THE
# ADEN FORECAST
MONEY • METALS • MARKETS

SEPTEMBER 2012 *our 31st year*

# TURNING POINTS

After months of volatility and uncertainty, the markets have spoken and the news is good.

## MARKETS ON THE RISE

Gold soared almost $150 this month and it's headed even higher. Gold shares and silver are surging, and stocks are moving up too. They're all headed in the right direction.

Europe and the Fed took the spotlight this month. Everyone was waiting with baited breath for some signs of monetary easing.

**The general market feeling was that easier money would help the global economy recover and, in turn, boost the markets.**

Meanwhile, the markets were rising in anticipation and they've been leading the way. Their upmove was signaling an important turning point, indicating the central banks would go ahead, and they were right.

Bernanke dropped a few hints about easing, but the European Central bank (ECB) took the first bold step and the markets loved it.

By launching unlimited bond purchases, the ECB showed that they'll help the weaker countries and hopefully boost the economy. This calmed the markets and the immediate concerns about the Eurozone.

## FED READY TO ACT

Currently, the global economy is slowly improving and the markets are telling us this will likely continue. But more needs to be done and the Fed is well aware of this.

They have shown willingness to stimulate the U.S. economy and that'll give the markets a further boost. This was recently confirmed by Bernanke.

Citing concerns about the stagnant labor market, he said he's ready, also noting the benefits of easing outweigh the costs.

At this point, more economic stimulation wouldn't really be that surprising. The two rounds of quantitative easing (QE) have already helped the economy. Nevertheless, it hasn't been enough.

**Millions of people are still out of work and jobs are scarce.** This is indeed a lingering problem that has to be fixed, especially during an election year.

If unemployment, for instance, stays above 8%, it would likely hurt Obama's reelection chances (see **Chart 1**). The White House knows this and historically, an Administration will do all it can to improve the economy prior to election day.

We know this will increase the debt and eventually there will be a price to pay. There already is. But no one seems to care.

The markets aren't looking that far ahead. They only seem focused on what's happening now and what's likely coming in the months just ahead.

## COUNTRY DIVIDED

The U.S. as a country is also at an important turning point. It's deeply divided and the election is spotlighting this too.

People are generally more intolerant and they're angrier than we can remember in a long time. The voters are strongly on one side or the other.

In many ways you can understand why... **Over the past decade, the middle class has been hard hit.** They've beared the brunt as standards of living dropped dramatically, along with income. Aside from the lack of jobs, many people have lost their homes and a record almost 50 million people are on food stamps, so of course they're pessimistic.

According to a recent poll, the middle class blames big business and Congress for their situation. Many want or expect the government to take more action and therein lies the dilemma.

The top earners don't want to

INSIDE

pay more taxes and the money has run out. The government is broke but they keep spending like never before and with the current structure in place, this too will likely continue.

Oh sure, spending cuts can be made, even big ones, but unfortunately, it won't really put a dent in the massive debt that is growing by leaps and bounds.

## GOLD KEEPS GOING

All factors considered, our conclusion is again reinforced… gold's bull market is set for further upmoves in the years ahead, regardless of who wins the election.

We may be wrong but for now, there are no signs indicating otherwise. That's why gold is, and has been, the centerpiece of our overall investment strategy.

While other markets have swung up and down, this year will mark the 12th year gold has chalked up gains.

**Think about it**… during the past decade while standards of living were declining, along with other investments, gold has been the best. It still is, and it's now poised to outperform stocks and bonds again in a big way.

Silver and gold shares should also do well and that's why we still recommend keeping 40% of your total portfolio in metals related investments.

These can be diversified between gold and silver coins, some ETFs and some shares. But keep the largest portion of your metals portfolio in physical gold and silver.

If you're new to our letter, then go ahead and buy into the stocks and sectors we recommend, perhaps gradually over the next month or so.

## STOCKS HEADED HIGHER...

As for stocks, we like them, but it's important to **be selective**. Go with our recommended stocks for now. As you'll see, with some of the major stock market indices breaking out to multi-year highs for the move, we are adding to our stock position.

Currently, we're still holding our bonds but we're beginning to lighten up.

## ...BUT NOT "SAFE HAVENS"

Bonds have been volatile and there are some signs that the great bond bubble could be coming to an end. This may seem strange since Bernanke has vowed to keep interest rates low for a couple more years.

The bond market, however, may end up surprising some investors, despite what the Fed wants. We'll soon see but in the meantime, we're selling some of our bonds.

As for the U.S. dollar, its days seem to be numbered too. Here too, we're watching the market closely, but if the dollar declines,the other major currencies will rise. That would also be a surprise, especially since the fundamental problems in Europe haven't been resolved.

Whatever happens, this last quarter of 2012 should prove to be an interesting and profitable one. So stay tuned.

On another note…

## ODDS & ENDS…

- As you know, we speak at two or three conferences each year. These provide a way to meet subscribers, visit with old colleagues, exchange ideas and we enjoy it.

One conference we've spoken at for 30 years is the New Orleans Investment conference. In fact, this conference was important in helping us get started in this business and we're grateful for that.

Any conference will normally have dozens of speakers, offering a wide range of opinion. This provides something for everyone and this one is no exception.

Many of you recently wrote asking, what are you thinking? This was in reaction to the conference invitation we sent you for October 24-27, which listed some of the other speakers including Sarah Palin.

To set the record straight, yes we are going and yes, she will be there. That doesn't mean we're endorsing her or any of the other speakers. Some we do and some we don't. That's the way conferences are and we hope you'll understand.

You never know, we might come back with some interesting stories…

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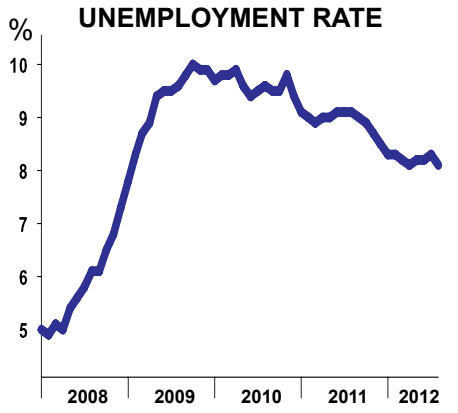
CHART 1

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# U.S. & WORLD STOCK MARKETS

## New highs

The stock market is surging and it's looking good for the months ahead.

The U.S. markets led the way up and the international stock markets are now joining in as well. The weak global markets had been a concern, but that's no longer the case.

### ALL MARKETS RISING

In significant bullish upmoves, the world markets will generally rise together but that wasn't happening this time around. Currently, however and with few exceptions, most of the world stock markets are rising and they're also signaling higher prices ahead.

As you know, **we've been taking this upmove step by step and we've been cautious.**

But the market keeps showing improvement and last month we recommend buying some stocks. **This month we're buying some more.**

We know the environment isn't ideal. The U.S. economy is still sluggish and jobs and manufacturing have been slow. The same is true in most other countries, most noteworthy are China and the Eurozone.

### MARKETS TELL THE STORY

At the same time, many respected experts are negative on the stock market. They feel it's headed lower and stocks should be avoided for a valid number of reasons.

Nevertheless, we've always said the markets will tell us what's likely coming... and weighing it all out, and looking at the market action itself, it's indicating that a further rise is upcoming.

Sure, the overall environment isn't what we'd like to see, but it rarely is.

Remember, the stock market looks ahead and it'll usually start rising when things are looking pretty glum. Why? Because the stock market is anticipating better times ahead and it leads.

That was clearly the case in early 2009 (see **Chart 2**). The stock market started rising when the economy was on the brink of a depression, following the financial crisis of 2008.

It was looking ahead to better times... in large part, thanks to the QE program by the Fed. And while times haven't been that great, the economy did turn around and a depression would've been much worse.

For now, the market is telling us the situation is similar. Yes, the circumstances are different and this rise may not last long. If that proves to be the case, and the stock market changes course, we will too and we'll advise stepping aside.

### POSITIVE SIGNS

Currently, however, the signs are positive...

Note that all of the stock indices are above their moving averages, indicating the trend is up and we'll stay with it as long as that's the case.

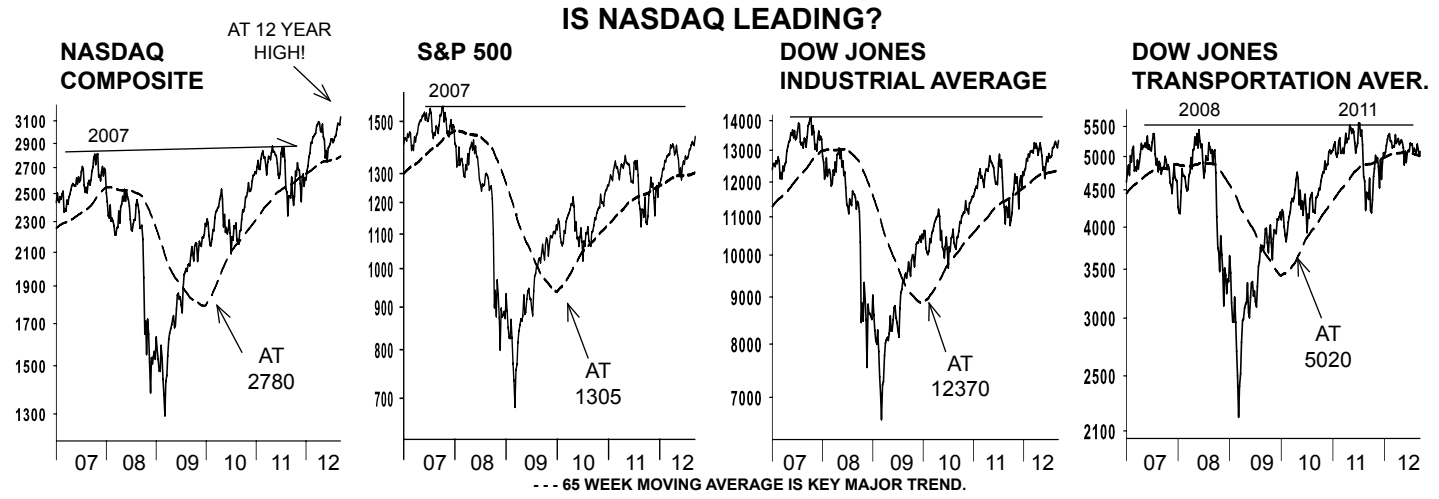
More important, Nasdaq has broken above its strong 2007 resistance area, hitting a new bull market high and it's at the highest level in almost 12 years. That's a big deal and Nasdaq appears to be leading the way.

So far, the other indices are following. The S&P500 and Dow Industrials both hit new highs since 2007-08, which is also impressive.

The Dow Transportations is lagging but if these other markets are indeed leading as we suspect, then it's just a matter of time until it too moves up and joins the others.

Currently, the markets are focused on more monetary stimulus

CHART 2



and that's why they've been rising because more stimulus will boost the economy. Bernanke has said he'll provide it and if he does the markets will be happy, like they were following the ECB's stimulus plan and they'll likely rise further.

**The big obstacle they'll then face are the 2007-08 highs, which are very strong resistance areas.** If the indices are able to overcome these areas, prices could rise sharply higher. If not, we'll be on the alert and take action (or not), depending on the market's action.

**The bottom line is**, the Dow Industrials has broken above the 13300 level and the next important levels to watch are the 2007-08 highs. These are 14000 for the Dow, 1550 for the S&P500 and 5600 on the Dow Transportations.

The markets could now rise to these levels but the key will be if they're able to surpass them. If they do, it'll be a very bullish sign for all the markets, signaling they are indeed following Nasdaq.

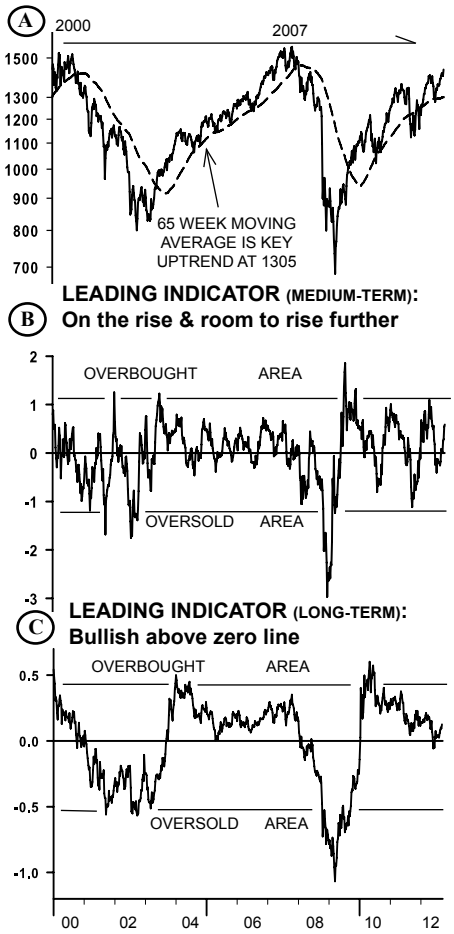
## ELECTION PRESSURE

It would also be a good sign for Obama. Interestingly, as Jim Stack pointed out, the incumbent has historically won reelection nearly 90% of the time if the Dow is up for two months before the election.

September and October will, therefore, be important months for the election, as well as the economy, and it's all coinciding with the key resistance levels. So keep a watch on those levels this month and next. It will tell us a lot.

CHART 3

**S&P 500: 1550 OR BUST?**




Currently though, it looks like all is well (see **Chart 3**).

Looking at the S&P's leading indicators, you can see they're both rising and they have room to rise further before they're overbought. In other words, the S&P500 will likely reach its heavy resistance area at the 2000 and 2007 highs near 1550.

## GLOBAL MARKETS: Selective

On the international front, Mexico and Malaysia remain among the strongest global stock markets (see **Chart 4**). Most of the other markets are turning up but they're generally still lagging behind the U.S. markets.

That's why we're focusing more on the U.S. markets at this time because they have been, and currently are the strongest.

Despite the possible roadblocks ahead, most signs are indicating that this stock market has good upside potential. That being the case, we're going to increase the stock portion of our recommended portfolio to 25% (from 15%) and we're lowering our bond position to do this.

Buy more of the strongest stocks we're recommending like Amer Elec Power (AEP), Powershares Nasdaq (QQQ), iShares S&P Glbl 100 (IOO) and Energy SPDR (XLE). We also like and recommend buying DJ US Telecom iShares (IYZ) and Procter & Gamble (PG) as well as US Global Resources (PSPFX).

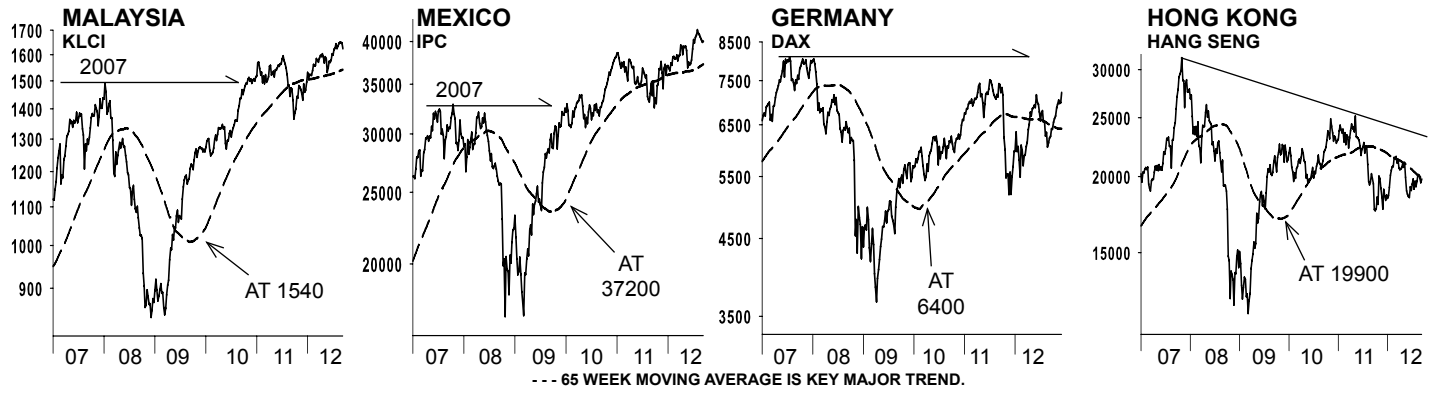
These stocks look good for further upmoves in the months ahead. But again, we want to stress, we don't know how long we'll keep them. It'll all depend on what happens at those key resistance levels.

If the markets resist and break down, we'll be quick to sell. If not, we'll continue holding our stocks.

**The key is to be flexible for the time being as these crosscurrents unfold and keep a close eye on the markets.**

CHART 4

**FROM STRONG TO WEAK**



# U.S. INTEREST RATES AND BONDS

## BONDS: Upside limited... time to sell some

Is the bond bubble over? It might be but we can't be sure yet.

Bonds have been volatile and they're showing some signs of topping. If they are, it could take more time but it would mark an important turning point.

### LOW RATES: Coming to end?

It would mean the long drought, which this low interest rate era has been, is finally coming to an end. That would make a lot of investors happy because they'd finally be able to obtain some income.

Keep in mind, however, bond prices have been rising for the past 30 years. That is, interest rates have dropped steadily during that time (see **Chart 5**).

As you can see, the 30 year yield was almost 15% in 1980 and it's now near the lowest level in 50 years. This alone, combined with volatility and the fact the yield is so far below its moving average, suggests an interest rate bottom could be in the making (a bond price top).

If it is, don't be surprised if it takes a few years to form. That's what happened at the peak in the early 1980s and it's not unusual following a several decade rise or decline.

CHART 5

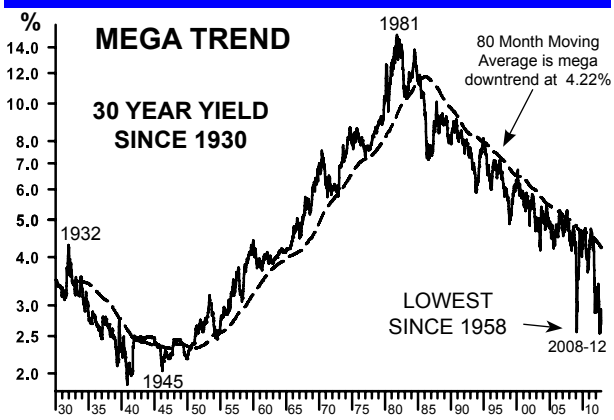



CHART 6


### BOTTOMING PROCESS

We remember that period well. People were shocked when interest rates soared to such unbelievably high levels, just like they are now in reaction to rates dropping so low.

Plus, once the interest rate peak was reached in 1981, rates were volatile, they stayed high and it took about four years until rates really started falling. If you would've been trading the up or down trend, you would've been whipped in and out and we know several people who were.

Again, this is reminiscent of what's been happening over the past couple of years. And since we've been whipped around a couple of times, we feel it's safer to avoid taking new bond positions at this time.

The major trend is up, but that may not last much longer. For now, keep the bonds you have, but sell part to buy stocks, lowering the bond exposure to 15% of your total portfolio.

### SELL SOME BONDS

Looking at **Chart 6**, note that U.S. bond prices are now very overbought and the leading indicator is starting to decline. This tells us, bonds are at a top area and interest rates are near a low.

Whether this ends up being a steep price drop like in 2008, a more moderate decline like in 1998 or a huge reversal remains to be seen. The point is, bond prices are headed lower in the months ahead.

### BONDS POISED TO WEAKEN VS STOCKS & GOLD

Also interesting are the ratios of stocks and gold compared to bonds (see **Charts 7A** and **8A**).

In both cases, the trends have been favoring bonds. That is, bonds have been stronger than stocks since 2007 and stronger than gold since 2011 when the ratios were declining. But this too looks like it's changing.

Looking first at gold compared to bonds, you can see the ratio appears to be bottoming near the moving average, favoring gold. In addition, the ratio's leading indicator is extremely oversold and it's also bottoming. This means the ratio is soon headed higher, which will favor gold over bonds.

The stock to bond ratio is similar, suggesting stocks will soon start outperforming bonds.

In other words, these ratios are telling us that bonds could be in for a real tumble. Not only are bonds likely headed lower but stocks and gold are poised to be much better investments.

### FED WANTS RATES TO STAY LOW... BUT

We know the Fed does not want interest rates to rise. And we know they'll do all they can to keep rates low to help boost the economy for as long as possible.

But the bond market is basically a free market and it's huge. Foreign countries buy U.S. bonds in massive quantities.

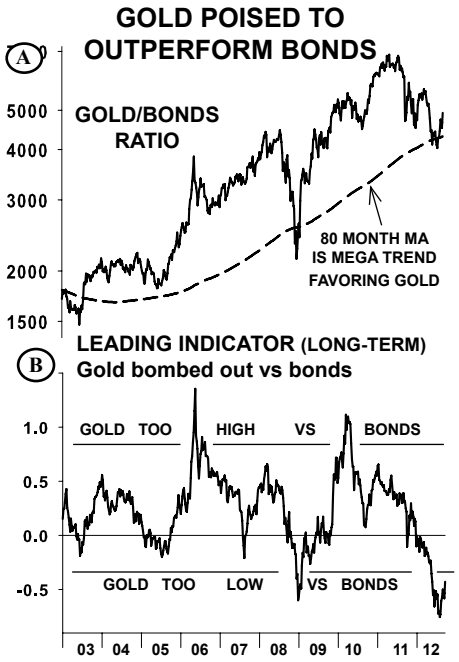
Japan and China are the biggest

buyers and these two countries alone have a big influence on what happens to bond prices.

China, for instance, has been cutting back on its bond buying this year.

We aren't sure why but we can assume it's because they're nervous about a weakening U.S. dollar, which makes their bond investments worth less. It could also be because they're buying more gold.

CHART 7

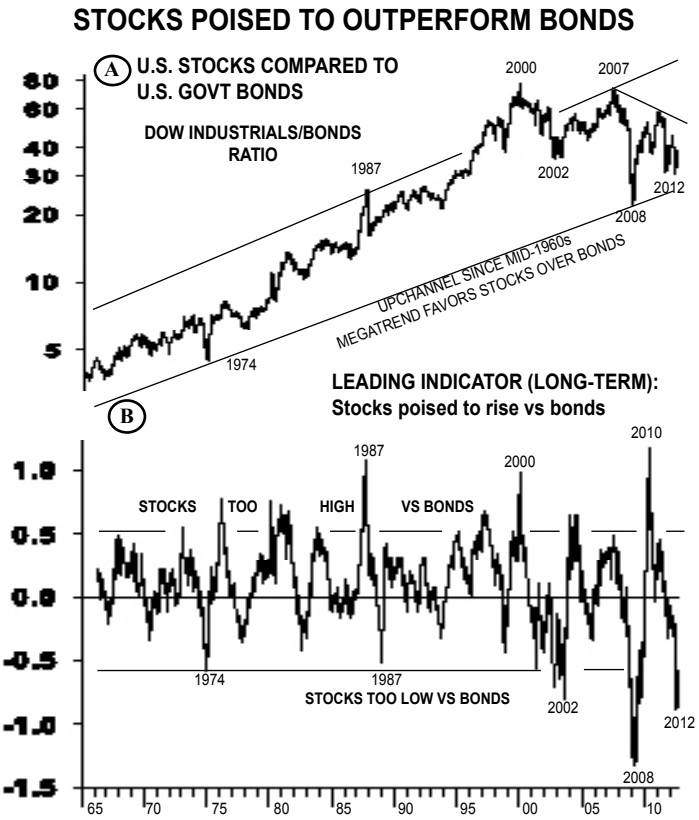



Another reason might simply be due to the slowdown in the Chinese economy. Whatever the reason, the outcome provides some food for thought...

This year Japan picked up China's slack. The Japanese have bought tons of bonds and they're becoming the U.S.'s biggest foreign creditor, a spot held by China for the past few years.

The Fed has also picked up the slack and it's right up there as the biggest bond buyer. Nevertheless, the U.S. needs foreign bond buyers to finance its debt.

CHART 8




If other countries begin to follow China's lead, it would strongly affect bonds. Rates would have to rise to make them more attractive for potential buyers.

Overall, **market influences are a major force and more powerful than the Fed.** The market will ultimately determine which way bonds go, regardless of what the Fed wants, and the market will do its own thing.

# CURRENCIES

## U.S. dollar rise is over

The U.S. dollar closed at a four month low and its days of strength also appear to be numbered. **Like U.S. bonds, the dollar is poised to decline further.**

This is being reinforced by the renewed rise in gold and the improving outlook for the Eurozone. The demand for safe havens has decreased, thanks to the ECB's actions, and the Fed's reassuring words to ease monetary policy.

As you know, the U.S. dollar has been the world's safe haven of choice over the past year or so. That was certainly the case when the Eurozone was headline news every day, with one crisis following another.

Along with the U.S. dollar, the Japanese yen also shined as a safe haven (see **Chart 9**).

But as you can see, both of these currencies have been stalling. The yen has actually been under pressure since last year and if it now declines and stays below 1.27, it will turn bearish, signaling it's headed much lower.

The yen is probably leading the way for the U.S. dollar.

The dollar came under pressure this past month after resisting at its downtrend, and gold's strength has intensified this pressure.

Currently, the U.S. dollar index is weak below 82, and we're watching the 80 and 79 levels. If it declines and stays below these levels, the dollar will be on its way down, continuing the mega downtrend it's been in for the past 40 years.

### VULNERABLE DOLLAR

Not to be party poopers, but this would not be unusual. That's especially true considering the tril-

lion dollar deficits year after year, and the fact that the U.S. is rapidly approaching a "fiscal cliff."

**Putting the situation, for example, in terms of your family...**

If you borrowed money to the hilt and had to keep borrowing to pay for the family's expenses, like education, the mortgage, medical expenses and so on, and you've lost your job... you're in trouble. There's only so much more you can borrow from the bank or your family, but at some point you'll be forced to face reality. You either have to make enough money to pay the bills or go bankrupt.

**That's essentially the position the U.S. is in.** The only big advantage the U.S. has (that you don't), is they can print their own money.

But eventually, the U.S. dollar is going to become worth less because there's been a huge surge in money creation. Too much supply equals less demand, and money is no exception.

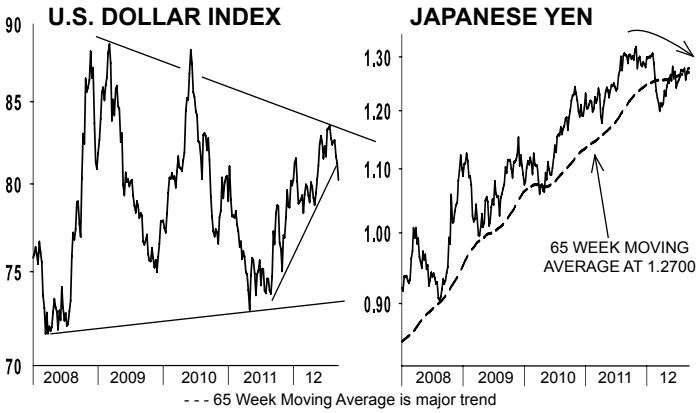
## IT'S ALREADY HAPPENING

In fact, we're already seeing this as many countries shun the dollar, preferring to trade with other countries in their own currencies.

Plus, the U.S. is okay with a gradually weakening dollar. It actually makes the debt a little more manageable.

CHART 9

### SAFE HAVENS: RUNNING OUT OF STEAM




## DOLLAR DOWNSIDE IS INFLATIONARY

The downside of course is inflationary. But with deflationary forces currently more powerful, it'll probably be a while before inflation becomes a serious threat.

For now, officials are determined to get the economy back on track. They're taking inflationary measures to do this because regardless of what they say, neither party will take the radical measures needed to make a substantial difference in the debt load. The actions would simply be unpopular, so there are few publicly acceptable options.

In any event no one seems too worried about the inflationary effects at this point and that's true of the markets too.

## CURRENCIES: On the rise

Meanwhile, the currencies are starting to rise (see **Chart 10**). This is normal since the major currencies generally move opposite to the U.S. dollar. But this time around, there's more to it.

## ECB to the rescue

The European central bank has taken the action the markets were anxiously waiting for. They're now buying bonds, which eases monetary policy and conditions, along with concerns about the debt ridden countries and the Eurozone crisis that has lingered and intensified over the past year.

This alone has brought relief and, even though the euro has been lagging, we suspect it'll continue to move up along with the other currencies.

The Swiss franc, for instance, provides a good example of what our indicators are signaling (see **Chart 11B**).

Note that it's rising strongly, indicating the Swiss franc will soon follow. The other currencies are showing the same.

In fact, it now looks like the

CHART 11

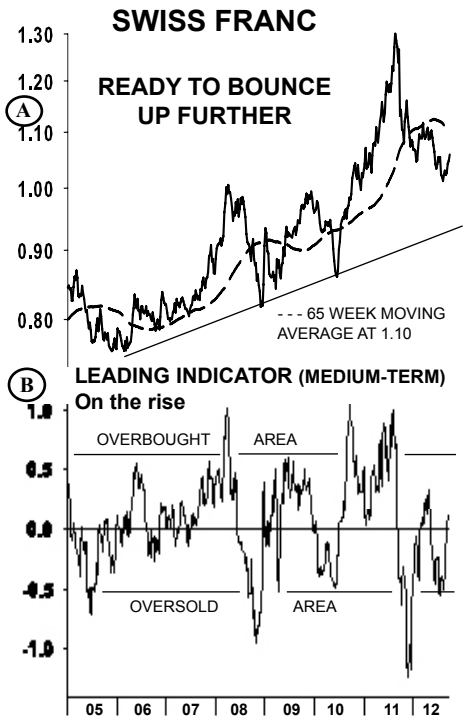
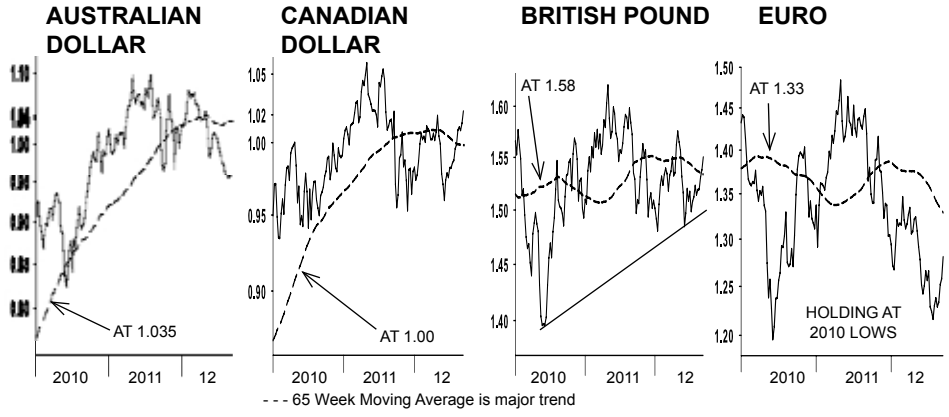



CHART 10

### RISING OR POISED TO RISE



Swiss franc is going to outperform several of the other currencies (see **Chart 12**, which compares the Swiss franc to the Canadian dollar as an example).

The Swiss franc is bombed out and it could start outperforming the Canadian dollar. And since the Swiss franc is pegged to the euro this tells us that Europe and the euro may become more stable than we think... for the time being.

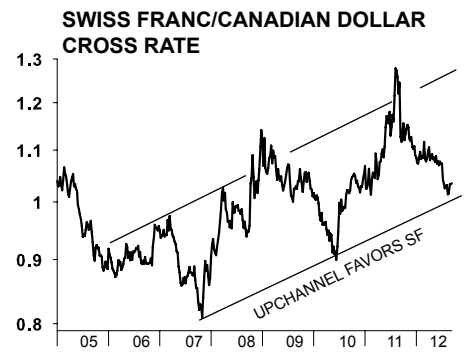
We'll see what happens. The resource currencies are currently the strongest but they could take a back seat in the months ahead...

### ADJUSTING PORTFOLIO

For now, we'll stay with our U.S. dollars. But since the Australian dollar has been lagging due to China's slower growth, we're going to diversify.

Keep a third of your cash in U.S. dollars and the other two-thirds divided between Australian and Canadian dollars. The currencies are basically in a transition, so this could change in the months ahead, and we'll change with it.

CHART 12




# METALS, NATURAL RESOURCES & ENERGY

## Gold still bullish, & better than ever, after all these years

Gold, silver and their shares are taking off... reaching 6 month highs in a burst of strength! The market's been carefully watching how the central banks are reacting to help the sluggish economies. And they're taking off in anticipation.

It is a reality in the Eurozone when Draghi recently announced the biggest bond buying action for the ailing Euro countries. This took some heat off the Fed, but the markets continue to anxiously wait for more.

The gold price knows this is coming, it's just a matter of when. And the Fed continues to promise it will... when necessary.

### BIG GOLD BUYERS

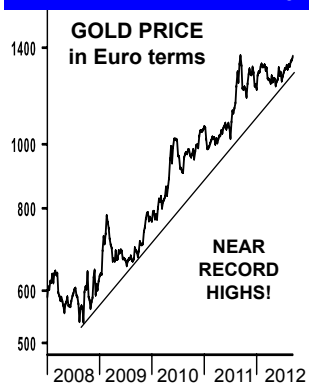
During the weak Summer months, some of the brightest minds in the business, namely Soros and Paulson, bought large positions in gold.

The Soro's fund more than doubled its investment in gold's ETF, the SPRD Gold Trust, while Paulson raised his position by 26%. And this was done during the weakest quarter for gold since 2008.

Gold and silver hoarding is also near record highs as investors look for safety. China also continues to load up on the precious yellow metal. Based on import rates, China is on track this year to pass India as the world's biggest gold consumer.

We believe everyone should own gold. This year gave the late comers a chance to get in and the U.S. has a beautiful new gold coin, the American Buffalo 24 karat gold coin.

CHART 13




### NO BUBBLE IN SIGHT

It's now been a year since gold reached its record peak, and considering the lifelessness of gold since then, you can understand why many are calling the gold market a bursting bubble.

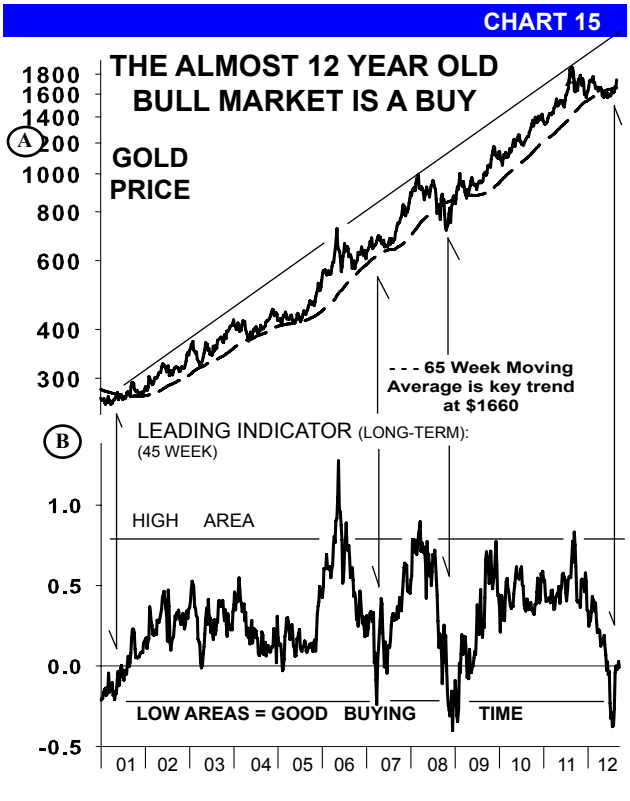
We don't think so. Instead, it's been a great buying opportunity. And the big (and small) buyers of gold have kept it from declining more than it could've. Gold held above its December highs during the weak Summer months, which we believe is the bottom line.

### GOLD: The ultimate currency

Gold is jumping above $1,700 (up 13% since mid-May) and it's on the way to test its record highs. In fact, it's gearing up to reach record highs in all currencies and, as it approaches record highs in euro terms, it's getting close (see **Chart 13**).

CHART 14




**We don't think it'll be much longer before gold flexes its "currency of last resort" muscles.**

We all know the gold price moves in an opposite direction to the U.S. dollar. This clear consistency has been going on ever since the dollar was taken off the gold standard in the early 1970s, and the dollar began to move on its own.

**Chart 14** shows this correlation since 2001. Here you can see the clear opposite moves until the 2008 financial crisis. This relationship then began to change, and it became more noticeable in 2010.

Gold went on to rise in its best move of the bull market in 2010-2011, yet the dollar DID NOT FALL TO NEW LOWS. This in essence showed the safe haven uncertainty in the world. Gold AND the dollar (reserve currency) became safe havens.

The dollar has been showing strength by not falling to new lows in recent years, but gold also showed strength this year by not falling to new lows.

With gold now rising in a renewed rise within a bull market that is almost 12 years old, while the dollar is declining, reaching a four month low, we'd say **gold is the winner**.

We believe it's just a matter of time until a record high is reached and a much weaker dollar develops to help ease the monster debt load.

## GOLD FEELS LIKE STOCKS DID IN 1988!

**Chart 15** shows gold in a great buying time, in spite of its already lengthy bull market. It's a good buy with no signs of a bubble!

Note how gold has stayed clearly above its 65-week moving average during the bull market since 2001. The only time it closed below it was in 2008 and 2012. But gold rose back above this moving average this past month for the first time since May.

This is happening at a time when its leading indicator (**B**) is bouncing up from a clear low area... an area that coincides with a good buying time in gold (see vertical lines).

Plus, **our favorite intermediate gold indicator is flashing a buy signal!**

In fact, it's been triggering a buy signal for the last several months. We have felt the Summer months were the best time to be accumulating gold and so far they were (see **Chart 16**).

Last month we explained the A-D cyclical moves in the gold price. It's still to be seen if the current renewed rise ends up being a C rise or an A rise.

To briefly refresh your memory, bull markets tend to have their best intermediate rise during a C rise, when a record high is reached. An A rise, on the other hand, normally produces a good bounce up, but gold usually does not reach a record high.

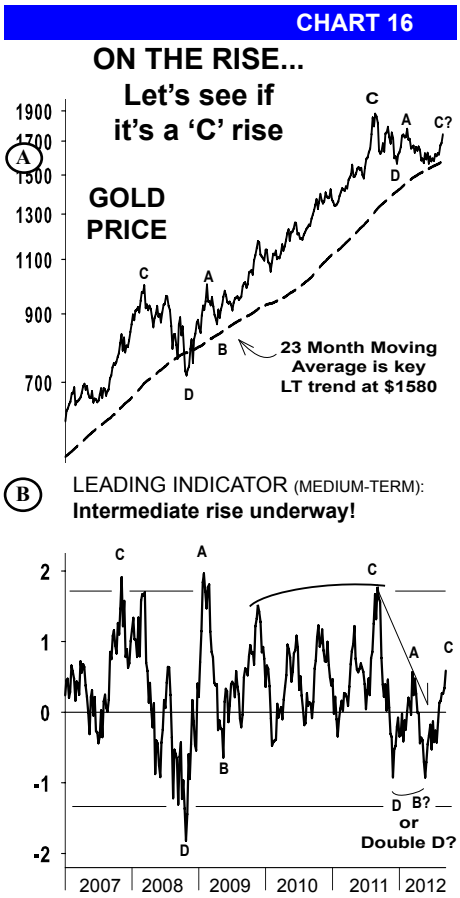
This means we'll watch the bullish levels this month. If a C rise is underway, we'll likely see gold reach a record high before the rise is over. This means, the $1900 level will clearly be surpassed, and a target of possibly $2000 to $2200 is likely.

If an A rise is, however, underway we could see gold stall at the $1800 level, or the $1900 level. The indicator will be very helpful by warning us when it reaches the high areas.

Overall, let's enjoy this rise for as long as it lasts. If an A rise is happening, in a worst case, we could see a moderate decline first before a C rise begins. Not a big deal.

The 65-week moving average has been the best moving average since the 1970s in identifying the major trend. Since it was temporarily broken in 2008 and 2012, we went back to see which moving average would cover most of the bull market trend.

The 23-month moving average is pretty good (see **Chart 16A**). As you can see, gold broke temporarily below it in 2008 and this year it held. This means $1580 is a key support



level for this bull market.

## SILVER: Stronger than gold

Silver has jumped up almost 30% in 10 weeks! A fast moving rise which is typical for silver. It's more volatile than gold... it rises more and it falls more.

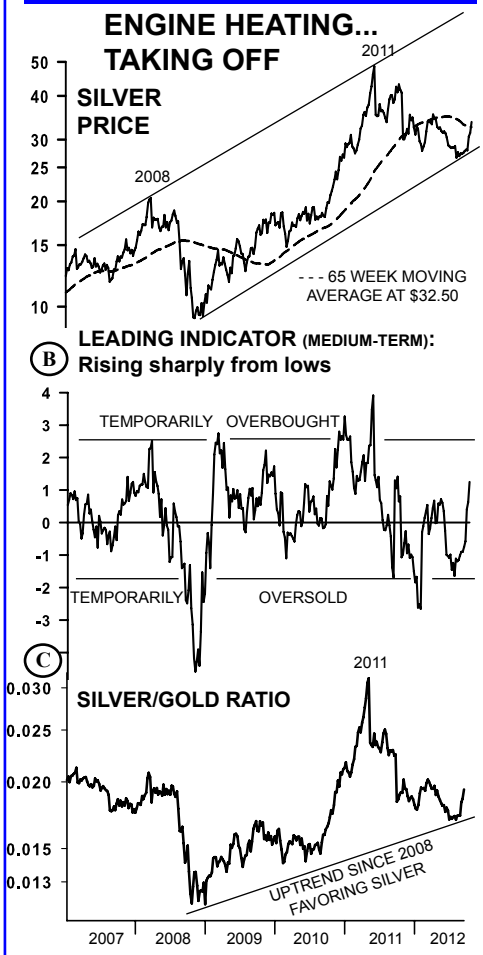
It also rises more when good news comes out about the global economy. When copper gets a boost upward while gold is also rising, for example, then we'll probably see a bigger rise in silver.

Silver has been moving up from a low area and it's now rising above its 65-week moving average (see **Chart 17**). If silver can now stay above this average, it could rise further to possibly the $36 - $38 level first and then possibly on to the April, 2011 highs.

You can see silver's volatility comparing it to gold (see **17C** which shows the ratio of the two). When silver soared to its highs last year, note the ratio also soared as silver well outperformed gold. Silver then declined more than gold as the ratio fell from the highs.

But now the ratio is holding at the uptrend favoring silver, and it's starting to rise once again. This suggests, the trend since the financial crisis continues to favor silver. And silver is poised to continue outperforming gold in the current run-up.

CHART 17




## GOLD SHARES: Rising from bombed out levels

Gold shares are bouncing up from the dead, and even though their rise has been robust, up 25% on average since the late July lows, the upside is wide open.

We've been showing you how gold shares are bombed out versus about every asset class. Be it the stock market, the bond market, gold, silver or in dollar terms, **gold shares are coming alive in terms of just about everything!**

**Chart 18A** shows the oversold nature of the HUI gold share index. It's now bouncing up from a 10 year uptrend, while its leading indicator is rising in a clear oversold area. This area was reached twice in the current bull market, in 2005 and 2009, and in each case it was followed by a super bull market rise in gold shares.

This alone is saying, **stay with your gold shares.** The royalty companies, like Royal Gold and Silver Wheaten, have been super winners, and we recommend holding them.

CEF is a Canadian company that holds gold and silver, and GTU holds gold. It's been getting the advantage of moving up with both metals, and it's a great way to keep your hands on both.

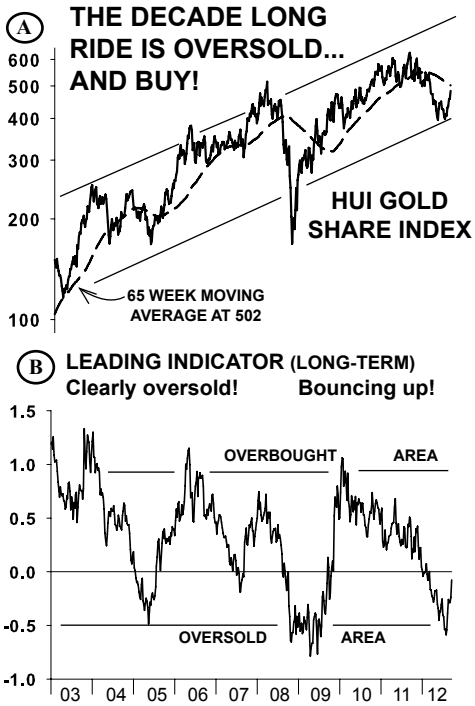
We want you to be well positioned for this rise and enjoy it for as long as it lasts.

## PLATINUM & PALLADIUM: On the rise too!

**Platinum** looks like an amazing buy, even if only for its bargain price compared to gold. Historically, it tends to keep a premium price over gold, but now it's out of whack.

Note on **Chart 19A**, platinum has been moving within a mega

CHART 18




upchannel since the 1970s. It rose to a record high in 2008, clearly rising much higher than gold (**B**), but it's since failed to surpass its 2008 record highs.

Platinum has moved to the back burner since then. The 2011 highs were lower than the 2008 peak, and platinum has been much weaker than gold since then.

Note on the differential between platinum and gold, it's at an interesting bombed out level. Platinum's price is now the lowest it's ever been compared to gold (see #4 on **Chart 19B**).

This is saying, gold is the best in today's times, and it'll probably stay that way, or it's saying, go ahead and buy some platinum because it's unlikely to stay this low versus gold. We tend to think the latter.

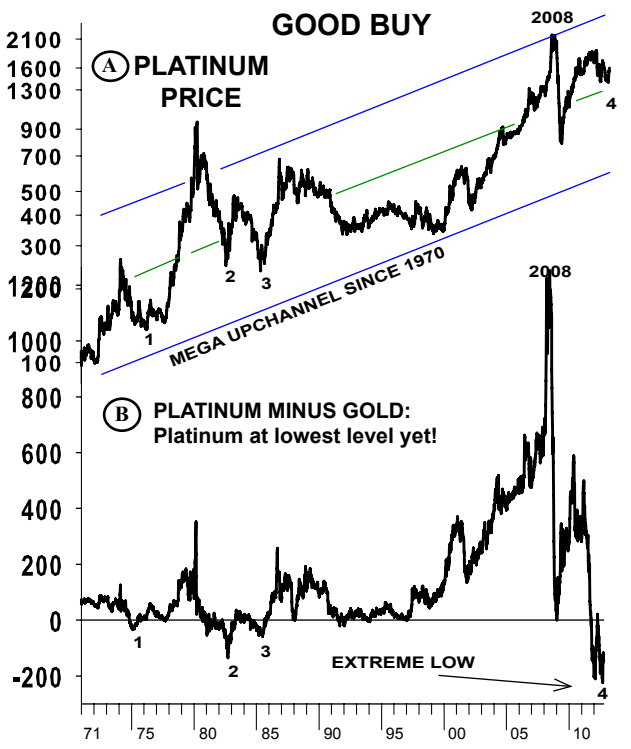
Platinum is breaking above its 65-week moving average at $1585, jumping up 15% from the lows, and it's now strong if it can stay above $1585.

Platinum got a boost from clashes and strikes in South Africa and on better car sales.

We could see platinum test the February highs near $1720, and eventually move higher to the record highs.

CHART 19




**Palladium** has already bounced up 16% from its Summer lows and it's also above its moving average. If it can now stay above it at $665, it will be following the others. $720 would then be the next target (see **Chart 21**).

## RESOURCES: Waiting for more stimulus but looking better

The resource sector moves with the global economy, which is why it hasn't risen like the precious metals... at least not yet.

Commodities beat equities, bonds and the dollar for a second consecutive month, the longest streak in more than a year. Granted it's based on speculation that countries will seek to rescue their economies, but that's been the case in all markets.

The S&P's GSCI total return index of 24 commodities rose 6.4% in August, led by silver, cocoa and heating oil.

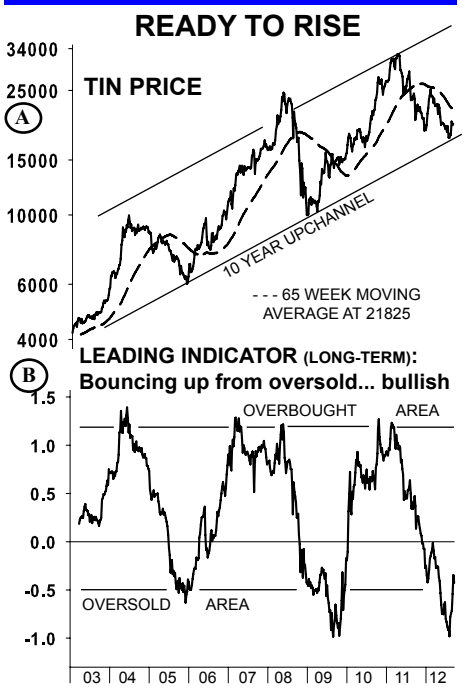
The weaker dollar is also helping give commodities a boost. Some believe raw materials entered a bull market last month. They've risen over 80% from December 08 to June 2011 as the Fed bought $2.3 trillion of debt in two rounds of quantitative easing.

We tend to agree, the resource sector looks like it's bottoming, and we think it too is poised to rise. Taking copper and tin as our good barometers, you can see on **Chart 21** that copper is now starting to rise from a strong support level.

Copper is already up 11% since early August and it's ready to rise back above its 65-week moving average at $3.70. It could rise to the record highs near $4.50, once the $3.95 level is surpassed.

**Copper has good potential, and so does tin and other base metals. Chart 20** shows tin's bull market since 2003. Most interesting is the oversold situation in tin... it's similar to gold's indicator.

CHART 20

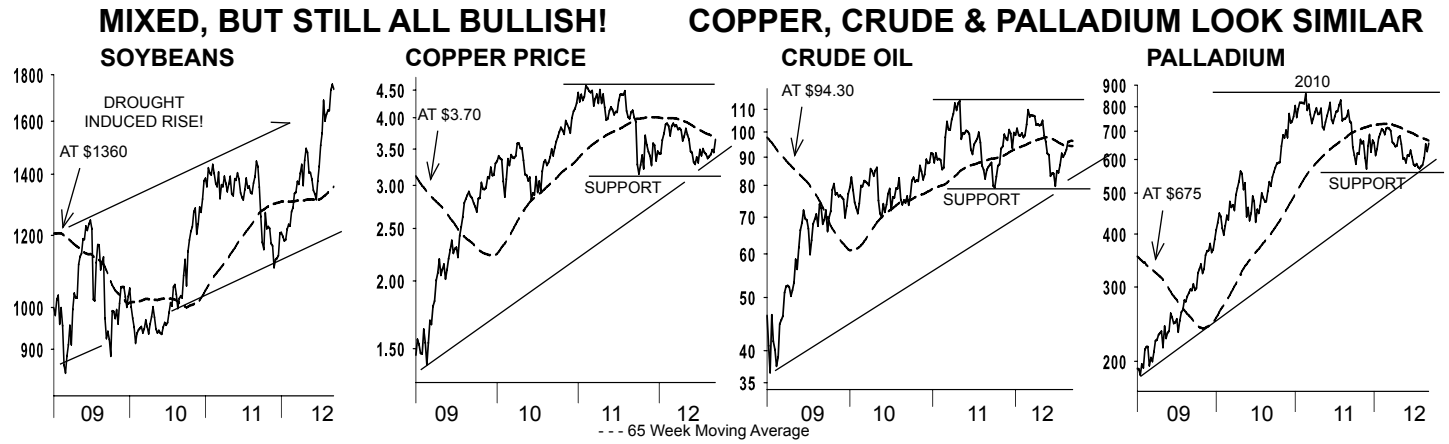



Once tin rises back above its average, the indicator is suggesting a wide open upside, possibly rising to the top of the channel!

Crude oil looks similar to copper (see **Chart 21**). It's also been in a sideways band since reaching a high last year. Like gold and copper, it's stayed above its 2011 lows, and it's bouncing up. This is a good sign that it'll possibly test its highs. Overall, it's also a good sign for the global economy.

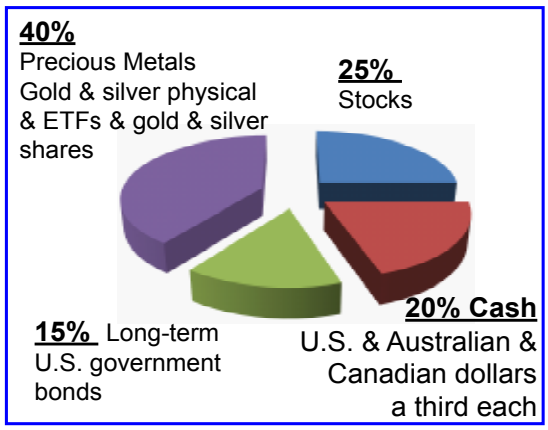
We currently have an energy stock and we're now buying a good resource fund (PSPFX), and we'll be ready to buy more resources soon. Perhaps China will be the reason why.

CHART 21



# OVERALL PORTFOLIO RECOMMENDATION

After months of volatility and uncertainty, the markets are looking good. Gold is soaring, and so are the gold shares and silver. Stocks are also on the rise. These markets are at a turning point and the upcoming quarter should be an interesting and profitable one. Most of the markets are set to move higher. Get onboard if you're not on yet. As you'll see below, we're making some small changes in our recommended investments and we'll likely be making more in the months ahead.




## PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

A renewed rise has begun! Gold, silver and their shares are bouncing up and so are the other metals. Silver is up sharply, almost 30% in 10 weeks! Gold is passing up the $1700 level like a hot knife through butter! The bombed out gold shares are jumping up from the dead, they're already up 25% on average since the Summer lows. Our positions are doing great and we hope you are all fully invested and enjoying the ride. There's more to come, if you haven't yet bought. We recommend diversifying and having more of your metals positions in coins or bars, but ETFs are an easy way to buy gold and silver, which is why we recommend GLD, IAU and SLV. As for coins, just make sure you're getting a fair market price from a reputable dealer... shop around. We like Amergold in Texas, www.amergold.com. As for resources, we have an energy stock and we now recommend buying a resource fund (PSPFX).

## U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The stock market is surging and the outlook is positive for the months ahead. All of the stock indices are bullish above their moving averages and Nasdaq hit a 12 year high. The Dow Industrials and S&P 500 are also at multi-year highs. While we're still maintaining caution, we recommend adding to your stock position, raising it to 25% of your total portfolio. Buy our recommended stocks listed to the right, especially American Electric Power (AEP) and Power Shares Nasdaq (QQQ), which are among the strongest. We also like and recommend buying DJ US Telecom iShares (IYZ), Procter & Gamble (PG) and US Global Resources fund (PSPFX). At this point, we don't know how long we'll keep these stocks but for now, the upside potential looks good.

## INTEREST RATE & BOND RECOMMENDATION

Bonds have been volatile, they're still showing signs of topping and they're likely headed lower in the months ahead. That is, interest rates are poised to move up. The major bond price trend, however, remains up, but that may not be the case for long. For now, keep the bonds you have, but sell some in order to buy more stocks. This will lower your bond position to 15% (from 25%) of your total portfolio. Also, don't buy new bond positions at this time.

## CURRENCIES RECOMMENDATION

Like U.S. bonds, the U.S. dollar will likely decline further. At the first signs of real dollar weakness, we'll switch out of dollars. The currencies are starting to rise but the Australian dollar has been lagging, so we're going to sell some and diversify. For now, keep a third of your cash in U.S. dollars and two-thirds divided between the Australian and Canadian dollars, but this could change in the months ahead. You can buy or sell Australian and/or Canadian dollars at Everbank, Chris.Gaffney@everbank.com or buy the ETFs: FXA and FXC.

### OUR OPEN POSITIONS

**GOLD & SILVER ETFs AND SHARES**

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

**STOCKS AND ETFs**

| | |
|---|---|
| DJ US Telecom * | IYZ-NYSE |
| Proter & Gamble * | PG-NYSE |
| US Global Res * | PSPFX-NYSE |
| American Elec Power | AEP-NYSE |
| Power Shares Nasdaq | QQQ-Nasdaq |
| iShares S&P Glbl 100 | IOO-NYSE |
| Energy Select SPDR | XLE-NYSE |
| Dow Diamonds | DIA-NYSE |
| Wal-Mart | WMT-NYSE |
| Mexico iShares | EWW-NYSE |

**CURRENCIES AND ETFs**

| | |
|---|---|
| Australian dollar | FXA-NYSE |
| Canadian dollar * | FXC-NYSE |

* NEW POSITION

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