THE
ADEN FORECAST
MONEY • METALS • MARKETS

SEPTEMBER 2013 *our 32nd year*

SEEDS OF CHANGE ARE GROWING

It's been a crazy month. So much drama, so much uncertainty and so much fear… it all left investors somewhat shell shocked.

SHAKE, RATTLE & ROLL

With the Fed restating that it'll be cutting back on its quantitative easing (QE) by the end of the year, it again rattled investors, raising many questions…

What if the Fed tapers too soon? Will the economy fall back into recession?

Memories of 2007-08 resurfaced. As you'll remember, the credit bubble burst, resulting in the collapse of Lehman Brothers and a severe crisis, which took the economy to the brink of a depression.

So yes, investors are scared, and with reason…

While showing some improvement, the economy is barely scraping along and all the Fed's efforts haven't done much. Over the past year, economic growth has been the slowest ever recorded, except for when recessions were in force.

INSIDE

One important reason why is because **banks aren't lending,** despite the Fed's easy money. As you can see on **Chart 1**, loan growth has been anemic compared to what it was at the end of previous recessions.

Instead, banks have built up their excess reserves at an astounding rate, from zero in 2008 to $2 trillion in 2013!

In turn, this has resulted in an ongoing decline in the velocity of money (see **Chart 2**).

Basically, this means that money isn't changing hands, which is not a good sign because the velocity measures the demand for money.

This is deflationary and it's been a real concern.

SOME GOOD NEWS

But on a brighter note and thanks to the Fed, we're seeing positive signs in the markets.

The stock market is headed higher and as you know, it's a leading indicator. That is, rising stocks are telling us that better times lie ahead.

So regardless of all the concerns, including what's happening in Syria, the stock market sees something different and it's always a mistake to argue with the market.

Interestingly, gold and bonds are telling us the same thing and we'd be foolish not to listen (see **Chart 3A**).

Gold better than bonds

We've shown this chart several times in the past, but it's so im-

NOTES & QUOTES

•We want to **thank you** for your many nice comments. We're glad to hear you liked our new changes on page 12 and we also appreciate your questions.

This lets us know what's on your mind and we try to answer as many questions as we can in these pages. Our apologies for not personally answering each letter but if we did, we wouldn't get much work done, so we hope you understand.

•This month, a couple of you also wrote to say you were unhappy about some of the speakers at the **New Orleans investment conference** and our participation.

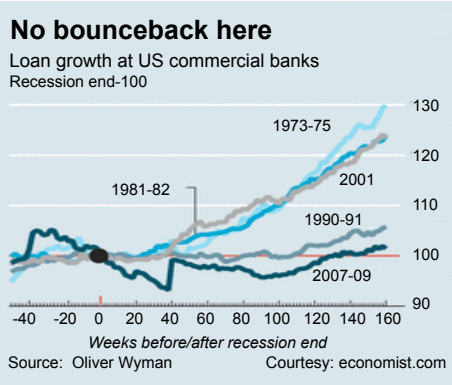
As we've mentioned in previous years, this conference is essentially where we got started about 30 years ago. It's also where we see many old friends and subscribers, so it's special for us. That doesn't mean we agree with all of the speakers that'll be there. Many we do and some we don't, but that's usually the case at any investment conference.

For those of you planning to go, we look forward to seeing you there.

•Today is **Harry Schultz**'s birthday. Many of you have asked how he's doing and he's doing very well. We're sure he'd love to hear from his old subscribers and friends, and if you write, we'll be sure to pass your letters on. Maybe you can convince him to write an article soon as well…

HAPPY BIRTHDAY HARRY!!!

CHART 1



portant we really want you to take a hard look at what it's telling us this month.

Very simply, this ratio chart compares gold to bonds. When it rises, gold is stronger than bonds. And when it declines, gold is weaker than bonds.

We call this our inflation-deflation barometer. Why?

Gold tends to rise during inflationary or generally good economic times. That's why the ratio's been rising over the past decade.

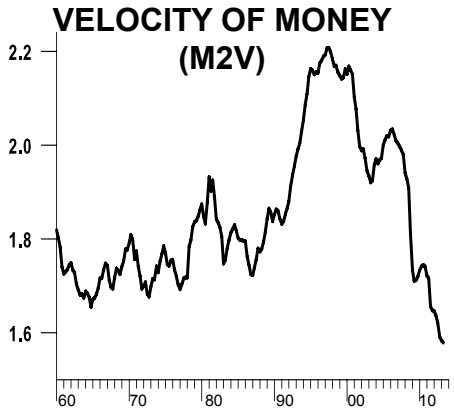
The two exceptions were in 2008 and 2011, which were periods of recession and slow growth. In both cases, the ratio declined because gold was weaker than bonds.

In other words, bonds usually outperform gold when the economy is weak and/or deflationary forces are more dominant. This has clearly been the case over the past couple of years with the economy on thin ice and the scales tipping towards deflation.

So where do we currently stand?

We're happy to report the ratio is again on the rise. Plus, the ratio's leading indicator has surged higher, signaling the ratio is going to rise further.

CHART 2



A SIGN OF BETTER TIMES AHEAD

This means the deflationary forces we've been living with in recent years are going to be left in the past.

It's telling us the economy is going to improve, probably fueling some inflation, which at this point would be a welcome relief.

And of course it means that gold is going to be stronger than bonds.

INFLATION ON THE HORIZON

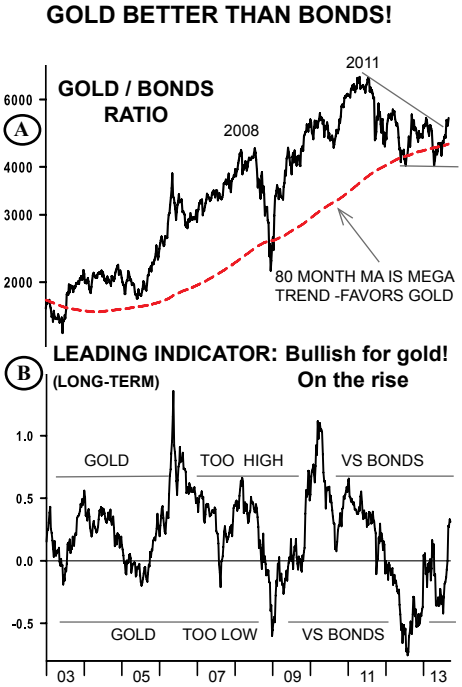
Many people haven't noticed but producer prices have been creeping up over the past three months at a 5% annualized rate. Whether or not this marks a change to higher inflation remains to be seen but our inflation-deflation barometer suggests that it could.

Keep in mind, the potential for higher inflation is well in place. Bank reserves are massive and normally, banks only keep about 10% of their money in reserve.

So once banks start lending, inflation could pick up quickly as money moves out of the banks and into the economy.

Many experts believe this is already starting to happen. If it is, it'll mean the most inflationary monetary policy in decades will be unleashed. And the velocity of money will then rise as deflationary forces take a back seat.

CHART 3



MORE BUBBLES UPCOMING

Like the tech bubble and the real estate bubble before this, the **Fed has essentially created yet another bubble.** This time it'll be an inflation and/or bond bubble.

In either case, it's going to take time. It won't happen from one day to the next.

But higher interest rates will also be a result. This will be good news for retirees who have had to suffer through years of zero interest rates.

We'll soon see how this unfolds but the markets are giving us a sneak preview. And unless we're reading it wrong, we should be in for some real changes. Stay tuned.

"If you tell the truth, you don't have to remember anything."
Mark Twain

Editors:
Mary Anne Aden
Pamela Aden

www.adenforecast.com
info@adenforecast.com

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

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

U.S. & WORLD STOCK MARKETS

Remains bullish

Again, it was all about the Fed. Unfolding events in Syria had an impact on stocks too.

MODERATE DECLINE

The stock market dropped 5% in recent weeks and this shook confidence, but it really wasn't that big of a deal. The market remains bullish and this weakness was a normal downward correction, and a moderate one at that.

The major trend for stocks is up (see the Dow Industrials on **Chart 4**). Plus, the market has room to rise further before it reaches levels that are too high.

You can see this clearly on **Chart 5**, which shows the S&P500 and its leading indicator. As long as that's the case, stocks are going to rise further.

Still, investors are nervous and sentiment is generally bearish. In fact, it seems like investors are looking for anything to worry about…

CHART 5

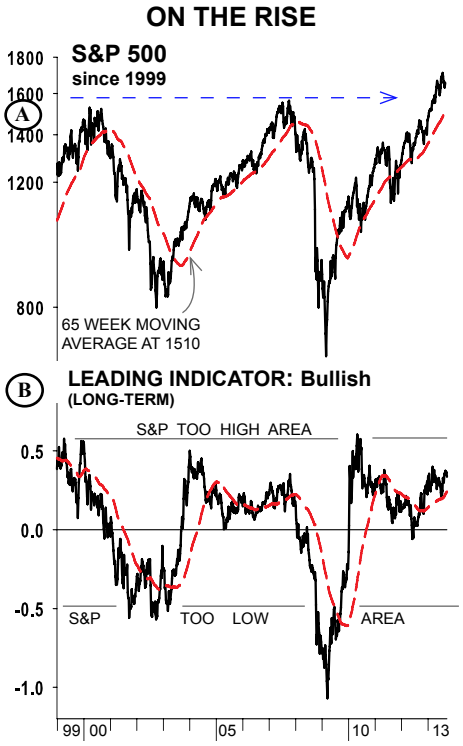
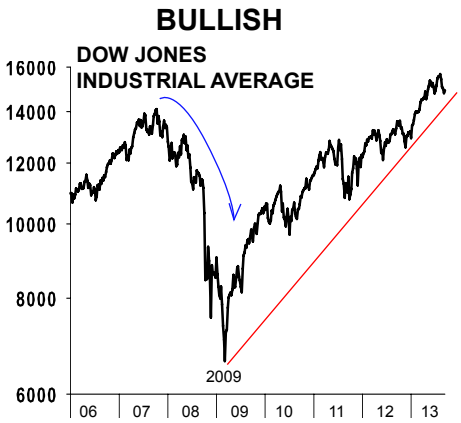


CHART 4



INVESTORS ARE SCARED

They're scared the Fed may soon cut back on its bond buying. And since stocks and bond buying have risen together over the years, the thought of tapering is giving the market the jitters.

The month of September is also worrisome because it's usually been a bad month for stocks.

Then there's the high margin debt. The last time it was this high was at the previous peak in 2007, at the start of the financial crisis.

The stock market hates uncertainty and Syria is currently an unknown, so that put downward pressure on stocks too. But with the situation calming down some, the market has settled down too.

When all was said and done, however, investors basically ran for cover. **After pouring $40 billion into the stock market in July, the outflows in August were the largest in five years.**

These actions show how skittish investors are. They're looking for somewhere safe to put their money and they don't know where to turn.

Nevertheless, looking at **Chart 6**, it's very clear that stocks have bottomed compared to bonds. Stocks are the better investment and they're poised to outperform bonds in the months, and probably years ahead.

In addition, the stock market itself is signaling that, despite the negatives, the positives are far greater. If this weren't the case, the market would've turned bearish, but it didn't. On the contrary, all of the stock indices are on the rise (see **Chart 7**).

TECH STOCKS ARE STRONGEST

Nasdaq is the strongest, just hitting a 13 year high. Plus, all of the indices are holding above their June lows. This is bullish.

Even more bullish is that they're all well above their 65-week moving averages, which identifies the major trends. Looking again at the S&P500 on **Chart 5A**, it'll remain solidly bullish by staying above 1510.

The Dow Industrials, the Dow Transportations and Nasdaq will stay in bull markets by holding above 14000, 5700 and 3200, respectively.

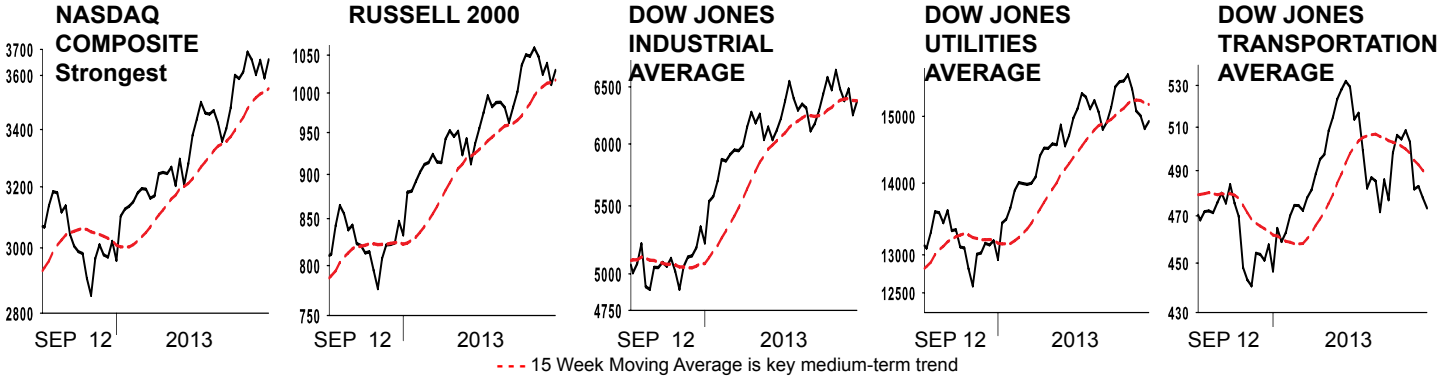
For now though, **watch the June lows**. If they continue to hold it'll be a good sign for an ongoing bull market. These lows are at 14650 for the Dow Industrials and 1574 for the S&P 500.

On the other hand, if they're clearly broken, it'll mark the first real sign of caution. All things considered, it looks like they'll hold. Why?

The stock market has been rising since 2009 and the rise has been

CHART 6

CHART 7



slow and steady. It hasn't yet had a speculative phase.

Most bull markets do and these phases tend to drive prices sharply higher as everyone jumps in. We believe that's still to come.

In addition, stocks aren't yet expensive. They're still well below levels seen at previous bull market tops and some stocks remain downright cheap.

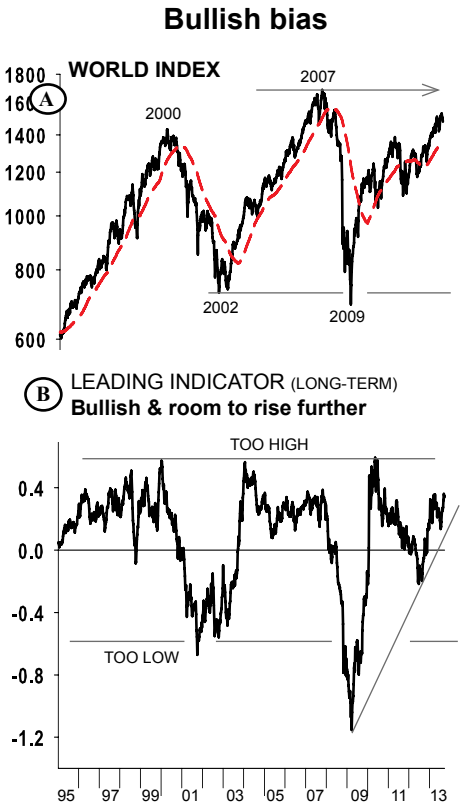
That's especially true of some of the tech stocks. These have held up well and they still have good potential, which explains why Nasdaq is the strongest New York stock index.

A NERVOUS BULL

Keep in mind, investors have few options. And the stock market is one of the few markets currently providing decent returns. As you'll see next, interest rates are poised to decline in the weeks ahead and that too will make stocks even more attractive.

We know there are some nervous warnings hanging overhead, but for now the market itself is telling us to stay put.

CHART 8



Most of our recommended stocks are holding up well. Some are at new highs and we advise keeping the stocks you have. As for our weaker stocks, we'd hold them too as they'll move up along with the rest of the market.

FOREIGN MARKETS: Mixed

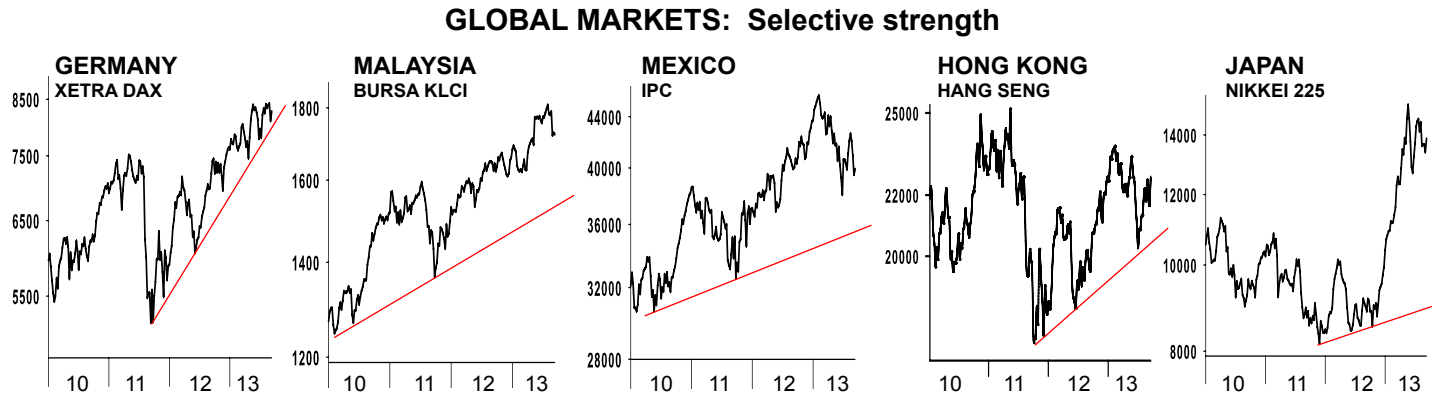
The global stock markets haven't been as strong as the U.S. market. They're essentially mixed (see **Chart 9**).

Many of these markets, however, are very cheap. That's especially true of the emerging stock markets, which have taken a hit as investors flock to safe havens.

But looking at the World Index, you'll see it's bullish and it has room to rise further (see **Chart 8**). So we may soon be buying into more of the global markets.

As a final note, it's good to remember that, despite the ups and downs, stocks have been the best investment this year. That's why our largest allocation has been in the stock market and it looks like there are more gains to come.

CHART 9



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U.S. INTEREST RATES AND BONDS

Rates at another two year high

Bonds are where the action is. We know that may sound strange, but it's not… not at all.

FALLING BOND PRICES

Long-term interest rates have been soaring, hitting two year highs (see **Chart 10**). As you know, as rates rise, bond prices decline. But the recent action has been extraordinary.

Long-term rates have surged nearly 80% in the past four months. That's the biggest rise in over 50 years. As a result, bond prices have plunged (see **Chart 11**).

In fact, bond prices have been on the slide since 2012 and they've dropped 36% since then. But the latest drop really spooked investors.

As you can see, bonds have confirmed a major head and shoulders (H&S) top by breaking below an important support level (NL). This alone is signaling much lower bond prices in the months ahead. Based on the H&S target they could drop another 25%.

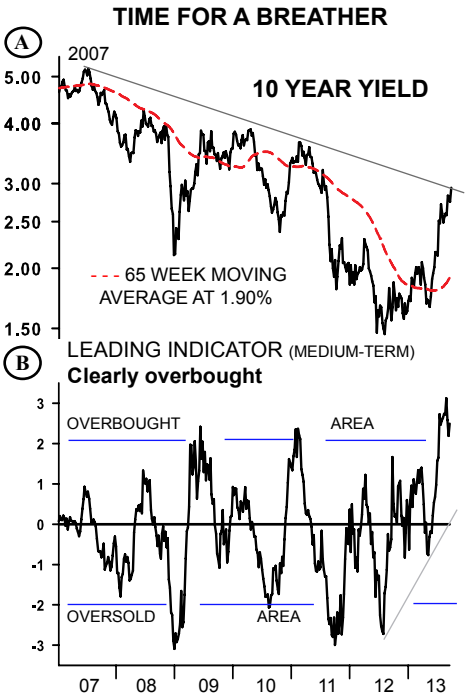
EXODUS OUT OF BONDS...

This has not gone unnoticed and the repercussions have been widespread…

Investors have been pulling billions of dollars out of bond funds week after week. But the foreign reaction has been far more impressive.

CHART 11

CHART 10



International investors have been dumping U.S. government bonds like hot potatoes, the most in 36 years. The biggest sellers have been China and Japan, who happen to be the U.S.'s largest creditors. If they keep selling, this could drive prices sharply lower.

... WHILE THE FED BUYS

Meanwhile, the Fed has bought over $3 trillion in bonds over the past few years, in an attempt to keep interest rates low. And it's still buying $85 billion each month as part of its QE program.

The problem is, the bond market is a free market and it's huge. So while the Fed was able to influence it for a while, bonds are now going their own way. And as bond prices drop, losses are adding up on the Fed's huge bond holdings.

TAPERING - A DELICATE SITUATION

For now, everyone's totally focused on the Fed and their tapering. Since the latest Fed minutes indicated they'll likely curb their bond buying by year end, this has affected nearly all of the markets and it's raising many questions.

Will the Fed taper this month? In December? Not at all? If so, by how much? Is the economy strong enough to withstand tapering? Will tapering cause a recession? How high will interest rates go? Will stocks plunge? Will inflation surge? And on and on.

We've never seen anything like it. It's insanity, but it's happening... The whole world is focused on whether the Fed's going to taper their bond buying or not, and that's putting the Fed in a real bind.

As you know, the Fed's QE stimulus program (which includes bond buying) has been keeping the economy afloat and it's boosted the stock market. But the economy remains lackluster and it hasn't rebounded the way the Fed had hoped, despite all the stimulus. And therein lies the dilemma.

RISING RATES IN FUTURE

Interest rates have already surged in anticipation of the Fed's future tapering. So we can assume investors may freak out when the Fed actually tapers.

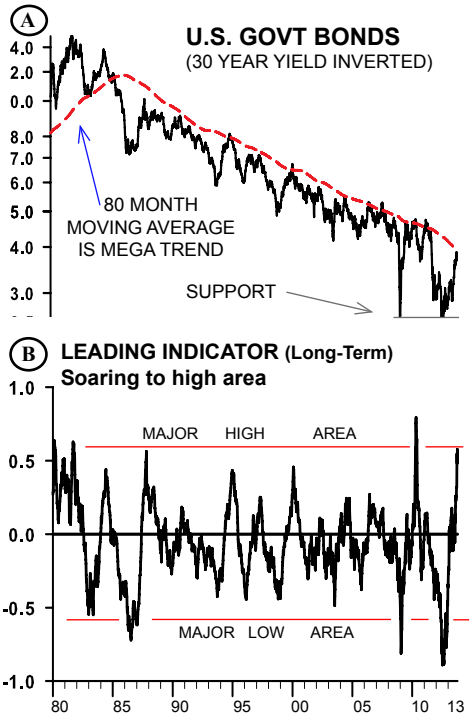
Interest rates could soar. That in turn would hurt stocks, housing and the economy. It could trigger a recession, simply because the world has become addicted to stimulus.

So our guess is, the Fed won't taper any time soon. The consequences could be too upsetting and the Fed wouldn't want to be responsible.

If the Fed tapers a little bit, that might be okay because stimulation would still be ongoing. Much will depend on how they do it and what they say. Nevertheless, it would be a risk.

Some experts believe the Fed

CHART 12



could start tapering as soon as this month. But the economy's strength doesn't seem to warrant this.

GO WITH THE TRENDS

Whatever the outcome, if we focus strictly on market action, it looks like interest rates are going to head lower before they resume their rise.

Looking at **Chart 10B**, you'll see the leading indicator is clearly overbought, signaling it's time to take a breather.

Interestingly, that's happening as the 30 year yield approaches 3.95%, which is a very strong resistance at the mega downtrend (see **Chart 12**).

So rates will probably keep following the 2007-10 pattern (see **Chart 13**). That would be normal, especially considering the steep rise of the past few months.

CHART 13

GOOD GAINS

You may remember, we took profits of 37% in U.S. government bonds in 2012 and early this year. Since then we've recommended avoiding bonds and we still feel that's the best strategy.

There's a good chance the bond bubble is bursting. This means any upmove in bond prices will provide a good opportunity to get out of the market, if you're still in.

Remember, even though higher interest rates may look attractive, a major bear market in bond prices could quickly erase the benefit of a higher yield many times over.

And again, if the 30 year yield has a sustained rise above 3.95%, it'll be the final confirmation the bond bubble has burst. If that happens, everyone should be out of bonds.

CURRENCIES

U.S. dollar: Firm

The U.S. dollar is firm, reaching a seven week high. Once again it benefitted from its safe haven status as uncertainty over Syria took center stage.

RISING RATES HELP

Rising U.S. interest rates also provided the dollar with a boost, making it attractive.

As you can see on **Chart 14**, even though interest rates are rising around the world, U.S. rates have a slight edge. The same is true of the economy.

While it's nothing to write home about, the U.S. economy has been moderately firm. That's better than what we've seen in most countries and it's also providing support for the dollar.

Most important has been all the taper talk. As we explained last month, it's essentially been driving the currency markets. To refresh your memory, here's the bottom line...

TAPER TALK BOOSTS DOLLAR

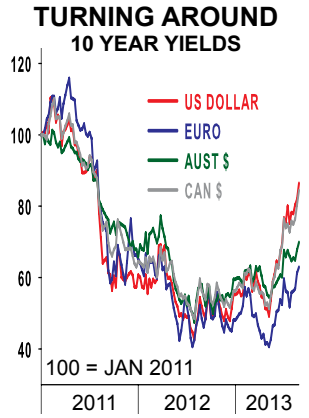
Whenever there are signs the Fed will probably taper, the U.S. dollar rises. This could be anything from stronger retail sales to someone's opinion.

The logic behind this is, Fed tapering means the economy is doing well on its own and it doesn't need the Fed's help. It's also a sign inflation is unlikely to surface and that's good for the dollar.

On the other hand, if the Fed does not taper it would suggest the economy remains fragile. Plus, all that stimulus would eventually fuel inflation. That's why the dollar declines on signs tapering isn't going to happen any time soon.

But taper or not, let's look at the dollar's price because it tells the story more clearly (see **Chart 15**).

CHART 14



DOLLAR LOOKS GOOD... FOR NOW

Note the U.S. dollar index remains bullish above its moving average, which suggests it's likely headed higher. On the upside, the dollar could now rise to its next resistance at 84. Above 84, means 89 is the next strong resistance.

Even though we still recommend keeping your cash in U.S. dollars, we don't think it'll

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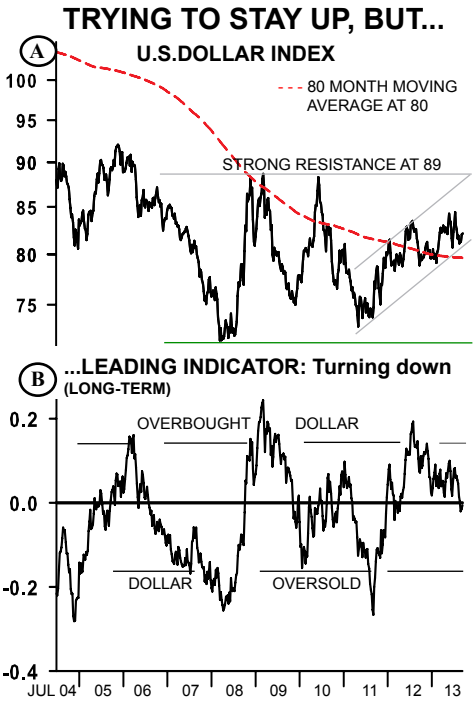
CHART 15



be for long. And we doubt the dollar index will reach the 89 level. Why?

One look at the leading indicator provides the answer... As you can see, it's starting to break down, moving into bearish territory.

This tells us the dollar's upside is limited. In other words, once this current upmove is over the dollar will likely turn bearish, embarking on a good sized decline.

That'll likely coincide with a strong upmove in gold. And it'll be confirmed if the dollar index declines below the 79-80 level.

CURRENCIES: Mixed

As the war drums continue, the U.S. dollar isn't the only currency to become a safe haven. To a lesser degree, the Swiss franc, British pound, Japanese yen and the euro have benefitted as well (see **Charts 16A** and **17**).

In contrast, many of the emerging market currencies have been badly battered. Anything that hints of risk has been tossed aside lately.

The emerging markets, for instance, were considered attractive just a few months ago, but money is now flooding out of those countries, making their currencies especially vulnerable.

That's because interest rates are rising strongly in the developed world, so investors are leaving the riskier developing countries behind as they opt for higher rates in the developed world.

This is causing global imbalances, which has many experts concerned about the future of the global economy.

So much so that the head of the IMF basically told Bernanke, in other words, not to taper this month because the repercussions would be negative and widespread for many nations that are currently struggling as an indirect result of the Fed's policies.

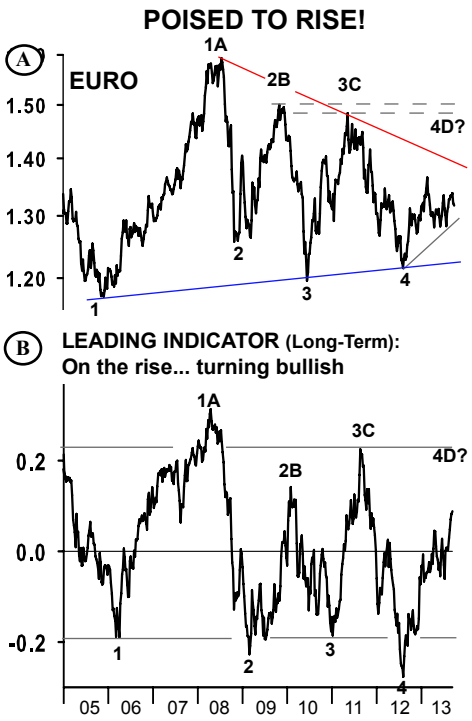
EURO LOOKING GOOD TOO

For now, investors generally seem to be migrating towards countries showing economic growth...

The Eurozone, for instance, is finally recovering and consumer sentiment hit a two year high. This has given the euro support, which will probably continue.

Note how the euro has been

CHART 16

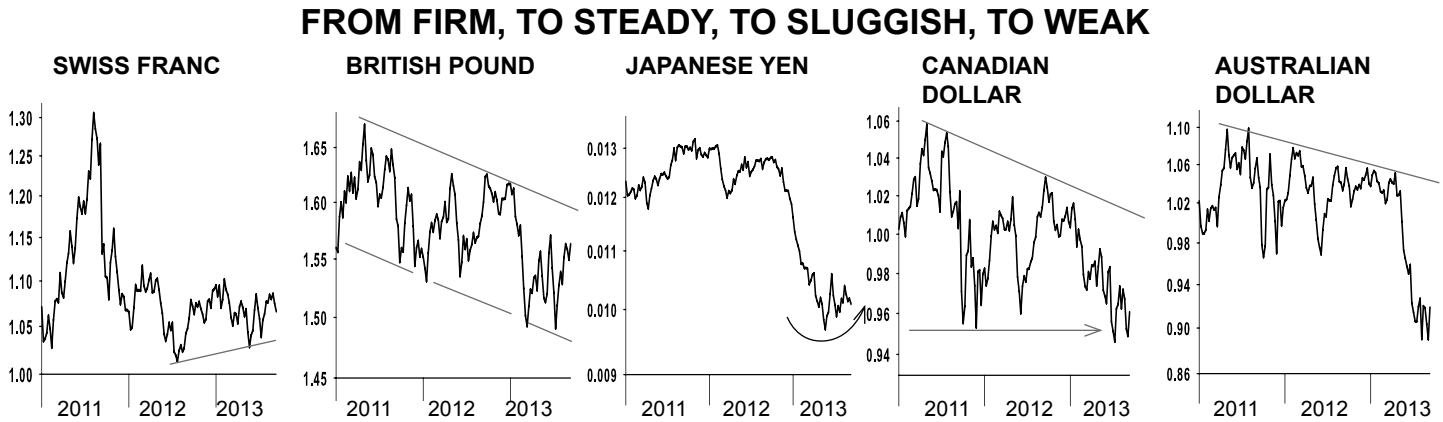


trading within a large triangle formation (see **Chart 16A**). It's been rising moderately since last year and there's a good chance it'll keep moving up to its downtrend near the 1.40 level.

Reinforcing this, you can see the euro's leading indicator is also turning bullish.

So the bottom line is, we're keeping our U.S. dollars for the time being, but we may be buying the euro soon. The Swiss franc is similar. These two currencies look like they'll probably have the best future potential, but not just yet.

CHART 17



METALS, NATURAL RESOURCES & ENERGY

Good buying time

Gold, silver and gold shares jumped up further this past month. They all broke above their 15 week moving averages for the first time this year, reinforcing that the June lows were the lows for the Summer months.

Gold rose 18% from the lows. Silver was even better; it surged 33%, having its best weekly rise in about 5 years!... a sharp two month rise based on any standard.

Yes, gold and silver are moving out of the pits, and they're taking gold shares with them. This bombed out sector has good potential.

TOO MUCH UNCERTAINTY

Many factors lifted gold up from the June 27 lows... A fall in the stock market and the U.S. dollar helped, but the unrest in the Middle East and a bounce in the resource sector also gave a boost.

Many feel the Fed will begin tapering soon. This has kept some pressure on gold, but actually we believe demand will end up overpowering any tapering concerns.

There is simply too much uncertainty in the world for gold to lose its power. Gold loves fear and we have our share of that.

Syria and the debt ceiling are on the agenda this month, along with the Fall season also being a strong time for gold.

The start of the Syria crisis pushed gold up in its most bullish rise since March. Hedge funds and speculators raised their bullish bets to the most in six months.

For now, Russia's new diplomatic proposal for Syria has calmed the safe haven need. This too puts downward pressure on gold, but it's still well positioned for a rise.

Plus, gold has a strong correlation with the debt ceiling over the long-term, according to our dear friend Chuck Butler from the great *Daily Pfennig* letter.

Gold tends to have strong rallies every time Congress decides to raise the debt limit. And you can bet Congress will soon raise the debt ceiling once again, which could trigger a healthy gold rise.

Rising interest rates suggest more QE from the Fed, but even so, gold demand has been very strong.

STRONG DEMAND

While the second quarter of 2013 (Q2) had the worst fall in gold yet, to the point where two great investors and gold buyers, John Paulson and George Soros, sold large bullion holdings, there was also strong global buying.

The World Gold Council (WGC) confirmed the wild times during Q2. The record outflow of gold ETPs (exchange traded products) in the West was offset by record investment buying in gold bars, coins and jewelry around the world, especially in China and India.

Plus, consumer demand for gold jumped 71% in India and 87% in China. Demand more than doubled in both countries, and China is on track to overtake India as the biggest user, according to the China Gold Association.

Then there's also central bank demand that continues to grow.

The WGC said nations last year added the most gold reserves since 1964, and they may buy another 350 tons this year. Russia and Kazakhstan bought gold in July, for example, for the 10th consecutive month.

JP Morgan has been another big buyer. According to our dear friend Richard Russell, they hold over 25% of the entire COMEX gold futures market on a true net basis.

Impressive... there's never been a more concentrated net long position in any regulated futures market in history!

There seems to be a severe shortage of physical gold. Premiums paid by jewelers for physical supply rose to records in India and jumped fourfold in China.

It's being said that the physical gold stored in the COMEX warehouse is about empty. All this means that a rush to possess gold bullion could be in the works, and it's wise to keep more physical than paper gold.

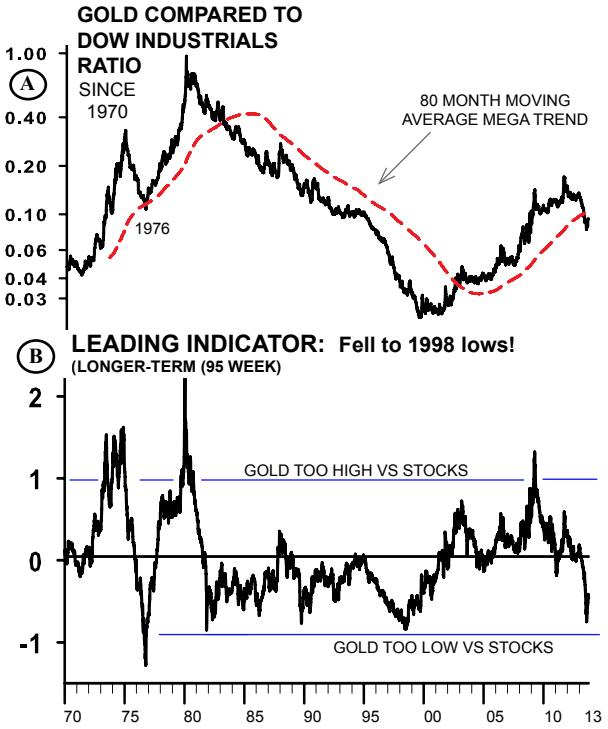
Reports show that gold ETFs are down 26% this year and many investors are not feeling safe staying in paper gold.

There is nothing like the real thing, physical gold and silver in bars and coins for full safety.

Paper gold is fairly new and

CHART 18

GOLD FELL TO EXTREMES VS STOCKS



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we'll never know for certain if gold is really backing up the paper, if push were to come to shove.

For this reason and under the uncertain climate we live in, we prefer seeing you invested more in physical gold, and keep it in a safe place. (More on where the best place is.... coming in our next edition.)

GOLD: Poised to rise more than stock market

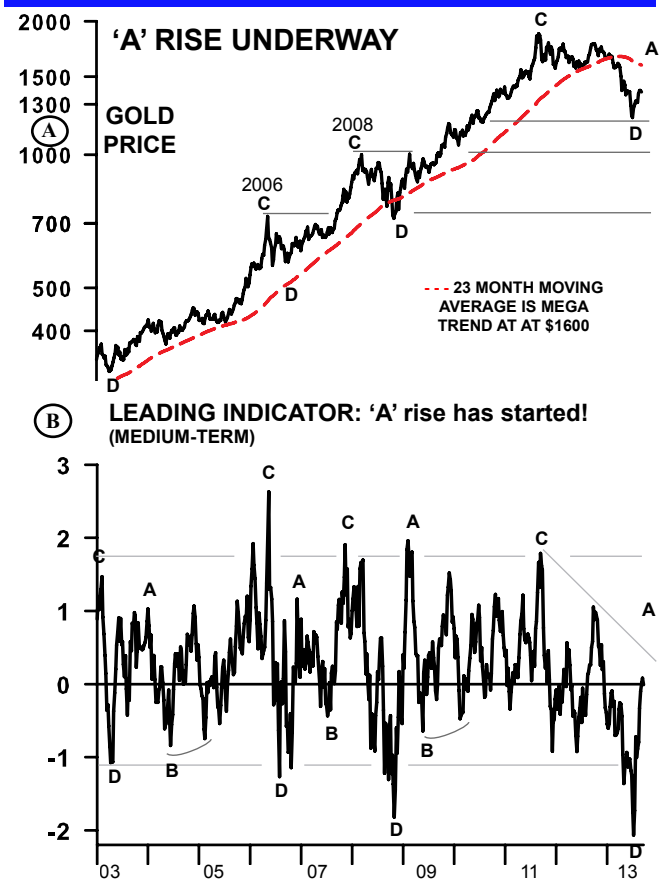
You saw gold outperformed the stock market this past month. And it looks like it's just the start of more to come. **Chart 18** shows the big picture and why we feel this way.

The top chart shows the gold/Dow Industrials ratio since 1970. The red 80 month moving average (MA) identifies the mega trend.

You can see, when the ratio is above this MA, gold is better than the stock market on a major trend basis. Conversely, when the ratio declines, the stock market is better than gold.

The ratio broke below this mega MA for the first time since 2002 when gold fell to the lows last June. This was a warning sign that the mega trend was changing to favor the stock market.

CHART 20



But since the leading indicator also dropped to its 1998 lows, it's saying gold has fallen enough compared to stocks.

That is, if the ratio rises back above its red mega trend (which it's trying to do now), it will have been an aberration, like in 1976, and the mega trend will continue to favor gold.

In other words, gold is cheap versus the stock market.

GOLD OUTLOOK

This month marks the two year anniversary of the down market.

Gold peaked in September 2011 above $1900, and it reached a second peak a year later in Sept 2012 near $1800. It's now to be seen what strength gold can muster this month (see **Chart 19** courtesy of GCRU).

Gold lost over 36% during the last two years to June. But most interesting, gold didn't really have a big fall until this year.

Gold actually closed 2011 and 2012 on an up year, making it 12 consecutive years up.

This year could be the first down year for gold since 2000. That is, if gold closes the year below $1689.

For all the negative talk, gold held up relatively well until last April when it fell from $1600 to $1360.

This was the first real wake up call when the support since 2011 was clearly broken at $1536.

Gold then calmed down until the tapering talks began in June and it then fell again from the $1400 level to its $1200 low level.

This was the most bearish moment when the wild buys and sells happened.

It didn't take gold long, however, to bounce back above the $1335 level. It only took 8 weeks, and this is now a key short-term level for gold's current intermediate rise.

Stepping stones are a good way to now measure this rise, as you can see on **Chart 19.** If gold now stays above $1335, we could see the old support level at $1536 reached, which is also near the one year downtrend.

The current upmove is a rise we call "A." It's when gold rises following a steep D decline, and this rise tends to be moderate (see **Chart 20**).

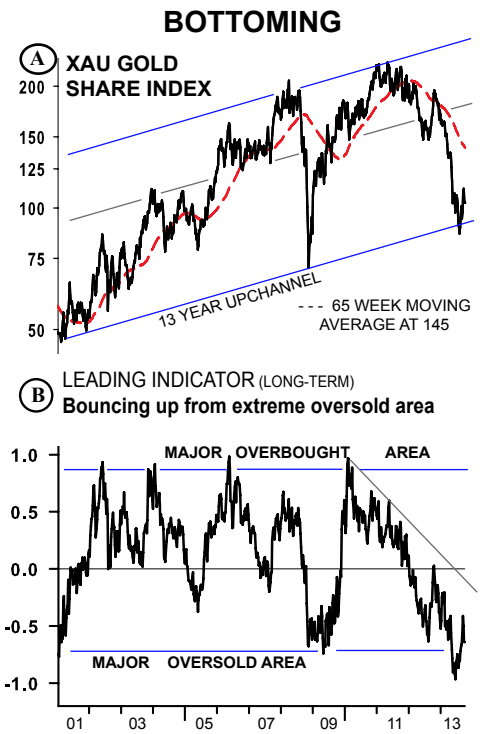
If gold resists first before a strong intermediate rise gets underway, it'll be during the upcoming B decline, which also tends to be moderate. In fact, it looks like this is starting.

But once the $1536 level is clearly surpassed, then we could see the $1700 level reached. Keep in mind, if gold fails to overtake $1700, a down pattern will be in force encompassing the last two September peaks (see red downtrend on **Chart 19**).

Going back to **Chart 20B**, note the leading indicator has room to rise much further. It's coming up from a bombed out level reached

CHART 19

CHART 21

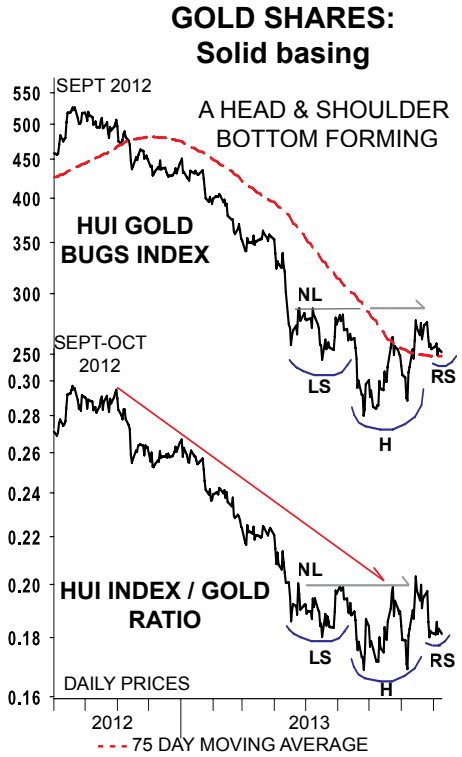


only once before in the last 10 years, in 2008 during the global financial crisis.

This means gold could reach the highs and if so, it will be turning bullish once again. It would be back above its mega trend at $1600 and it could then possibly end the year on an up note!

Now wouldn't that shock some people.

CHART 22



GOLD SHARES: Worst is over

Gold shares fell the most. Like gold, their decline since last September was clearly the worst part of the drop. The XAU gold share index fell from the top of an over decade long up channel to the bottom side (see **Chart 21**).

This caused the leading indicator to fall to extremes, the most ever.

The good news is that the bottom area has finally arrived during these Summer months. A closer look shows this clearly on **Chart 22**.

The HUI index has already risen 33% from the June lows and it broke above its 75-day moving average for the first time since the plunge started a year ago.

It's also formed a head and shoulders bottom, not only in the HUI itself, but also compared to the gold price, as you can see on the chart below.

The recent weakness appears to be forming the right shoulder. But once the NL line is clearly surpassed, a renewed strong rise will be underway in gold shares, and they'll be stronger than gold!

We think gold shares are getting ready to rise from a super bombed out area.

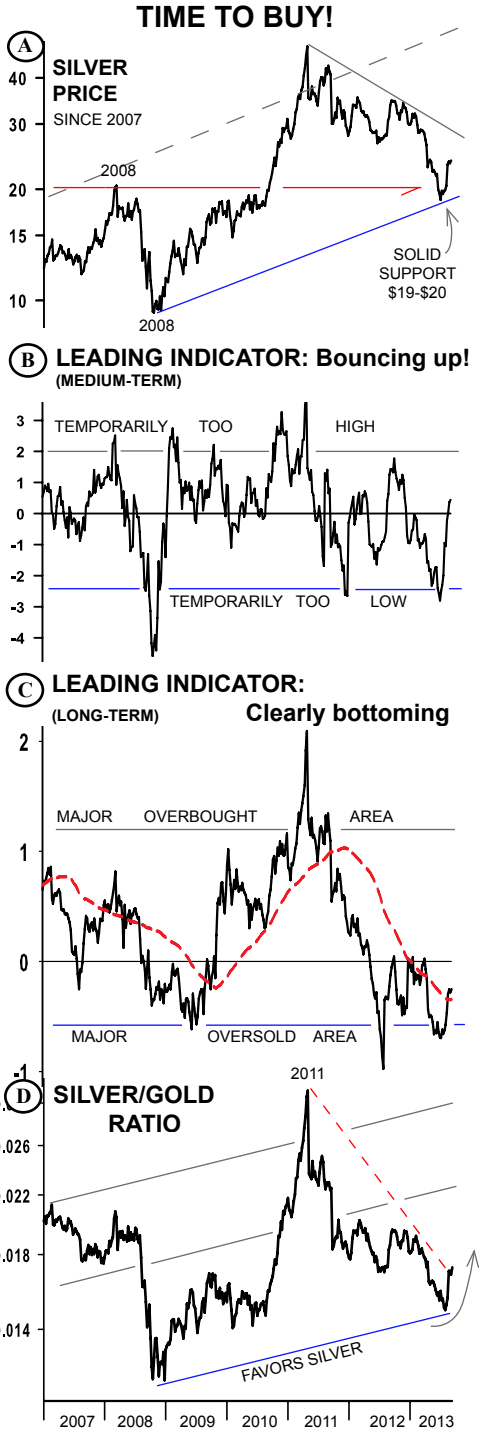
Our strategy has been to buy on weakness during the Summer months in order to average in at a better overall price.

For specific timing and entry levels, you may want to consider our trading service, *GCRU*. Our own Omar Ayales has been sharp, fine tuning his strategy and profits during this bottom area.

Keep in mind, just because a market has plunged doesn't mean a bull market cannot develop thereafter.

A good example was the stock market in 1987. It fell 40% to 50% but the bull market then carried on and lasted for another 13 years until 2000.

CHART 23



SILVER: The Best!

Silver is recouping the best, and it has great potential to soar in a rise that is typical for silver. Silver's bullish wagers rose threefold this past month and it surged 33% from the June lows.

Silver coins are popular as investors are buying them at a record pace. According to the U.S. Mint,

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sales of American Eagle silver coins this year surpassed the total for all of 2012.

Granted, silver fell 60% from its 2011 highs, but like gold and gold shares, the worst part of the decline was this year. The fall to the $30 level wasn't out of the ordinary, but the plunge to the $19 level was clearly an extreme (see **Chart 23A**).

Silver is a precious and an industrial metal, so it's influenced by both. This is why we believe silver is in a good position to soar more than gold in the upcoming rise.

The precious metals and the resource sector both look ready to go.

Looking again at the chart, you can see how silver is bouncing up from key support at the $19-$20 level. This level is near the 2008 highs, which became a resistance until silver popped up in 2010 and soared to its peak in 2011.

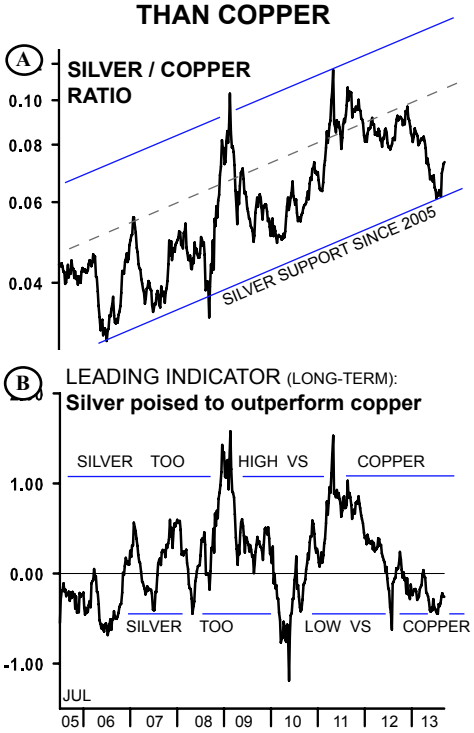
This is a typical type of move for silver. It can happen again, especially because it's now rising from low areas, both on a medium and long term basis, and it has plenty of room to rise in a good sized upmove, (see **Charts 23B** and **C**).

Judging by recent demand, the future looks bright. Holdings in silver ETFs also rose to a record in August.

Silver is currently in a very interesting situation. **It's poised to rise more than gold and copper.** Note how it's just starting to outperform gold again for the first time since its 2011 peak (see **Chart 23D**).

CHART 24

SILVER: READY TO RISE MORE THAN COPPER



The same thing is happening with copper. **Chart 24** shows how silver is beginning to outperform copper, also for the first time since the peak. And its indicator shows that silver is very cheap versus copper.

As you know, copper is the barometer for global growth. So the fact that silver is cheap versus copper is in itself a good sign for both.

Since silver is the strongest, keep more in silver. As we noted in our August 22 update, we recommend raising your metals positions to 20% by buying more silver and SLW.

RESOURCES: Looking for a low

The resource sector looks good.

Copper held firmly above the $3 level and it's been quietly basing and rising from its June lows. It too rose above its 15 week moving average this month and it's now in a rise above $3.20.

Once copper rises and stays above its 65 week MA at $3.44, it'll turn bullish (see **Chart 25**).

Expectations of Chinese demand are improving, which is why we added BHP Billiton to our recommended buy list this past month.

One example is the better manufacturing news out of China and the U.S., which gave an upward push to the base metals this month. And the news continues to be positive as it's now giving the resource currencies, like the Aussie dollar, some support.

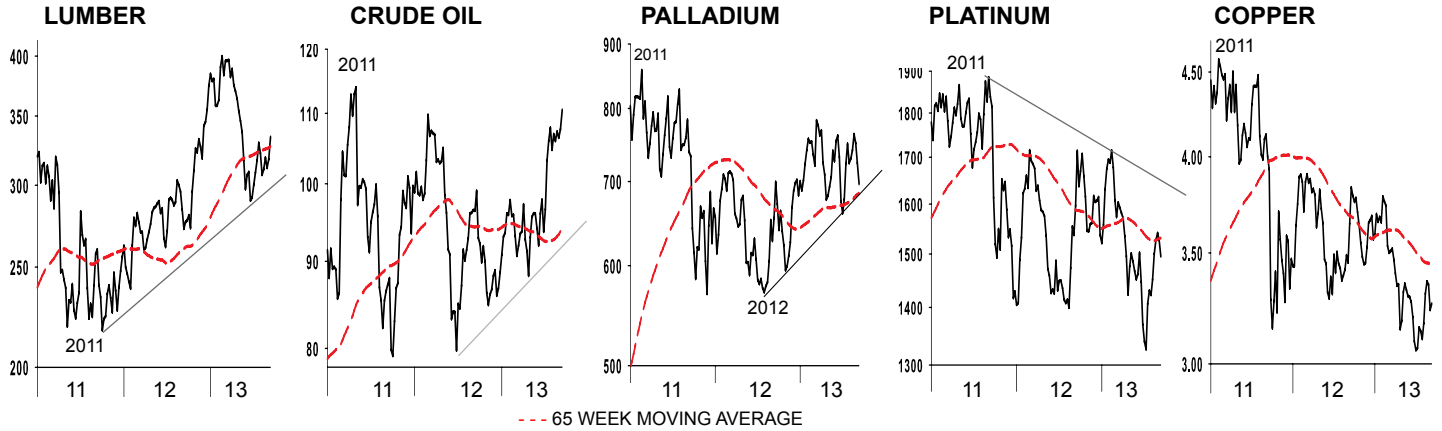
Crude oil got another boost due to the Syria crisis and growing concern in the Middle East. Crude is approaching its 2011 high and it's firm above $106.

Chart 25 also shows that lumber has been rising in an uptrend since 2011.

Palladium fell this month but it's still fine within an uptrend. **Platinum** is moving similarly to the base metals lately, but overall this universe is coming along.

We'll keep our two resource related recommendations for now. We'll be buying more once this sector proves itself.

CHART 25



OVERALL PORTFOLIO RECOMMENDATION

It's been another volatile month, filled with concern and uncertainty. In most cases, this was again thanks to the Fed. For now, stocks remain bullish and we're keeping our 50% position. This month we also raised our metals portion to 20% of the portfolio, which lowered our cash to 30%. Other than that, there were few changes as you'll see below.

30% Cash
U.S. dollars

50%
U.S. & Global Stocks

20%
Precious Metals Gold & silver physical & ETFs & gold & silver shares. Palladium ETF

PRECIOUS METALS, ENERGY, RESOURCE

Gold, silver and their shares rose solidly from extreme low conditions this past month, reaching 3-4 month highs. Gold rose 18% from the June lows, while silver surged 33%. Silver and gold are above their 15 week moving averages for the first time this year, and they'll remain positioned for take off above these MAs, despite any weakness. Gold and silver have many bullish factors backing up a solid upcoming rise. The main reason is strong demand. Plus, the Fall season is normally a strong time period for gold. The resource sector is looking better, which is an additional plus for silver. We recommend keeping more of your gold and silver holdings in the physical form, and with silver poised to outperform gold, keep more in silver. As per our weekly update, we now advise raising your metals positions to 20% (from 15%) by buying more silver and SLW. Keep an eye on the key levels this month, which are $21 for silver and $1335 for gold.

OUR OPEN POSITIONS

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Silver (physical)		Aug-03	4.93	23.02	366.86	Buy/Hold
iShares Silver Trust	SLV	May-06	14.50	22.12	52.55	Buy/Hold
SPDR Gold Shares	GLD	Nov-04	44.38	131.74	196.85	Hold
iShares Gold Trust	IAU	May-05	4.17	13.24	217.58	Hold
Gold (physical)		Oct-01	277.25	1364.00	391.97	Hold
Central Fd of Canada	CEF	Apr-04	6.39	15.54	143.19	Hold
Central Gold Trust	GTU	May-09	36.53	48.22	32.00	Hold
Silver Wheaton	SLW	Sep-09	11.66	24.82	112.86	Buy/Hold
NewGold	NGD	Apr-10	5.13	6.24	21.64	Hold
Palladium	PALL	Jan-13	69.71	67.92	-2.57	Hold

STOCKS & ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Powershares Nasdaq	QQQ	Aug-12	66.86	78.21	16.98	Hold
Energy Select SPDR	XLE	Aug-12	72.37	83.84	15.85	Hold
Dynamic Leisure	PEJ	Jul-13	29.44	30.82	4.69	Hold
iShrs MSCI Germany	EWG	Jan-13	24.78	26.89	8.51	Hold
iShares S&P Glbl 100	IOO	Aug-12	61.24	71.53	16.80	Hold
DJ Trans iShares	IYT	May-13	115.53	118.15	2.27	Hold
US Global Inv Res	PSPFX	Sep-12	10.02	9.66	-3.59	Hold
BHP Billiton *	BHP	Aug-13	67.68	67.24	-0.65	Buy/Hold
Cons Discret SPDR	XLY	May-13	57.00	59.74	4.81	Hold
Mkt Vect Retail Market	RTH	Jul-13	54.03	54.46	0.80	Hold
DJ US Fn SVC iShares	IYG	Jan-13	62.24	75.55	21.38	Hold
Dow Diamonds	DIA	Aug-12	131.93	151.79	15.05	Hold
Agribusiness Mkt Vec	MOO	Jan-13	54.87	51.44	-6.25	Hold
Johnson & Johnson	JNJ	Feb-13	76.16	88.53	16.24	Hold
DJ US Telecom	IYZ	Sep-12	25.22	27.57	9.32	Hold
Procter & Gamble	PG	Sep-12	68.10	77.95	14.46	Hold
SPDR S&P Bank	KBE	Jul-13	30.30	30.58	0.92	Hold
Mkt Vect Vietnam	VNM	Feb-13	23.27	18.01	-22.60	Hold
Wal-Mart Stores	WMT	Aug-12	73.68	73.96	0.38	Hold
Microsoft	MSFT	Feb-13	28.01	32.39	15.64	Hold
Coca Cola Co	KO	Feb-13	37.42	38.63	3.23	Hold

U.S. & GLOBAL STOCK MARKETS

The stock market remains bullish, despite its recent downward correction. Nasdaq is the strongest and it's hitting a 13 year high. Continue holding the stocks you have. It looks like there are more gains to come.

CURRENCIES

We continue to recommend keeping your cash in U.S. dollars, but that may not be the case for long. The dollar is looking more vulnerable and it'll turn bearish if it declines and stays below the 79-80 level. Don't hold any global currencies for now.

INTEREST RATES & BONDS

Interest rates have been soaring and bond prices have plunged. Currently, interest rates are very overbought so they'll likely soon head lower before they resume their rise. We continue to recommend avoiding bonds. Any upmove in the coming weeks will provide a good selling opportunity, if you're still holding bonds.

* New Position

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

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