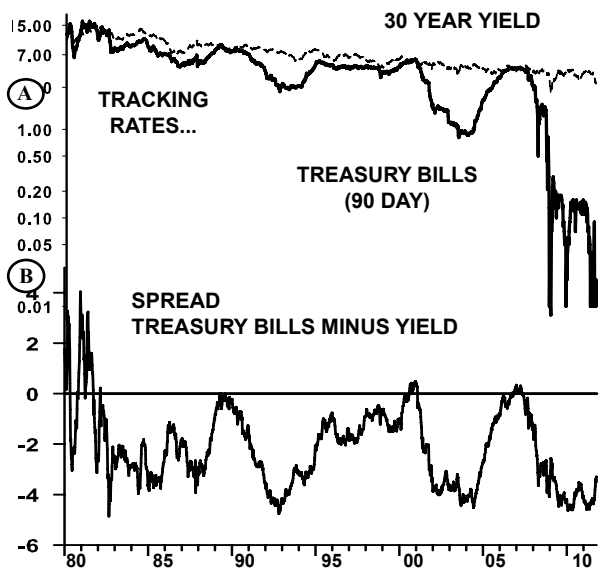
For now, people just want safety. And despite the U.S. credit downgrade and poor fundamentals, U.S. Treasuries are still near the top of the safe haven list. Investors feel they're not only safe but also better than most other options.

BONDS RISE, RATES FALL

Bonds also do especially well when the economy is slowing, as we're currently seeing. And as stocks tumble, it makes bonds even more attractive. Bonds are basically benefitting because they're the lesser evil.

As demand for bonds increases, it pushes long-term interest rates lower. The result is that the mega interest rate trend remains down and it has been since 1981 (see **Chart 9**).

CHART 10



As long as that's the case, rates will continue to decline, likely breaking below the 2008 low. And who knows, if things get really fearful, rates could keep going down to near the 1945 lows.

We'll see what happens. Remember, we're in uncharted territory, and should this change, we'll change too.

NARROWING SPREAD IS DEFLATIONARY

Interestingly, the spread (difference) between short-term interest rates and long-term rates is starting to rise (see **Chart 10B**). Normally, this coincides with a rise in T-Bills as they catch up to the 30 year yield, usually following a recession as the economy improves.

But this time, it's starting to unfold somewhat differently. The Fed has said they're going to keep interest rates low for a couple of years. Long-term rates, however, are governed by the free market and the Fed doesn't control them. This gap, therefore, may close due to a drop in long-term rates, which would be deflationary.

We'll be watching to see how this falls out because it will tell us a lot about what's in store for the future.

CURRENCIES

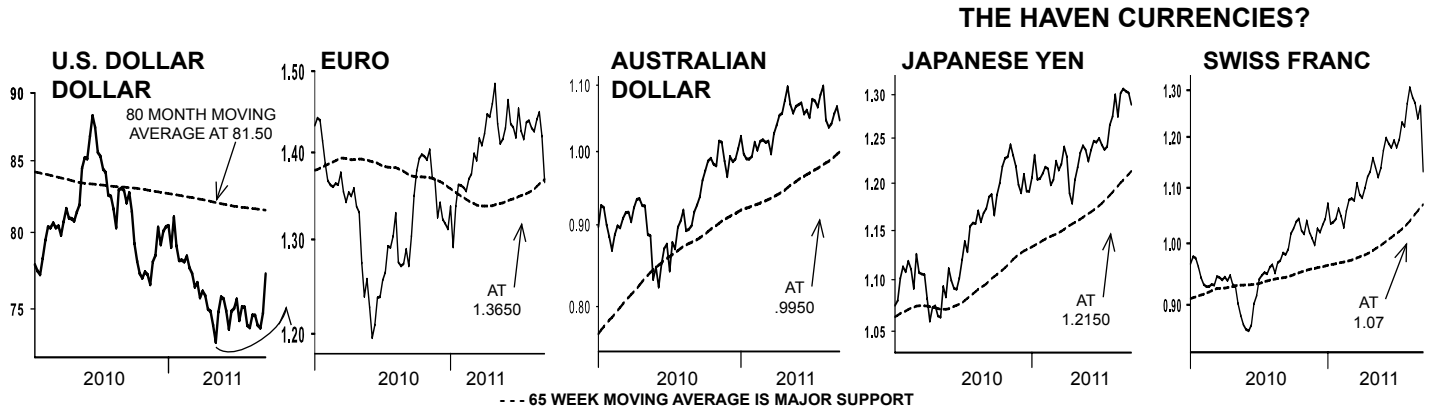
U.S. dollar rebounding, euro and Swiss fall

With U.S. bonds so bullish, it's no wonder the U.S. dollar is also strong, at a six month high. After all, investors need dollars to buy bonds.

Here too, we understand the dollar "shouldn't" be holding up based on its fundamentals. Massive debts and trillion dollar deficits, combined with super low interest rates, would normally keep downward pressure on the dollar, but it's not.

As we previously mentioned, these are not normal times and many things don't make sense. The dollar provides a perfect example of this. So we simply have to accept what's happening, as opposed to what should be happening, and go with it.

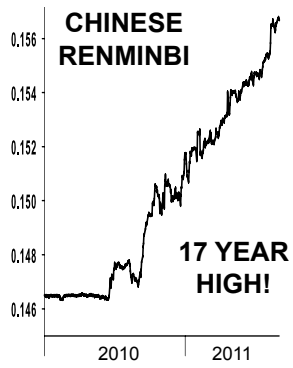
CHART 11



We also recognize that some of you would rather not go with it. That's fine to. Perhaps you'd rather keep a larger position in gold and silver. We certainly wouldn't argue with that.

As you can see on **Charts 11** and **12**, despite recent volatility, the major trends are still up for most of the major currencies. And as long as that's the case, it's okay to keep them, but watch them in case this changes, and it could.

CHART 12



With the global economy slowing, the U.S. dollar is becoming a safe haven currency, it's turning up and likely headed higher.

U.S. DOLLAR BOUNCE UP

One reason why is because as the economy slows, demand weakens, putting downward pressure on commodities.

It also makes investors shy away from risk. And since the Canadian, Australian, Brazilian, and several other countries are commodity based, and therefore, considered risky, it makes those currencies especially vulnerable.

Chart 13 provides a good example of what we mean. Here you'll see the Canadian and U.S. dollars. Note they generally move in opposite directions.

Most interesting, the Canadian dollar has been stalling at the highs, at a strong resistance level. At the same time, the U.S. dollar has been holding above a record low and four month support level. It's building a base, which will likely be a springboard for higher prices. This too will likely coincide with the slowing economy, especially if the stock market keeps falling.

That's why we're now keeping all of our cash in U.S. dollars, during these volatile and uncertain times.

DOLLAR CASH: Best option, for now

For now, big money is moving into dollars and we feel it's your best cash option. That of course could change, especially if the Fed decides to heavily stimulate the economy again. We'll be on the alert and keep you posted, and there's good reason for this.

A few weeks ago marked the 40 year anniversary of what was the beginning of the end for the U.S. dollar. On August 15, 1971 President Nixon announced the dollar would no longer be linked to gold. Instead, it would just float and it's essentially been floating downward ever since (see **Chart 14**).

Along the way, and without the discipline of gold, the U.S. has chalked up the biggest debts the world has ever seen. That's why it's been so weak, dropping about 80% against the other major currencies during that time.

But as we've often pointed out, no market goes straight up or straight down. And despite the dollar's long-term mega downtrend, there have been times when it's moved up like in the early 1980s and the late 1990s. That is,

CHART 14

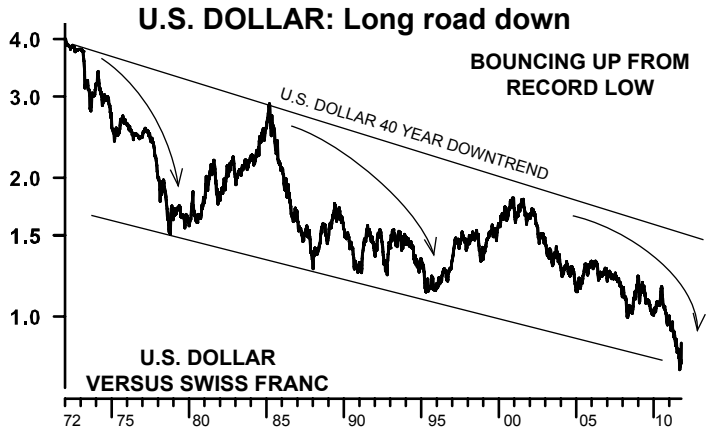
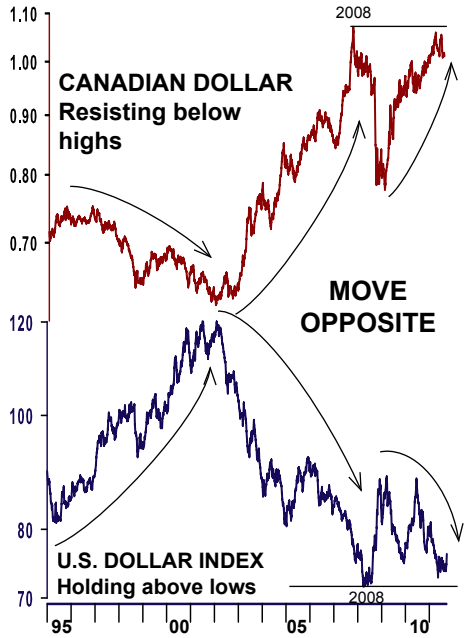


CHART 13

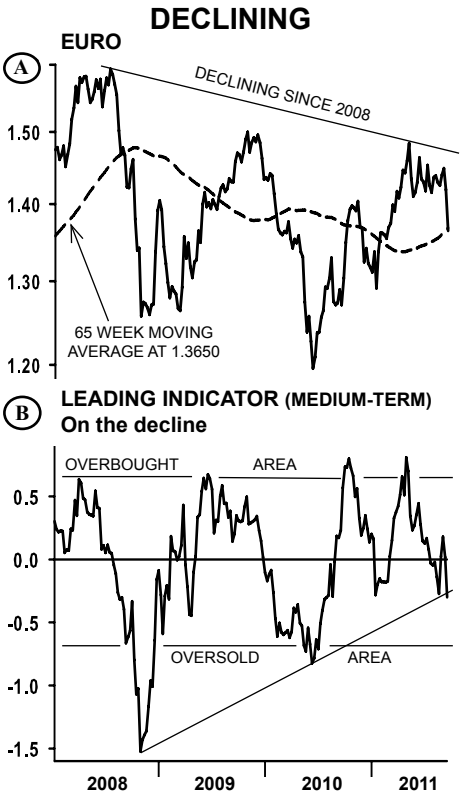


it took a breather, and another breather is likely in store. If not, we'll be quick to switch out of dollars and into another market or currency.

SPOTLIGHT ON SWISS FRANC

One currency that was in the spotlight this month was the Swiss

CHART 15



franc. It fell sharply after the Swiss central bank put a ceiling on the exchange rate for the first time in 30 years, vowing to strongly defend this target, essentially pegging it to the weak euro.

As we stated in our weekly update, we currently recommend selling the Swiss franc, as well as FXF. This essentially adversely affected all of the currencies and it boosted the U.S. dollar. Even so, the euro is a different case (see **Chart 15**). Germany and France are determined to defend the euro, but doubts and concerns persist. The Eurozone economy in crisis, it's barely creeping along and the euro is on thin ice. It's best to simply avoid it too.

For now, we're watching the U.S. dollar index. If it stays above the 76.50 level, it'll be strong, the dollar will be starting to turn bullish and we'll hold on to our positions.

METALS, NATURAL RESOURCES & ENERGY

Gold: Eyeing $2000

RUN TO SAFETY

Gold just doesn't let up in its ongoing super rise as record highs have been commonplace this past month. It's already soared over 33% this year, which makes it almost the best year so far in the bull market!

Gold shares and silver are following, and many gold shares have also reached new highs.

Uncertainty and fear kicked up several notches this month, which caused a run to safety, and gold and bonds were the favorites. It's interesting that we're seeing both traditional inflation and a deflation indicator rising together as safe havens.

GOLD DEMAND STRONG

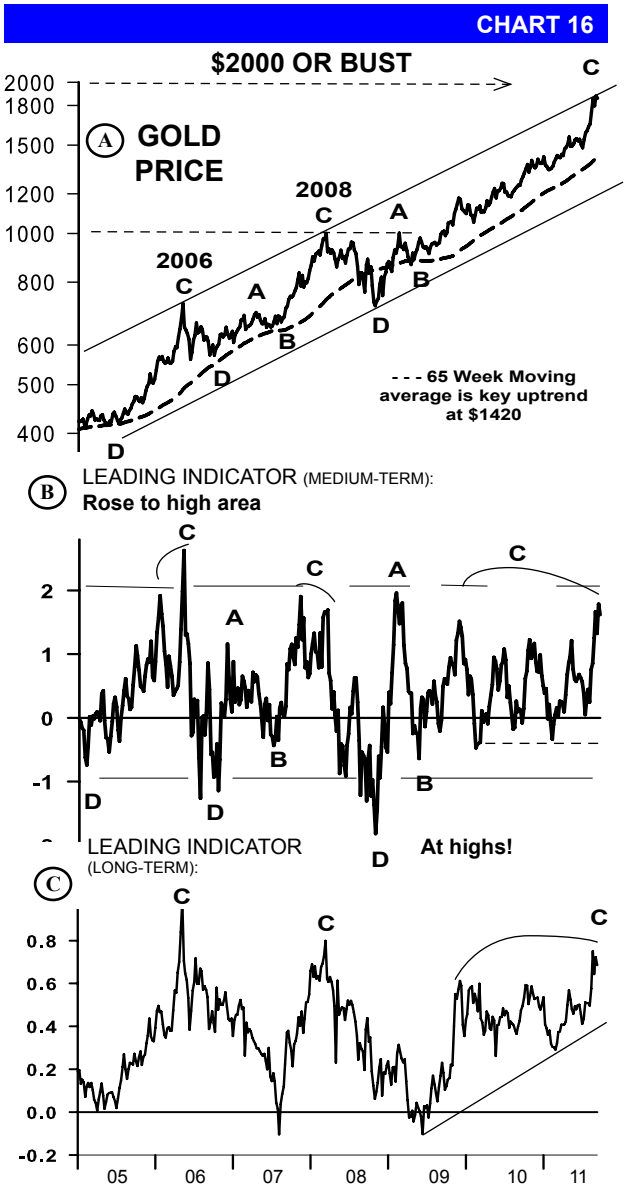
Gold continues to be bought by governments. Venezuela and Bolivia were upfront this month. Hugo Chavez is taking his gold out of London and the U.S. and sending it home, as he nationalizes mines.

Bolivia passed a law to buy all of their own gold for reserves. They calculate that about two tonnes of gold left their country illegally last year.

Mexico, Russia, Thailand and South Korea have been major buyers this year.

The World Gold Council repeated that strength in the market remain concentrated in India and China. And China's investors have not lost their enthusiasm for gold, in spite of record high prices.

So far in 2011, governments have almost tripled their net gold purchases over 2010. And considering that 2010 was the first year in 23 years that central bankers became net buyers of gold, you can see this growing trend has much further to go.



The largest yearly gain for gold during the last decade was in 2007 when gold rose 33.63%. Now, 2011 is getting close to that level. If the $1900 level is clearly surpassed, then 2011 will become the best yearly gain yet in the almost 11 year old bull market.

Some investors sold their gold last year as they felt the bull market was over, or nearly over. The rise this year has been frustrating for them, which has added to the bubble theory.

But when you just consider the downgrade of U.S. debt, the jobs problem, the housing situation, the European bank concerns and their debt crisis, the negative outlook for the global economy, not to mention that the Fed will likely seek new measures to help the economy, we just don't see gold coming down any time soon, other than having a normal downward correction.

RUNAWAY BULL MARKET?

Last month we showed you the good possibility that gold may be in the midst of a runaway bull market that could last for months. This is based

on the cyclical peak that tends to occur every 11 years after a bull market starts.

But actually, it seems like the gold rise could last longer than that.

For now, we'll take this bull market one step at a time, just like we've been doing since 2002 when we first turned bullish and bought gold. But the bull market, under any normal circumstances, is due for some down time. Nevertheless, we'll let the market tell us what to do.

$2000 OR BUST?

Gold moved into a stronger phase of the bull market in September 2009 and it hasn't looked back since then. It broke clearly above $1000, and here we are approaching $2000, which is another doubling of the price in two years.

This has been an amazing rise we call a C rise, and while we could still see a jump up to $2000, it feels like a downward correction is upcoming. The volatility we've seen this month, with almost $200 fluctuations, may be a sign of an intermediate top.

And now with the dollar starting to rise, while the other currencies decline, this too is a sign that gold is poised for some sort of correction. Its leading indicators on **Charts 16B** and **C** are near overbought, which also reinforces this.

WHEN TO BUY, HOW TO BUY

We receive letters asking if it's too late to buy gold. We've taken the stance to buy gradually over the months to average in at a fair price. We've seen people wait for a correction only to have the price get away from them.

As we write, it's starting to feel like the Summer of 2008 all over again. At that time, gold fell with all of the markets, and it could happen again. But when a correction comes, don't think much about it and buy with both hands. Meanwhile, buy gradually and on any weakness.

Keep in mind, gold will remain strong even if it falls to the $1650 level. But if it closes below this level, a steeper decline could take it to $1420, its major support. Currently, volatility reigns and overshoots could easily happen.

Many ask us how best to buy gold and if holding exchange traded funds (ETFs) is a safe way to keep gold and silver. First of all, ETFs have become very popular because they've made it easy to buy.

In fact, when GLD was first launched in late 2004, we believe it was key in helping to push the gold price to new highs. It has since grown by leaps and bounds. We believe it's a good tool to have in your portfolio, but treat it as an index to gain on gold, which is not the same as the physical gold you value for safety.

Just as DIA, for example, follows the price of the Dow Industrials, GLD does the same for gold, and SLV does it for silver.

For physical gold, you can buy at certain banks in the world, such as in Europe and Canada, but in the U.S. you can buy through a reputable coin dealer who gives you the best price possible. We like American Gold Exchange in Texas and Camino Coin in California. But

CHART 17

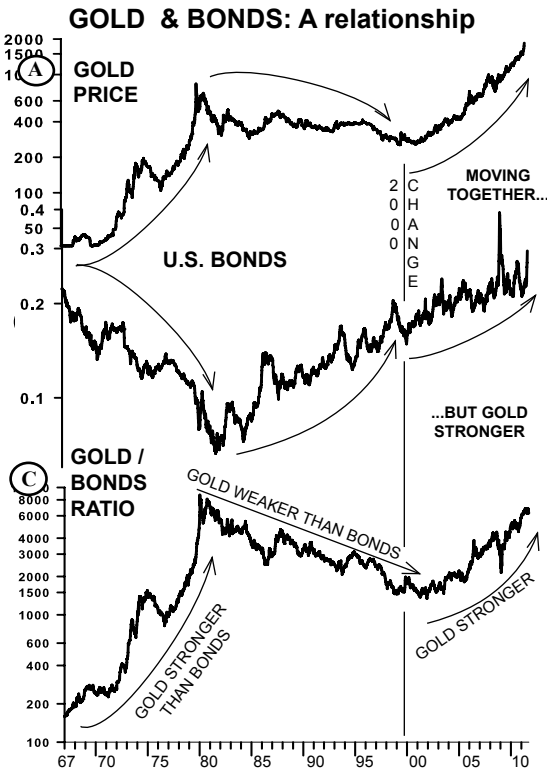


CHART 18

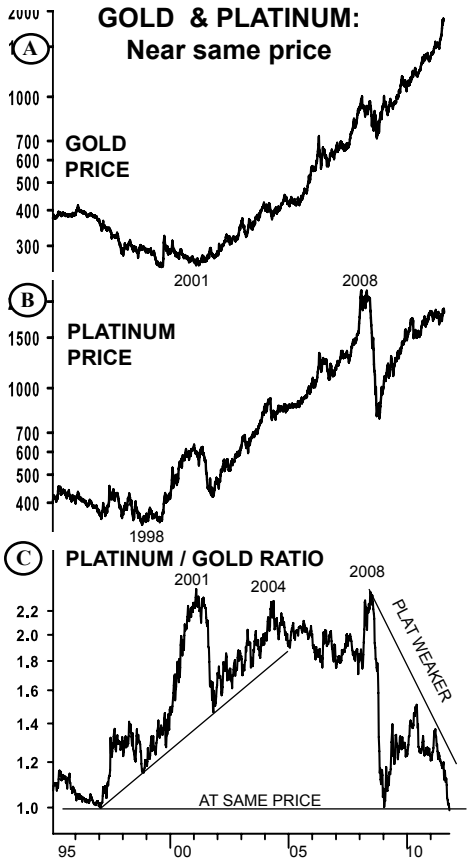
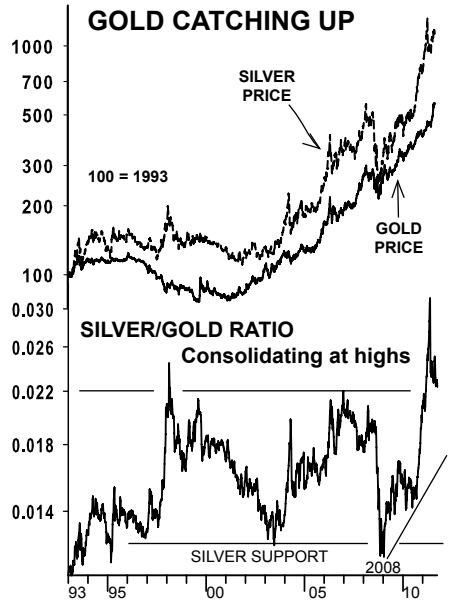


CHART 19

CHART 20



it's important to shop around to get a fair price, and most will deliver anywhere in the U.S.

GOLD BETTER THAN BONDS

Gold and bonds haven't normally moved together, like they've been doing in recent years. Looking back at history, you can see on **Chart 17** that gold and bonds moved opposite from 1967 to 2000. This changed in 2000 when they both started moving together.

This told us that something was wrong and a mega change was happening. And now over 10 years later, it's still telling us that something is wrong,

More revealing is the ratio of the two; see lower **Chart C**. First, note that gold clearly outperformed bonds in the 1970s. In the 1980 to 2000 time period gold was weaker and bonds outperformed gold.

Most interesting is that since 2000, when they both started moving together, gold has been consistently stronger. Gold's been the better investment as the ratio has been rising in an uptrend for 10 years now and it reached a 31 year high in August. This is saying, stay with your gold position.

Gold strong within best asset class

In the past, we've always said that a bull market is strong and solid when all of the precious metals rise together. We know that gold, silver and platinum tend to move together, but one or the other tends to lead at the turns by several years.

Gold, for example, led silver in the current bull market by two years. Gold bottomed in 2001 while silver did in 2003. Platinum, however, led gold by three years.

Platinum bottomed in 1998 (see **Chart 18**). This in essence means that a full transition from financial assets to tangible assets was taking place in those five years, from 1998 to 2003.

Another question we've been asked lately is, what does it mean when gold rises to the same price as platinum... This doesn't happen often as platinum normally costs more than gold.

Here you'll see a sampling of the two precious metals since 1995. At a glance, note that both have risen together but platinum has been more volatile. Looking at the ratio of the two, **C**, you can see that platinum got a jump start ahead of gold until 2004.

But this changed in 2005. Gold

CHART 22

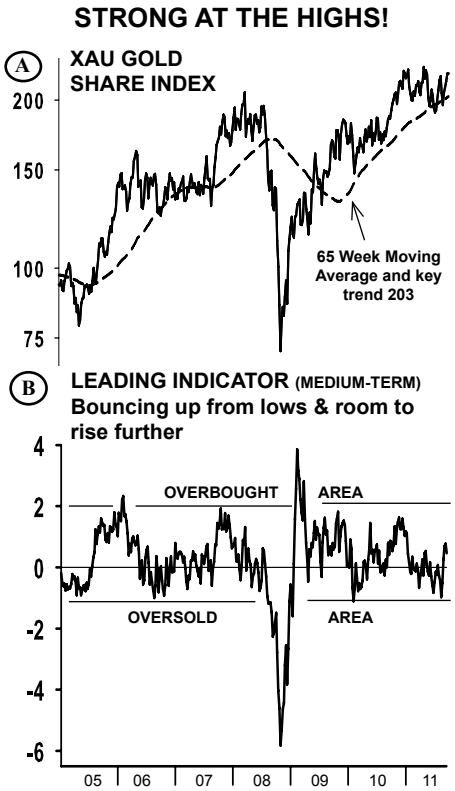
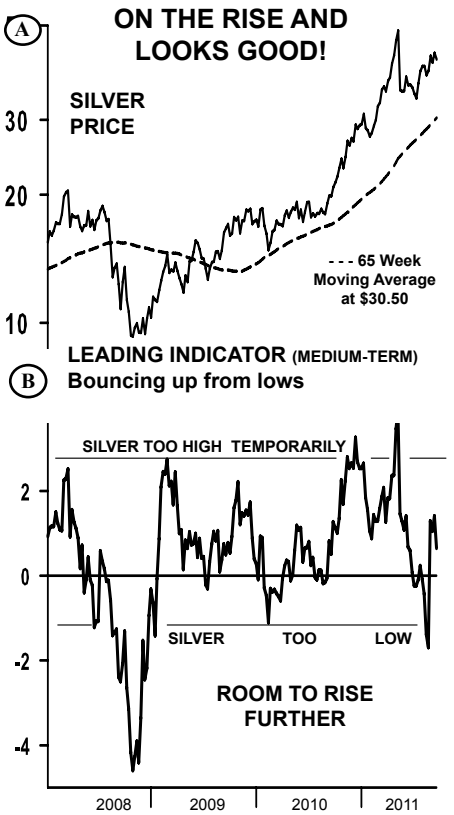


CHART 21



took off, breaking above $500, rising strongly in all currencies and it doubled in three years. Platinum, while also rising, shot up in the final months of the flurry.

Interestingly, platinum, like silver, did wonderfully during the housing boom, but since the 2008 peak gold has stood its ground. Platinum fell sharply, meeting the gold price during the financial meltdown. Since then, while still rising, platinum has clearly taken a back seat to the soaring gold price, especially over the past year.

Gold and platinum are near the same price today because gold rose to meet up with platinum. This only happened once in 1975, because normally the metals are declining when the two prices meet.

This too is showing gold's super strength and it's suggesting that platinum could eventually catch up as the bull market continues.

Gold is also stronger than gold shares, especially over the last several months. Here again, the world's financial problems are causing investors to run to safety. **Chart 19** shows gold compared to

gold shares since 1970.

The mega trend favors gold overall, but since 2007 gold's had the upper hand. It fell much less than gold shares in 2008 and this year it's been rising much more. Gold shares are catching up, but as long as the 2007 uptrend stays intact, gold will be the better investment.

Silver is similar but it's tied closer to gold due to the safety factor. You can see what we mean on **Chart 20**. It shows silver and gold indexed to 100 since 1993.

The silver to gold ratio below shows that, like platinum, silver fell more than gold in the financial crisis. Then in 2009, silver started to outperform gold and it has clearly shot up more than gold over the past year. Since May it's been consolidating its rise while it continues holding its own versus gold. This tells us to keep both gold and silver.

SILVER AND GOLD SHARES

Since silver and gold shares have not been on a tear like gold has, they're not overbought. They were also pressured by the falling stock market and concerns of the slowing global economy.

But **Charts 21** and **22** show they have room to rise further.

CHART 24

MAJOR TRENDS ARE UP

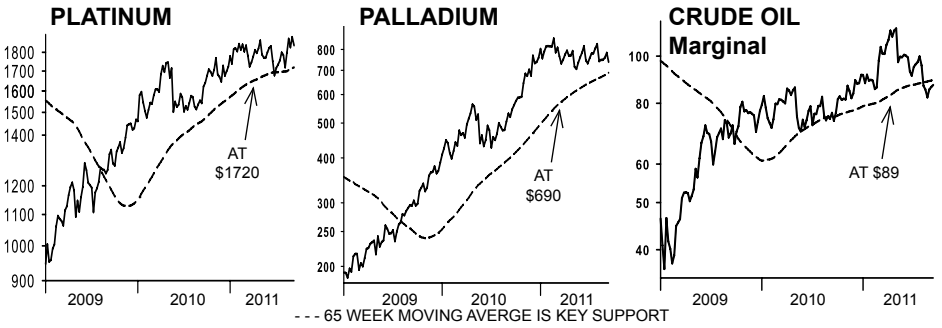
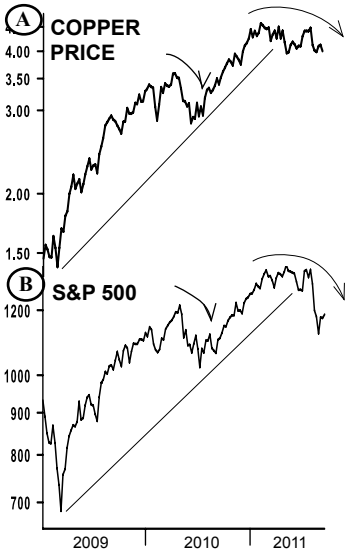


CHART 23

COPPER MOVES WITH STOCK MARKET



First, note that silver is holding firmly near the higher side while its intermediate leading indicator bounces up from the lows. This means that silver has room to rise further. It's strong above $38.50 and the major trend is up above $30.50.

As for gold shares, the XAU index is near the highs as it follows the gold price. Gold shares also have room to rise further since the leading indicator is still coming up from a low area.

As for silver shares, they're not bouncing up as much as gold shares, but we think it's just a matter of time until they follow.

Resource, Energy and Food

The resource and energy sectors have been under pressure with the slowing economy. This sector tends to move with the global equity markets but the declines have been mild in comparison.

Chart 23 provides a good example. It shows the similarities in the copper price (a global economic barometer) and the S&P500. Here you can see how closely they have moved together.

Copper has been drifting down most of this year yet it's holding closer to the higher side, while the stock market remains weaker. But with China consuming about 40% of the world's copper and about half of the world's cement, iron ore and coal, you can understand why raw materials are staying firm as the stock market falls.

Crude oil, however, has been coming down and its major trend is marginal as it holds near its 65 week moving average (see **Chart 24**). But looking at the big picture since 1946 on **Chart 25**, the mega trend is clearly up. A stronger trend was confirmed back in the mid 2000s when oil reached record highs.

Even during the 2008 financial crisis, you can see that oil fell and essentially bounced up from the 1980 highs, and it's since been holding near the highs. Oil is poised to continue rising in the years ahead simply because it's an essential in our lives with no easy replacement in sight for many years.

We sold our energy and resource shares, but we'll be quick to buy new positions again when the time seems right. The same for the agricultural shares.

CHART 25

MEGA UPTREND SINCE 1946

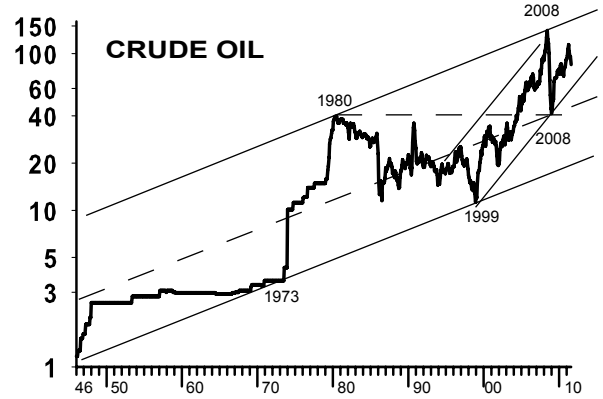
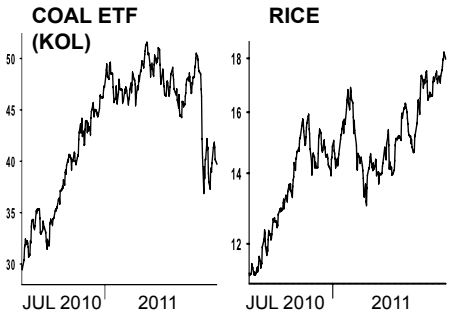


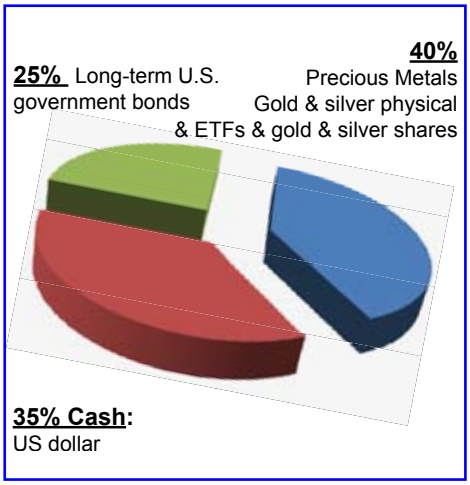
CHART 26

ALTERNATIVE ENERGY VS KEY FOOD



OVERALL PORTFOLIO RECOMMENDATION

The markets are being driven by fear and uncertainty, and big changes are taking place. The situation worldwide has deteriorated rather quickly, the market are reflecting this and we have to go with it. Gold hit another record high and bonds are looking good too as interest rates hit new lows. Stocks are bearish worldwide. Meanwhile, the Swiss took dramatic measures to halt the rise in the Swiss franc and it fell sharply. This also affected the other currencies. So for now, keep all of your cash in U.S. dollars as it's looking good. If you haven't sold the Swiss franc yet, sell it.



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

Gold continues hitting record highs as it closes in on the $2000 level. Gold shares and silver are following, and many gold shares have also reached new highs. Uncertainty and fear have fueled a run to safety and gold has been the #1 favorite. Gold will now remain very strong above $1800. But even if it falls to the $1650 level in a downward correction, (which would not be unusual) it'll still be strong. If it does, it'll provide a good buying opportunity.

Silver and gold shares, on the other hand, also remain strong and they have room to rise further. Keep your metals and metals shares positions. The resource and energy sectors have been under pressure, along with the slowing economy, so we would continue to avoid this sector.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

Stock markets are bearish worldwide. And since this bear market started off in a treacherous way, it could be a bad one and stocks could fall much further. Currently, the market is volatile and it would not be unusual for stocks to rebound, following their steep decline. If so, we'd use any strength to sell stocks if you haven't sold yet. Gold and silver shares are the only exceptions. Since the market is so volatile, we don't recommend shorting. It's too risky. Like we've been saying, sell and stay out for the time being. It's safer to be on the sidelines for now.

CURRENCIES RECOMMENDATION

The U.S. dollar index is strong at a six month high. With the global economy slowing, the dollar is becoming a safe haven, it's turning up above the 76.50 level and it's likely headed higher. That's why we now recommend keeping all of your cash in U.S. dollars during these volatile and uncertain times. The upset in the Swiss franc affected all of the currencies and we advise selling the Swiss franc and FXF if you haven't sold yet. Keep your cash in U.S. dollars for now.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

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

BONDS ETFs & FUNDS

Amer Century Bond	BEGBX
Barclays LT Treasury	TLO

INTEREST RATE & BOND RECOMMENDATION

Interest rates plunged this month as bond prices soared. Bond prices are in a major bull market and prices are likely headed even higher (interest rates lower). This applies not only to long-term U.S. government bonds, but also to bonds in the major developed countries.

The overall environment is positive for bonds and we recommend keeping a 25% position for as long as this bull market rise lasts. We also recommend the American Century International Bond fund (BEGBX) and Barclays Long Term Treasury (TLO). Currently, bonds are overbought and they're due for a correction. This will provide an opportunity to buy at a better price, which would be good for new buyers, or if you want to add to your positions.

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

Big Picture

From Uncle Harry Sept 6, 2011 Dear Reader, Let me begin with the biggest *Big Picture* U've seen in a long time. My longtime readers (bless U) will remember 2 *HSL*'s in 2008 that explained what was happening in terms not then understood (& still not), & which also set the tone for what was coming, foretelling where we're going for many years ahead! In *HSL*665 April 27, 2008 I said *"All U own will shrink. That one word covers the future. Your income, assets, net worth, will shrink year after year (in real terms, inflation adjusted, possibly also nominal). Likewise the assets of all banks, insurers, lenders, hedge & mutual funds will shrink along with biz in general (GNP). Shrink for how long? A long time!"*

I got support for my view from C.Chan at JPM who said the credit crisis *"would last 10 more yrs."* And friend Hugh Hendry, UK Eclectica Asset mgt fund mgr said *"It will take 25rs til banks recover their pre-crisis levels."* They stopped interviewing him on *CNBC* after that. I added: *"U can't avoid shrinkage, but we can structure to shrink less."* We had a pg 1 Reggie cartoon illustrating Shrink with a 2008 big bag of money vs a 2012 small bag of money. I labeled that edition as *"HSL—your safe haven currency."*

Then 3mos later (July 6, 2008,) came our famed block-buster 20year "V" formation chart picturing how mkts & buying power would fall from their 2008 peaks for 10years, then turn up in 2018 for a 10yr rise, getting back to where we were in 2008. I said both the 10yrs up & the 10yrs down would see a series of small 1-2 yr bull&bear periods within their down & up channels. It was audacious talk. *And so it has come to pass*, so far. This means 7 more yrs of falling buying power. By coincidence, German finance minister Schaeuble says *"We may see 7 lean years."* more coincidence: French finance minister Lagarde says we *"may see derailment of the global recovery."* Such honesty is brave, but Euro politicians don't sugar coat everything as US poli's do.

The 7 lean years sounded Biblical. Maybe so, but best bet, in addition to prayer, is diversification of your total assets, not just money in stocks/bonds. Put half of the total in physical gold & gold shares (not ETF gold funds!). OK to buy some 6-7% dividend paying stocks, eg utilities, telecoms, consumers. If they have good chart patterns. Remember, charts tell almost all U need to know about everything. Study how to read charts; it's a skill that can be learned over time. U can develop intuition on them also. Don't be a 1-country investor. Canada/Oz are tops as commodity nations, with top currencies. Buy/hold your Swiss francs, even if they charge U for holding 'em instead of paying interest, as done before.

Meantime, back in the world of meaningless volatility, many stk mkts have broken their 2010 lows, eg France, Spain, Switz, Italy, Oz. Very shorterm, there's room for a rally, may last to yr end. ••• My shorterm gold goal is $2,000. Another correction awaits. The constant gold mkt overhang is govt raising margins on gold, as done recently. It always has an effect. Use set backs to acquire. Taking some profits now&then in gold & shares is *always* ok. I do. Just now, several Au stks are buys. See charts. Subscribe to *GoldChartsR Us*; the sisters are doing well with it. •••• Some well known advisors look spent after predicting gold was about to crash 40-50% just before gold rocketed to $1885. •••Gold is a flight from dishonesty. •••

Lastime I decried that the Fed didn't do as it should have on 8/9: cut rate Fed pays banks, & raise bank reserve requirements, to force banks out of Fed paper & into free mkt lending. Alan Abelson of Barron's agrees, says: *"One of the prime causal agents of the massive growth in borrowing, was the precipitous **reduction** in bank reserve requirements, from 12.3% in 1968 to 10.1% in 1978 & 8.5% in 1988"* What that meant, he explains, was that "banks could lend **12 times** their reserves, which most lost no time in doing, & ultimately lived to regret, except for those institutions that are no longer standing."

Shock-TV-interview 8/23/11: Friend Marc Faber said: *"I prefer if investors hold **physical gold & in a** safe deposit box **ideally outside the US**, in various locations…Switzerland, Singapore, Hong Kong, Australia, Canada… I think it's important in today's very uncertain world to diversify, not only the various asset classes… but also the custody of your assets should be in different jurisdictions."*
His NY TV hosts couldn't believe it. NOT store in the United States, the 'bastion of freedom & security'? What heresy is this?
CNBC: *"Uh, so do you thus not trust US banks or US custodians? Do you think they might fail or abscond with the gold?"* Guffaws & incredulous snickers emerge from the hosts.
Faber replies: "I don't trust anyone."
Uncomfortable silence.
CNBC: *"Hmmm. Interesting."*
Completely devoid of anything intelligent to say on the topic of sovereign diversification, they quickly changed the subject to talk about equities… but Faber soon came back to his original point. Among other things, he mentioned that **banks in Asia are FAR more stable & sound than in the west** for not having invested so heavily in dead weight assets like Greek bonds or US mortgage-backed securities. He added: *"We never left the last recession, though some sectors did."* He predicts the average citizen in west will suffer a lower living standard. He recom 25% in gold, some property shares (REITS) & 25% in quality, dividend stks. He profoundly says "Gold is the best form of cash."

WikiLeaks discloses **reason(s) behind China's shadow gold buying spree.** Tyler Durden of Zero Hedge says: *"Wondering why gold at $1850 was cheap, or why gold at double that price will also be cheap, or frankly at any price? Because, following this leaked cable, gold is, to China, the opportunity cost of destroying the dollar's reserve status. Putting that into US$ terms is, therefore, impractical. We have a suspicion the following cable from the US embassy in China is about to go global, & prompt fund managers now on the golden sidelines to dip a toe in the 24 karat pool. What w**ill** happen if mutual & pension funds finally comprehend they are massively under-invested in the one asset which China is, without a trace of doubt, massively accumulating behind the scenes, is a worldwide scramble, for ever**y last ounce of physical gold."***

From WikiLeaks: **"China increases gold reserves in order to kill two birds with one stone".** The China Radio Int'l sponsored newspaper World News Journal (Shijie Xinwenbao) (04/28): "According to China's National Foreign Exchanges Admin, China's gold reserves have recently increased. Currently, the majority of its gold reserves are located in the US & European countries. The US & Europe have always suppressed the rising price of gold. They intend to weaken gold's function as an int'l reserve currency. They don't want to see other countries turning to gold instead of the US dollar or Euro. Therefore, suppressing the price of gold is very beneficial for the US in maintaining the US $ role as the int'l reserve currency. China's increased gold reserves will thus act as a model & lead other nations towards reserving more gold. Large gold reserves are also beneficial in promoting the internalization of the RMB."

The *Lame-stream Media* strikes again. Breaking down the Spin: *CNN*'s Crowley Lies About Ron Paul www.infowars.com/breaking-down-the-spin-cnns-crowley-lies-about-ron-paul/ Candy Crowley used *CNN* for her personal views on GOP candidates. Her 8/14 attacks on Ron Paul & Michele Bachmann were heretical. As Krauthammer says: *She needs to lay off the aspartame.* Reader comments seen on AlexJones included this one: *TheWholeTruth* says: "New Ron Paul Campaign slogan should be… *We the People will not be ignored*!!!!!" •••• I've quoted this 2-3x before, but am repeating it as it reveals how we got where we are & why it's so hard to escape: *"It is well that the people of the nation do not understand our banking & monetary system, for if they did, I believe there would be a revolution before tomorrow morning." — Henry Ford* ••• U should do as Chavez (Venezuela) does: take possession of your gold. He called for delivery from US & UK banks. He doesn't trust them (a la Faber). They're having a fit, one hears, finding, delivering. Avoid fits. Get it in hand. •••• German ex Chancellor Schroder calls for a United States of Europe. **A bad idea**! The world needs fewer mergers, not more. De-merging is gaining favour in biz & political philosophy, among thinkers. •• Capital controls are creeping into emerging mkts. Beware that U can get out before U get in. •••• Chart wizard Louise Yamada is a pure tech analyst, says events are behind chart moves-which reflect the news, takes all into account, not separate from charts. Says is a 40year gold cycle. I presume 20up, 20down. Foresees $5,000 gold in current cycle. Began in 2000. Turns down in 2020? Coincidentally, aprox matches my 20yr 'V' GNP formation, which may turn up around 2018, a logical point for less appetite for gold. Get back to me around 2016 ☺. •••• It's only a rumour: that TV talking heads get a $400 bonus every time they mention the word **bubble** in regard to gold. They probably started at $1,000 gold, & every $100 level ever since. •••• Buffett attacked the S&P downgrade of US bonds because he has all his $ in them. •••• ETF's are poison due to the credit risk of their banks & financial engineering/derivatives. •••• Corruption is where we are, all around us. •••• Bob Chapman (international_forecaster@yahoo.com) says many/most banks will fail before long. IMO most will merge to hide their balance sheet failures. •••• *FT*'s Wolfgang Munchau says *"The worst of the euro crisis is yet to come."* Correct! Europe is in big trouble, financially, which leaks into society badly. UK next & then the US. But it's already underway in all 3. Analyst Richard Maybury (*EarlyWarningReport*)(fax 1-602 943 2363) *"Socialism is dying but not quietly. IMO, a solid 90% probability the entire world, except Switz (in which the whole population is already prepared) will divide up & go crazy for a period of weeks or months. Then new monetary & financial systems will be put in place & violence will end. Plan how to survive that crazy period when the world economy shuts down cold, with extreme shortage of almost all life's necessities. Riots, violence, stealing what U've stored. Maybe move to safer place(s)."* •••• Libya intervention was a mistake. U'll see why in due course. Details nextime, if space. •••• *FT* op ed headline: *"The coming crisis of govts."* Not the problems, the govts themselves! There's no one to run to. There never was, but people forgot that & misbehaved. ••• Don't be loony; don't use Facebook.

Potpourri Letter of the month: *"Hi, Uncle Harry, How can we ever rest with all the unrest? We should count all our blessings & friends. Everything **else** will fall into place. ☺ Fred."* •••• Got this from a reader: *"O ye hypocrites, U can discern the face of the sky, but U cannot discern the signs of the times"* Matthew 16;2,3. Most people do seem unaware don't they? •••• *To write with a broken pencil is pointless.* ☺ – When the smog lifts in LosAngeles, U C L A. --- *When U've seen one shopping center U've seen a mall.* – Label on a Chinese packet of peanuts: "Open packet & eat contents." --*Sign on a flowerpot: "Houseplants are for ornamental use & should not be consumed."* -- On a pudding packet: "Warning: product will be hot after heating." ••• Birthday cards arriving daily for my 88th on 9/11…. New R&D shows U stop aging at around 90. Bill Sardi says I'm already in that flat-line status ☺. So, God & R&D willing, I'll be back here next month (unless I take a vacation). L&K from Admiral Noah, AKA Uncle Harry.