THE
ADEN FORECAST
MONEY • METALS • MARKETS

SEPTEMBER 2014 *our 33rd year*

GO WITH THE MARKETS, THEY TELL THE STORY

The stock and bond markets mostly went higher this month. The trends are up. And as long as that's the case, the markets will continue to rise.

That's the good news. And we'll stay with these markets for the length of the rise, and we hope you do too.

A BULL MARKET FULL OF FEAR

We know some of you are nervous about the markets. We don't blame you. The gloom and doomers are out in full force and they've been spooking many investors.

A lot of what they say is true, but there are also many exaggerations. While we'll be the first to agree that the global problems are serious, we also have to go with what the markets are telling us.

They are two different things. Yes, global problems will affect the markets, but sometimes they don't. So how are you supposed to know when the situations will hurt the markets?

LISTEN TO THE MARKET

The markets will tell you. The price action in any market will contain all of the reasons why, and the future outlook of all investors combined.

For now, despite the global conflicts, economic uncertainties, and all the rest, the markets are still telling us they're okay, at least for the time being.

Now, that doesn't mean they're going to stay that way but so far, so good.

It's been a while since we've taken a look at the underlying big picture fundamentals and it's overdue. And even though it's not a pretty picture, following are the four we feel are most important…

1. Conflicts

Global conflicts, wars and tensions are happening around the world. Any one of these could come flying at us and turn things upside down.

These are the wild cards we often refer to and aside from keeping an eye on what's happening on the global front, there's not a lot you can do.

Is World War III around the corner? Is the Middle East going to blow up? Will China collapse? We don't know and neither does anyone else.

The point is, don't let the fear of the unknown paralyze you into doing nothing. Most important is, go with the price action, stay with the market trends, but also stay aware.

2. Big debts

The world is drowning in debt. In the U.S., for example, government debt has more than doubled over the past 10 years. And the government is still spending at the biggest rate in history. But this has been going on for ages and somehow, some way, the economy keeps chugging along.

We can remember back in the 1970s and 1980s when everyone was warning the end was near and the system was going to collapse.

And while there have certainly been some scary crises since then, like the tech stock plunge in 2000 and the real estate collapse of 2007-08, disaster has so far been avoided.

Could it happen? Yes. But again, it hasn't happened yet, despite all the financial disfunctions.

3. Slow growth

What has happened is global slow growth. The U.S. recovery from the 2008 recession, for instance, has been the weakest since World War II.

And going all the way back to the late 1700s, the U.S. economy has grown on average about 4% per year. Since the debt levels went haywire around the mid-1990s, however, the economy has only grown about 2% per year. Plus, this recovery is reaching maturity, based on the average length of time recoveries tend to last.

The story is similar around the world… Japan has been battling slow growth for decades. Europe is bordering on recession as growth has turned anemic. And even China has slowed down.

INSIDE

This has become a real challenge for the world's central banks because inflation has also been coming down. This in turn has increased deflationary pressures, and deflation is a central banks worst nightmare. It's something they want to avoid at all costs, but it's slowly happening...

You can see this clearly on **Chart 1**, which shows gold compared to bonds. We call this our inflation-deflation barometer because gold tends to rise when inflation is picking up, and bonds generally do well during times of slow growth and deflation.

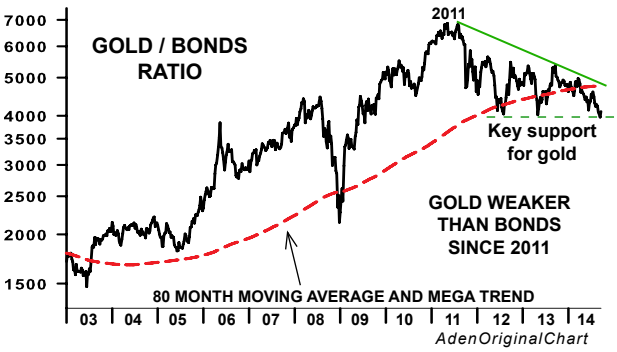
Note that gold has been breaking down. It's weaker than bonds. This tells us that deflation has the upper hand, especially this past year.

Currently, the majority of OECD countries have inflation rates below 1%. And while inflation may be rising in some sectors, overall it isn't. Normally, this would be good news, but in today's world, it's not. For now, **everyone wants some inflation**.

Former economic advisor under Reagan, David Stockman, believes the U.S. is headed for a perfect storm of policy failure. He says foreign policy interventions and a clueless Fed are pushing things in the wrong direction and all will eventually come home to roost.

CHART 1

INFLATION - DEFLATION BAROMETER



So we can assume that the world's central banks are privately freaking out. And what they're doing is...

4. Providing easy money

In their efforts to combat these deflationary pressure, *the world's central banks cut their interest rates to near zero following the recession* (see **Chart 2**). They've kept them there for several years now, all in the hope of boosting their economies.

But it hasn't really helped. In Europe, for instance, eight European countries now have interest rates that are actually below zero.

This has obviously been a real drag for savers and especially retirees. Finding income has become very difficult and we don't see this changing in the near future. (On a side note, it's worth mentioning that stock markets in Norway, Spain, Australia and Finland are yielding 4% or more. And as you'll see next, the global stocks markets are looking better, but caution is still warranted.)

Meanwhile, the world's central banks have also put $10 trillion into the financial system. Again, this has been done to keep deflation at bay. But this QE program has basically created this money out of thin air.

The bottom line... this has been an unprecedented experiment in uncharted waters. Nevertheless, Europe is now jumping on the QE bandwagon too.

Will it really curb deflation? Will it lead to big inflation? No one knows how it's going to end and that's why so many theories are floating around.

We do know that for now, there are no signs of a recession on the horizon, at least that's what the stock market's telling us.

And if a recession were to surface, we're fairly sure we'd see even more QE to fight it off.

So that's where we stand. We realize this isn't very reassuring but it's our reality. And that's why we say... the markets will tell us what's coming. Since they lead, they're the best source to rely on during these uncertain times.

Do your homework, shop around

This simple action is very important to do before buying most things, like investments, real estate, a car...

We spent last week at our house in Manuel Antonio, one of our favorite beaches in Costa Rica.

Our conversation turned to real estate with a friend who recently sold a hotel there. His broker took into consideration what type of new property would fit his lifestyle best, where to buy it, price and many other factors that are currently essential.

Now that's a conscientious person who wants the best for his client. And it's a good reminder of the importance of shopping around, no matter what you're buying.

CHART 2

NO MORE YO-YO

Policy interest rates. %

COURTESY: The Economist

Editors:
Mary Anne Aden
Pamela Aden

www.adenforecast.com
info@adenforecast.com

Published monthly by Aden Research. Also includes access to a weekly update $250 per year (U.S. dollars only). 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. This publication's sole intended purpose is to provide investment-related information and opinions to subscribers. FREE WEEKLY UPDATE, Thursdays 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. Make checks payable to Aden Research, S.A.

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

5½ year bull market rise

The stock market just keeps on keeping on.

IT'S ALL GOOD

Despite all the warnings that the market is overvalued, it's in a bubble, the rise has lasted too long, margin debt is too high, the rise is fake, and so on, the market doesn't care. It's essentially been shrugging off the bad news and clinging to the good news.

After all, the U.S. economy is showing some improvement. Aside from the strong second quarter, the leading economic indicator was up strongly, durable goods had its best month ever, consumer confidence is strong and corporate profits are bullish (see **Chart 3**).

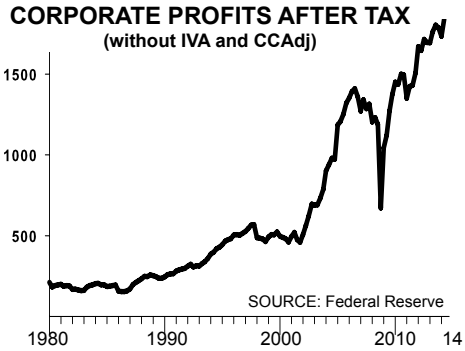
These are the kind of things the market's focused on. Plus, the Fed's actions remain very bullish for stocks.

STOCK MARKET LOVES LOW RATES

The Fed is keeping interest rates low and the stock market loves low rates. It also loves QE. And as the Fed continues on this path, which could be for a long time, then stocks will likely keep rising.

In fact, many investors believe the Fed won't allow the stock market to drop sharply. We tend to agree, at least for the time being.

CHART 3



U.S. stocks also look pretty good compared to most other investments. In Europe, for instance, the economy is seriously struggling. France is in recession and so is Italy. Brazil is too. This casts doubts on some of the global and emerging markets, and it makes the U.S. more attractive.

NOT MUCH COMPETITION

Then there's the bond markets. Even though U.S. bonds have outperformed stocks in recent months, the global bond picture isn't very enticing.

Nearly half of all global bonds are yielding less than 1%. The metals markets are dull, so there's not much competition. This is another big reason why stocks keep rising.

Also don't forget, the third year of a presidential term has historically been very bullish for stocks 100% of the time since 1932.

Even the war in Ukraine didn't keep the U.S. market down. Normally this would have had a negative effect but here too, the market basically downplayed it.

RECORD HIGHS, ONCE AGAIN

Instead, the S&P500 hit a new all time record high (see **Chart 4**). Most of the other U.S. markets, and several of the global markets also surged higher.

And even though some of the markets have recently been stalling near the highs, the Dow Transportations also hit new record highs, along with the advance/decline line (see **Chart 5**).

The Transportations has been a leader all along and now it'll be important to see if the Dow Industrials can reach a new high as well.

That'll happen if it breaks above 17138, and it's currently very close. If so, it'll be a big deal. Why?

By reaching a new high, the Industrials would be reinforcing the action in the Transportations. This would trigger another bullish Dow Theory signal, further confirming the bull market is strong and it's going to keep rising.

Nasdaq is similar. It too hit a new

CHART 4

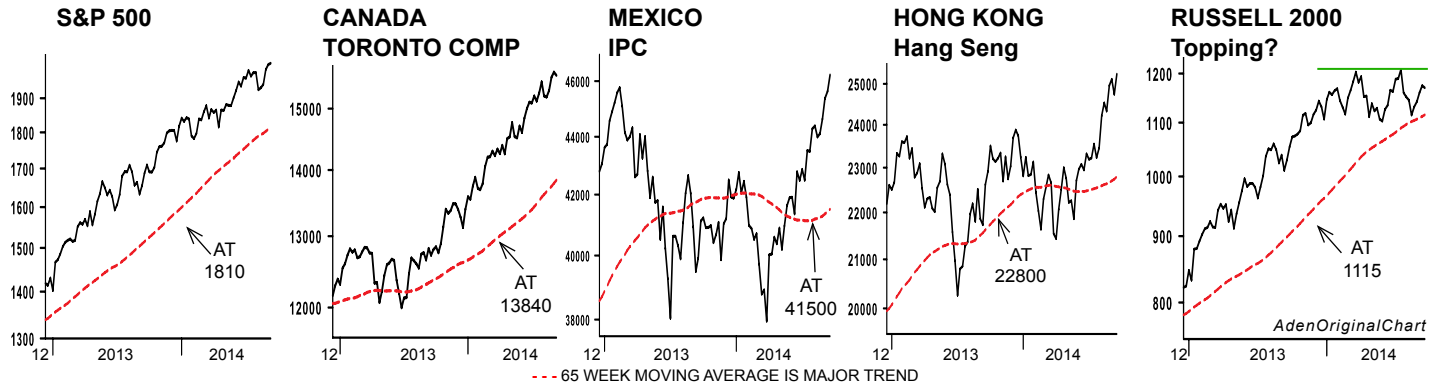
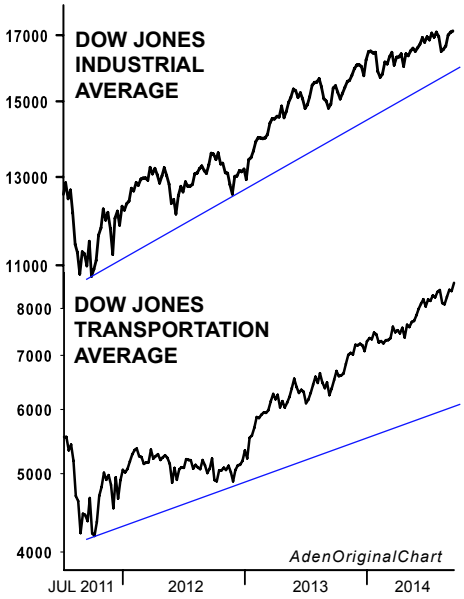


CHART 5

READY FOR ANOTHER DOW THEORY CONFIRM?



14 year high (see **Chart 6**). And if it keeps going, like its leading indicator suggests, there's a very good chance it could reach its 2000 high near 5050.

CLIMBING A WALL OF WORRY

It's also important to point out that this bull market has been climbing a wall of worry all along.

It seems there's always something to be concerned about and that's still the case.

Long bull markets usually end when everyone jumps in. Think of the tech boom in 2000. It was a frenzy. That's all people were talking about at the time.

That's certainly not happening now. Sure, some people are becoming more interested in stocks but there is no frenzy. On the contrary, many investors are still leery of stocks.

There's nothing that says bull markets have to end in a frenzy, but it's more common than not. And based on this, sentiment suggests there's more upside to come.

CAUTION IS WARRANTED

Nevertheless, it's good to maintain some caution… looking again at **Chart 4**, you'll see what we mean.

Note that the Russell 2000 is looking toppy. This shows how small cap stocks have been lagging, which is okay.

But a look at the bigger picture warrants attention because small caps could be leading the rest of the market. At least, it's a possibility (see **Chart 8**).

As you can see, the Russell's leading indicator has been declining. In previous cases when that happened, it preceded steep drops in the Russell 2000 (see red arrows). So this is something we're watching closely.

We're also watching the global stock markets. Some of them are very strong and overall they're looking better. Even the European markets are starting to rebound. But a few are still lagging and they could eventually pull the stronger markets down.

On the other hand, if they move up and join the rest of the world, it'll be an overall bullish global sign.

OUR RECOMMENDED STOCKS: Doing well

For now, most of our recommended stocks are doing well. So we continue to advise keeping the stocks you have.

If you want to buy new stock positions, we'd hold off for the time being. The market could soften in the weeks ahead and if it does, that'll provide a better buying opportunity.

The bottom line is, the trend is your friend, and it's up. Enjoy the rise for as long as it lasts. But you also want to stay cautious.

CHART 6

MOVING LIKE A ROCKET

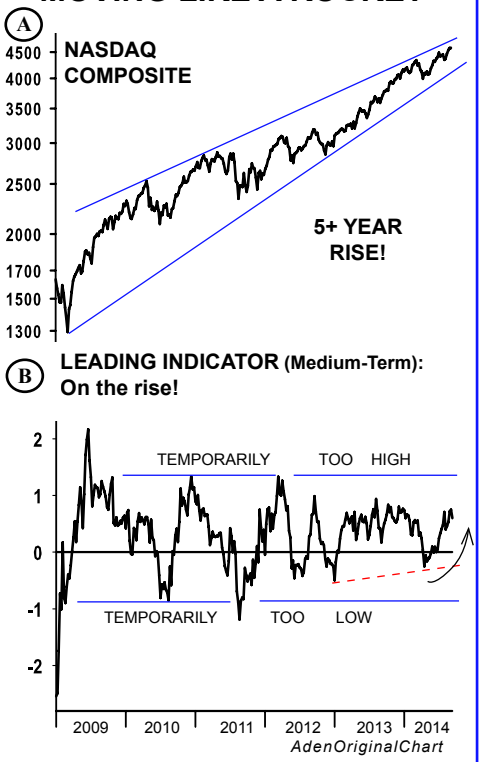
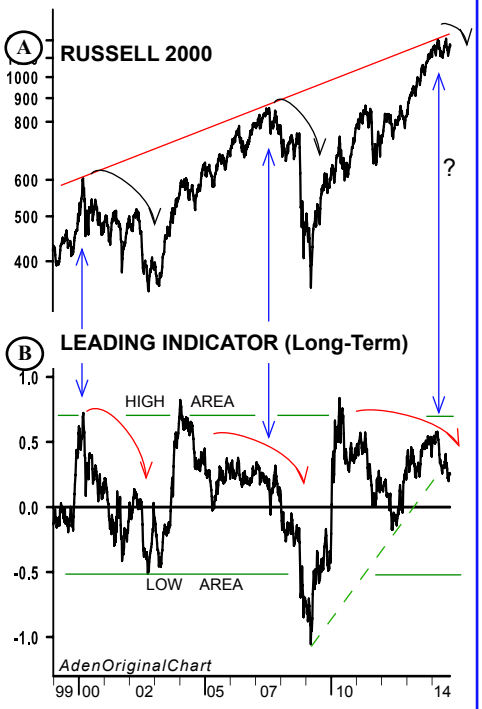


CHART 7

CHART 8

POISED TO DECLINE?



U.S. INTEREST RATES AND BONDS

Bonds: 15 month high

Bond prices are surging. They hit another 15 month high this month and they're headed higher.

GOOD SAFE HAVEN

The conflict in Ukraine was the main factor driving bonds up further. The Ukraine crisis is hurting Europe's economy. Germany, for instance, is struggling and it's Russia's biggest trading partner.

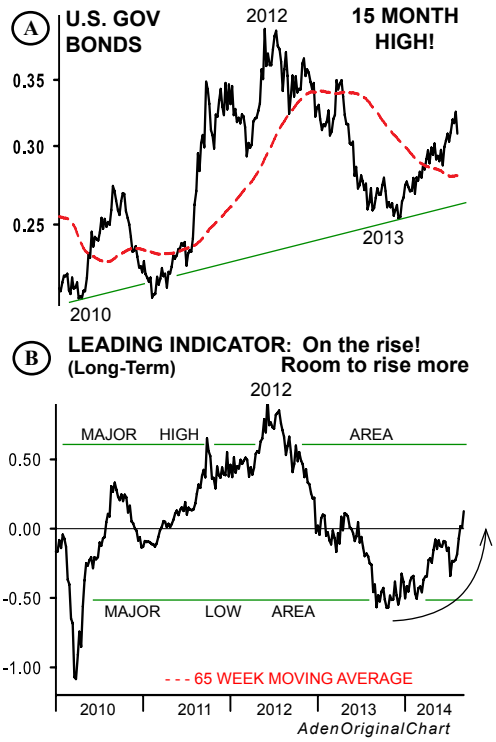
Despite the cease fire, tensions have exerted downward pressure on an already vulnerable region. And unfortunately, as long as that's the case, U.S. bonds will continue to benefit.

U.S. interest rates currently have the largest premium over its Group of Seven peers in seven years. In Germany, interest rates are the lowest in history. The two year yield dropped below zero and it'll likely stay negative.

And with interest rates plunging worldwide, U.S. government bonds have become increasingly attractive and the safe haven of choice.

CHART 9

U.S. BONDS ARE STRONG



BULLISH BONDS

Taking a look at our bond chart, it reinforces this outlook (see **Chart 9A**).

As you can see, bond prices are very bullish. They're moving up strongly, well above their 65-week moving average. This alone confirms the major trend is up, meaning bonds are going to rise further.

The bond's leading indicator is also bullish (B). It has plenty of room to move up before it reaches the major high area, which tends to coincide with peaks in the bond price. This tells us bonds are set to keep rising in the months ahead.

That's why we wouldn't be surprised if bonds eventually keep going up to test their 2012 highs, and maybe even higher.

If so, then bonds could still gain about 30% from current levels... We're not saying this is set in stone, but it's a good possibility.

BONDS: 2014's best investment

As we've mentioned before, bonds have been the best investment this year, gaining nearly 24%. They've outperformed all the major markets and this too will likely continue.

Chart 10A provides an example of what we mean. Here you'll see the ratio of bonds compared to stocks.

Looking at this chart, the first thing that pops out at you is how far down bonds have dropped versus stocks since 2008.

In other words, bonds were much weaker than stocks during those years. Stocks were the better investment, but that's now changing.

The ratio has been rising this year from a super bombed out level. Plus, the leading indicator is also moving up from a bonds "too low" area. This tells us bonds are now poised to outperform stocks in the upcoming months.

WHAT DOES THIS MEAN?

This could mean a couple of things...

1. Stocks and bonds could both continue to rise. But bonds will be stronger than stocks, like they've been this year.
2. Bonds will rise and stocks will fall. This could be triggered by a deeper crisis on the geopolitical front, or any number of other "reasons."
3. Of course, there's also the chance that stocks and bonds could both decline, but stocks will fall further.

With interest rates near zero, however, stocks will likely keep rising. So we'd opt for option #1.

For now, the bottom line is, we're still very bullish on bonds. We recommend buying and holding long-term U.S. government bonds outright, or the bond ETFs, which move with the bond price.

Our favorites are UBT, TLT, TLO and TLH. These are the best for new bond positions and they're

CHART 10

BONDS STRONGER THAN STOCKS

looking good.

BUT AREN'T INTEREST RATES READY TO RISE?

At this point, we know some of you may be dubious. It may be hard to accept that bonds are going higher and we understand why…

Most experts believe interest rates are going to rise soon. This in turn would drive bond prices down. Many also think bonds are in a bubble and it could pop at any time. In fact, the rise in bonds so far has come as a big surprise.

After all, interest rates are super low. So it's logical to wonder, how much lower could they really go? That's especially true considering many experts believe inflation is just around the corner.

And as you know, inflation is the bond market's worst enemy. So rising inflation would mean a drop in bond prices.

But all things considered, we also have to acknowledge that deflationary forces are getting stronger. And as long as they prevail, the environment will be good for bonds.

CHART 11

STEADY DECLINE

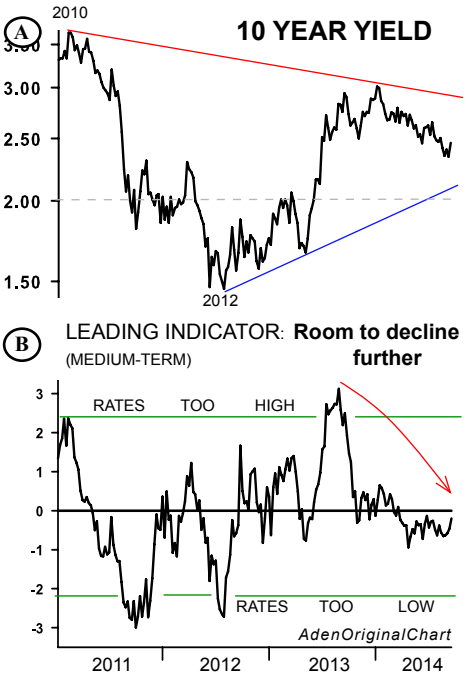
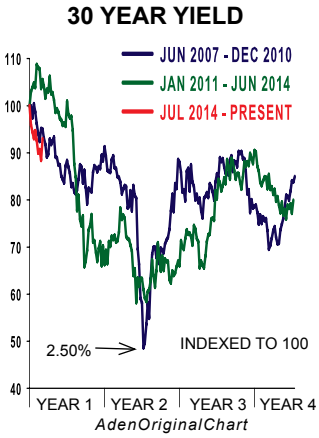


CHART 12

WILL 3½ YEAR PATTERN CONTINUE?



SLOW GROWTH: "New normal"

Just this month, for example, growth was weak in most of the major countries.

It's almost like no matter how hard countries and their central banks keep fighting these pressures with more liquidity, they just can't get inflation to pick up like they want. That is, slow growth is indeed the "new normal."

The same is true of interest rates. Even in the U.S. where the latest growth number was more impressive, Yellen said interest rates will essentially stay low for as long as it's needed.

In any event, the bond market is huge and it tells the story.

Bond investors are known to be more sophisticated than most investors. They're very sensitive to what's happening and they're telling us that, contrary to popular opinion, interest rates are not going higher any time soon (see **Chart 11**). Bill Gross (the bond king) feels the same.

ANOTHER DOWN-WAVE IN RATES

In fact, we wouldn't be surprised to see another "Déjà vu."

As you can see on **Chart 12**, there have already been two steep interest declines since the 2007-08 recession. And interestingly, their movements were nearly the same.

In both cases the declines bottomed near 2.50% on the 30 year yield before heading higher.

So is a third steep and similar decline just getting started? It could be (see red decline on chart). And if it is, it's going to mean ongoing slow growth and super low interest rates for the next year or so.

At this point, we don't yet know. But the stage is set and time will soon tell.

> *Countries are not like financial markets. Social change cannot be executed as swiftly as credit-default swaps. You cannot sell short on social commitments and practical responsibilities.*
>
> *George Papandreou*

CURRENCIES

U.S. dollar: 1+ year high!

The U. S. dollar has been on a roll. It's risen strongly, transforming itself into the world's #1 safe haven currency.

SAFE HAVEN STRENGTH

Global conflicts, a weaker more fragile Eurozone economy, a better looking U.S. economy, and hopes the U.S. will soon raise interest rates all helped drive the dollar to an over one year high. And as the dollar rose, most of the major currencies fell and several are bearish (see **Chart 13**).

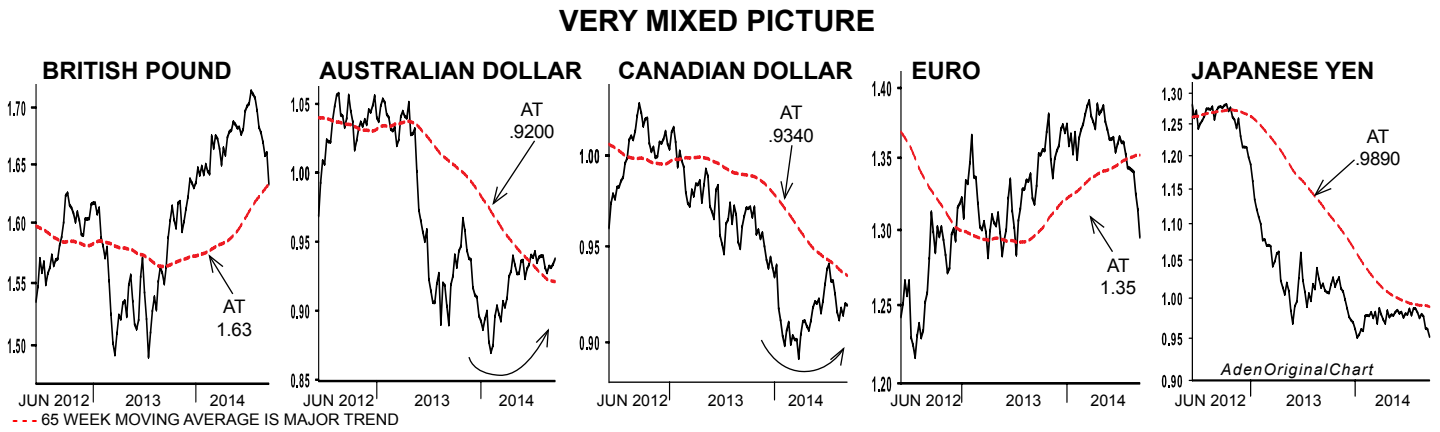
KEEP CASH IN U.S. DOLLARS FOR NOW

Currently, the U.S. dollar is in the driver's seat and it's the only currency that looks good. Plus, it's poised to rise further in the weeks, and probably months ahead.

That's why we advise keeping your cash in U.S. dollars for the time being.

In other words, if you're still holding any of the other currencies, keep them for now. But plan to sell during any type of an upward

CHART 13



rebound.

MEGA TREND IS DOWN

At this point, some of you may be thinking, but wait a minute… haven't you been telling us for ages that the dollar's in a long-term decline and it's going to fall further?

The answer is yes. As you can see on **Chart 14**, the U.S. dollar has been on a downhill path for decades. And this is going to continue in the years ahead.

How do we know? Because the dollar has been falling ever since it went off the gold standard. This eliminated the last remnants of fiscal discipline and the government was then free to spend all it wanted, and spend it has. **Debt has gone up 50 times over the past four decades.**

The end result is that more and more dollars have been printed to pay for all this spending (see **Chart 16**). This made the dollar worth less, which is why it's been on the decline since then.

It's basically like anything… Let's take apples as an example. If you have too many apples, the price of apples will go down. It's the same with the dollar…

BAD TRACK RECORD

In fact, the history of currencies in general is pretty dismal… There is not one single currency that has survived the test of time. One way or another they've all ended up in the scrap pile.

Taking this a step further, Michael Hewitt of DollarDaze researched nearly 600 currencies going back to the 1300s. As the *Daily Reckoning* reports, each of these currencies died due to hyperinflation, war, monetary reform and so on.

But most interesting, the average life span of these paper currencies was only 15 years.

And based on this average, the U.S. dollar is on borrowed time and it has been for the past 28 years.

But this could continue for quite a while longer considering all the fancy footwork and actions taking place behind the scenes.

Currently, for instance, despite its defects, the dollar is better than the rest. But as you know, no market goes straight up or straight down. So within its decline, the dollar is now on an upswing, similar to the ones in the 1980s and1990s.

How long will this last? We don't expect it'll be a long lasting rise. More likely, the dollar will resume its long-term decline at some point due to its underlying fundamentals, which are clearly bearish.

CHART 14

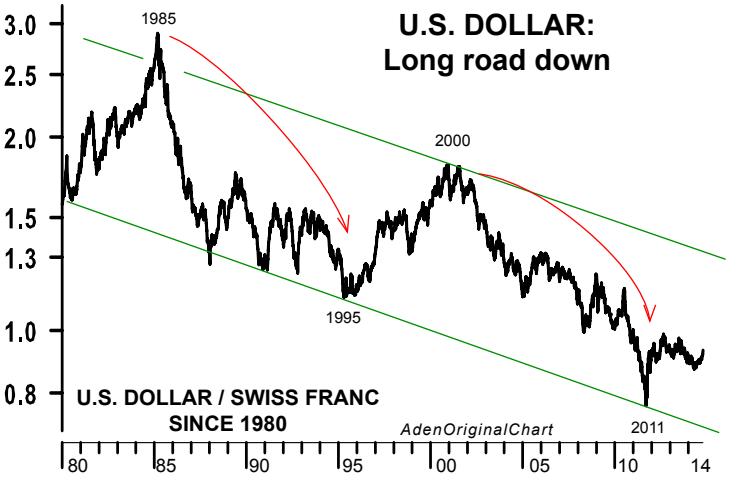
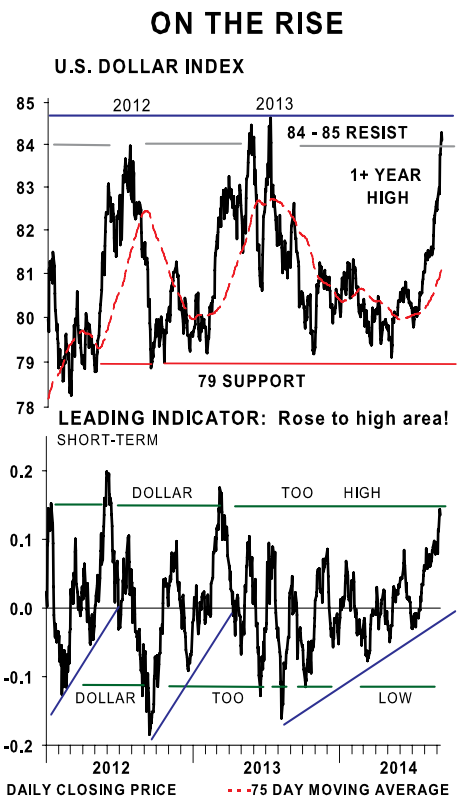


CHART 15



WHAT TO WATCH

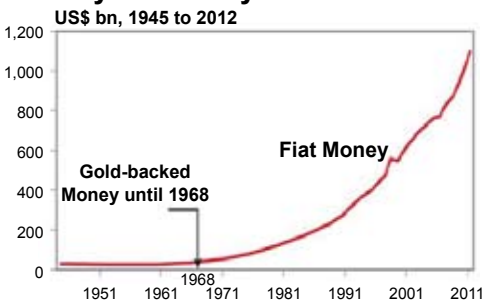
In the meantime, however, the dollar is strong and here's what we're watching (see **Chart 15**, which shows the U.S. dollar index on a daily basis)...

The U.S. dollar index reached its 84 target and it's clearly headed to the top side of its 2½ year sideways band, near the 85 level. This is a strong resistance and the dollar could stall there because its leading indicator is already near the high. If it does, then the dollar index will probably head down again, like it did following the peaks in 2012 and 2013. But if it keeps rising above the 85 level, it'll be very strong. It could then continue up to its 2009-10 peaks near the 89 level.

If so, that would probably mark the top for this upmove. But much will depend on geopolitical events, how the global economy holds up, the gold price, interest rates, and all the wild cards flying around. So stay tuned. In the meantime, keep your dollars.

CHART 16

Money: Currency Outside Banks



Source: Federal Reserve, Flow of Funds, Table L.204

COURTESY: WWW.DAILYRECKONING.COM

METALS, NATURAL RESOURCES & ENERGY

Taking a back seat... for now

Gold stayed under pressure this month, falling to a 14 week low today. And the third quarter is shaping up to be a down one for this year.

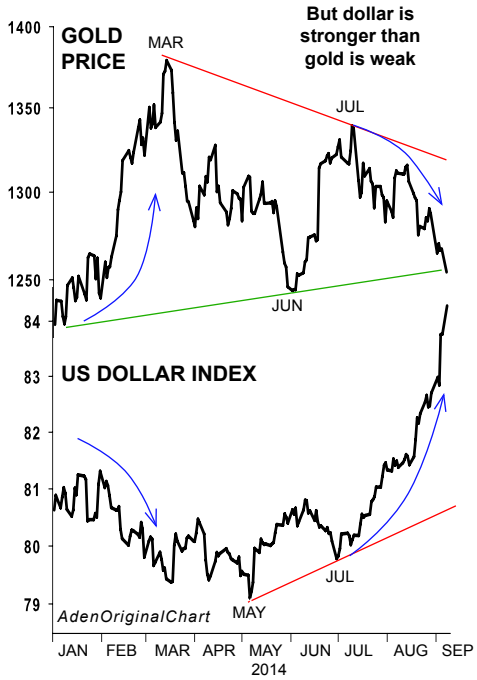
Geopolitical tensions, low interest rates and a weak economy in the first quarter all helped push gold up during the first half of 2014.

In fact, you'll remember that the first two quarters provided the first back to back gold advances since 2011.

September is normally a seasonally strong time for gold. This means if gold can rise back above $1326.60 by month's end, it'll be another positive quarter for the year. But for now, that seems unlikely.

CHART 17

GOLD & THE DOLLAR: Move opposite



STRONG DOLLAR PRESSURES GOLD

Meanwhile, this past month, we've seen the U.S. economy improve, which has kept investors running to the stock market.

It's also fueling beliefs that higher U.S. interest rates are coming sooner than expected. This has been pushing up the U.S. dollar. That in turn is keeping downward pressure on gold. And it's causing a decline in demand for gold.

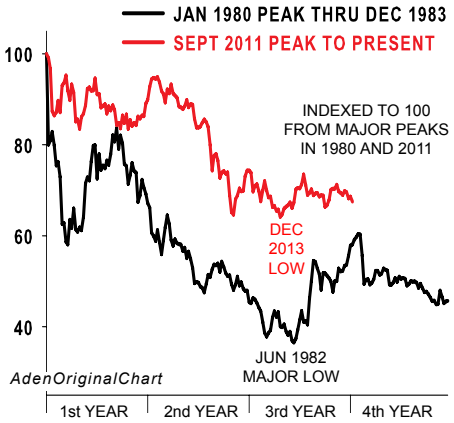
Global tensions kept gold from falling more, and as you can see on **Chart 17**, the dollar index has risen much more than gold has declined.

Nevertheless, money mangers are trimming their bullish gold positions: Open interest in NY futures and options is near its lowest in 5 years. Plus, with a cease fire in Ukraine, gold fell even more.

Fear and concern have taken a back seat for now. And with Europe also needing to continue their stimulus and keep interest rates low, it's adding more fuel to the stronger dollar.

CHART 18

GOLD: COMPARING DECLINE SINCE 2011 TO 1980'S BEAR MARKET



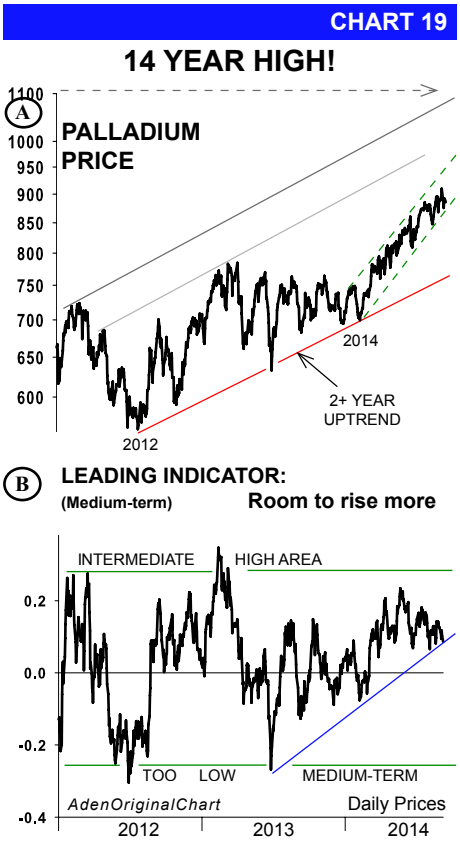
Uncertainties are abundant

But with so many uncertainties in the world today, we could see the markets turn on a dime.

Yellen continues to reiterate that lower rates are here to stay until we see better jobs figures. She insists there is still slack in the labor market. And the latest jobless claims reinforced this. Gold likes these comments from Yellen.

Plus, considering the faltering world economy, global tensions, the monster debt problem and unprecedented liquidity..... anything is possible.

All this means is we have to be prepared for change, and go with it



when it happens.

This is why we place importance on our charts. They help to see changes or subtleties upcoming. They also tell you when to stay with a trend.

Many have compared gold's now three year bear market with several major declines of the past.

The bear market of the 1980s-90s was the worst one. Its loss was not so much of a price loss than it was in the seemingly forever lackluster market.

Notice the comparison between the last three years since the September 2011 peak to the start of the major bear market in 1980 (see **Chart 18**). As you can see, the loss is less today but the movement is similar.

The point here is, will gold resume a bull market in the upcoming years, or will it be similar to that lackluster period when gold essentially moved into a sideways band? Back then, gold stayed near or above the June 1982 lows with a cap at $500 for more than another decade.

We think this is unlikely in today's world, but it's always good to play devil's advocate. And **Chart 18** will guide us.

PALLADIUM: Clear exception

Palladium has been the only precious metal in a bull market. **Chart 19A** shows its consistent rise since 2012. It rose further this month reaching another 14 year high.

Palladium's rise keeps gaining ground. It's up 22% since January when its rise turned sharper on Russian tension.

Since Russia is palladium's largest producer and palladium is mainly used for cars, this has been the biggest concern that global supplies will trail demand. Plus, auto sales in China and the U.S. are growing. U.S. auto sales reached their highest August level in more than a decade.

While the cease fire put calm on palladium, it remains strong. And as the chart shows, it has room to rise further. Note the $1100 level. This is the 2001 record high area, and there's a good possibility we could see this level tested before the major rise is over.

Will gold follow?

Gold on a bigger picture basis tells us, yes, it's just a matter of time.

We believe 2014 will end up being a major bottom year or part of a major bottom formation for gold. And Chart 20A provides a good example of this.

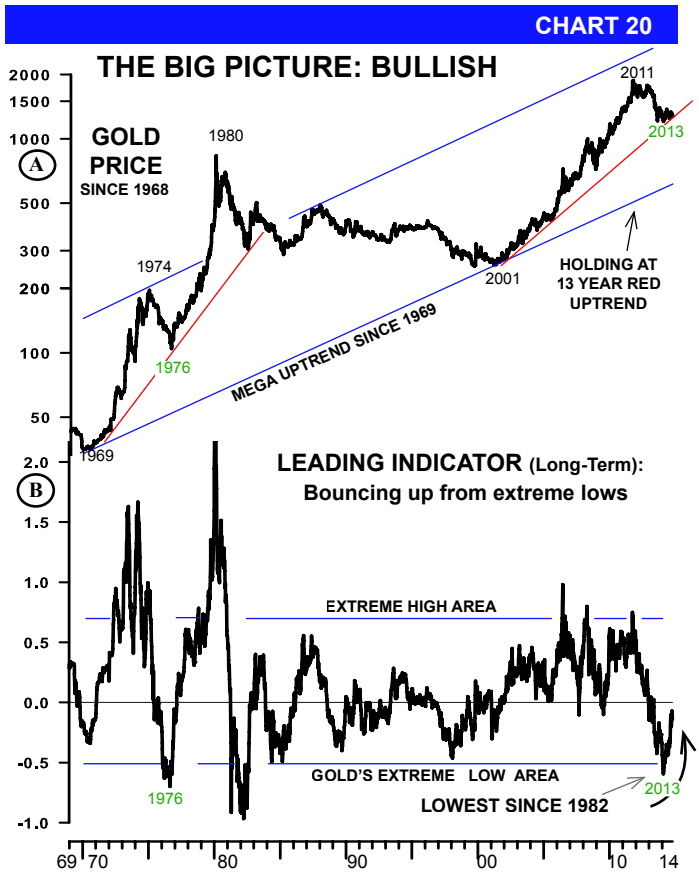
It shows gold since 1969, just prior to the onset of the first major bull market. There are two main interesting things on this chart.

Many have talked about the similarities of gold's bull market since 2001 compared to the major rise of the 1970s. There is merit here and it's worth mentioning.

If the similarities repeat, then today's gold market is like the 1976 time period. It's when gold formed a bottom and a springboard for the next leg up in the great bull market.

If the current action is similar, we could see gold take off like we showed you last month. This could result in a strong bull market that would take gold to much higher levels.

The leading indicator (**B**) is also signaling a bottom. Note that it's rising from a bombed out level. This is very bullish and it's telling us that gold's downside is limited, and the upside is open.



One step at a time...

The big picture is always good to keep in mind. But today's reality is what's important for this month and this year.

This is why **Chart 21** is our favorite timing tool for gold. We widened this chart so you could better see the key levels. We've also added three key items to the chart: The A through D intermediate moves, the two key mega moving averages and the steps to watch during this bottoming process.

To start and most important... after much thought,

and based on the recent price action, we went back to the drawing board, and we've readjusted our A-D moves.

Our older subscribers know that the way this indicator moves is a determining factor for gold's intermediate rises and declines.

For example, the low in gold in mid-2013 was the D low. We identified it as such because it was classic. It was the D decline that turned the bull market into a bear market.

Normally the A through C movements during a bear market are not as crisp, which in itself is a bearish sign.

We have now relabeled them since that 2013 fall. The rise following that deep D decline has been changed to a classic looking A rise, based on both price and indicator movements.

The decline to the late December 2013 low was the challenge. In hindsight, the indicator tells us it was a B decline. The price fell more than a normal B decline, which made it seem like a double D decline, but it was just restating that gold's major trend is down.

We now believe the rise in 2014 to the March high was a C rise. Gold started the year strong but petered out. With the indicator reaching the C high area, it said the C rise was weak and therefore a bearish C rise.

Interestingly, a D decline began following the March 14 peak at $1380. The June 2 low could've been the D low at $1244. But considering how weak gold's been this past month, it looks like the D decline is still underway. If $1244 is clearly violated, then the D decline has yet to find a bottom.

CHART 21

We could then see the December lows below $1200 tested once again. And IF this D decline clearly closes below this low at $1193, then it would be a very bearish sign.

Another waterfall decline like we had in 2013, however, is unlikely.

Of course, the December lows are key to the whole bottoming process.

You can see that gold's rise to the July high failed to clearly break above its key 65 week moving average. This too showed weakness.

On the upside, the 65 week moving average must be clearly surpassed at $1295. This would be the first sign of a bull market trying to get started.

The 23 month moving average and step 1 in the stepping stones process would be next. That is, once gold rises and stays above $1385 and $1420, respectively, a bull market will be getting started.

These will be the hardest hurdles to surpass.

But once it happens, gold could then jump up to step 2. This is the old support level before gold turned clearly bearish. Surpassing $1536 would be the next bullish step.

We believe these steps will be tested and eventually surpassed going forward. But we'll probably see weakness beforehand.

CHART 22

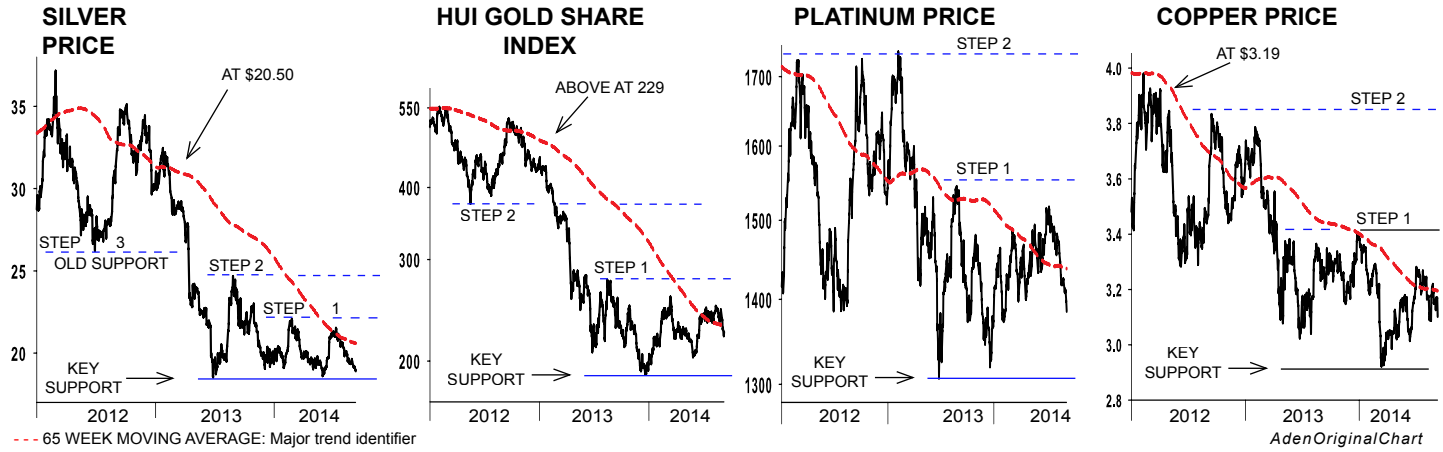


CHART 23

Silver, gold shares and platinum

Silver has been weaker than gold this past month. With both gold and copper sliding, it's not unusual to see silver lifeless and it's approaching the lows (see **Chart 22**). Silver has many bullish reasons to eventually rise. As Jeff Clark points out, China has become the largest silver futures exchange. The Shanghai Futures Exchange (SHFE) accounted for almost half of all volume last year. And this happened while Comex was in a sharp decline.

Plus, silver is in a solid bottom area. It's now approaching its 2013-14 lows and a critical juncture is at hand. Let's see if silver can hold above its $18.70 low.

If it does, and closes back above its 65 week moving average at $20.50, as well as surpassing its step 1 level at $22, the bottom will be in. Step 2 at $24.70 would then be the next hurdle. This would get silver back on track.

Keep in mind, silver is a sleeper. And it can sleep for a few years at a time, but once it wakes up, there's no stopping silver. It can take off like a bandit.

Gold shares fell more than gold this month. The HUI index fell back below its 65 week moving average and a bottom continues to form. The downside is limited for gold shares (see **Chart 22**). And once it rises above 250 and surpasses its step 1 level at 275, it'll be off to the races (see **Chart 22**).

The gold shares to gold ratio continues to show a solid position. **Chart 23A** shows shares are bombed out and bottoming versus gold for the first time since 2008. Here you can also see that the ratio bottoms and starts a good rise every 5½ years. This means the rise has already begun. This month's weakness is just part of the process.

Gold shares are still poised to rise sharply and outperform gold going forward.

We continue to recommend keeping your positions, but don't buy new ones for now. Let's watch the developments this month.

Resources: On the decline

The resource sector has weakened with the slowing global economy.

Lumber tends to move with interest rates, and lumber has been under pressure for over a year, as

CHART 25

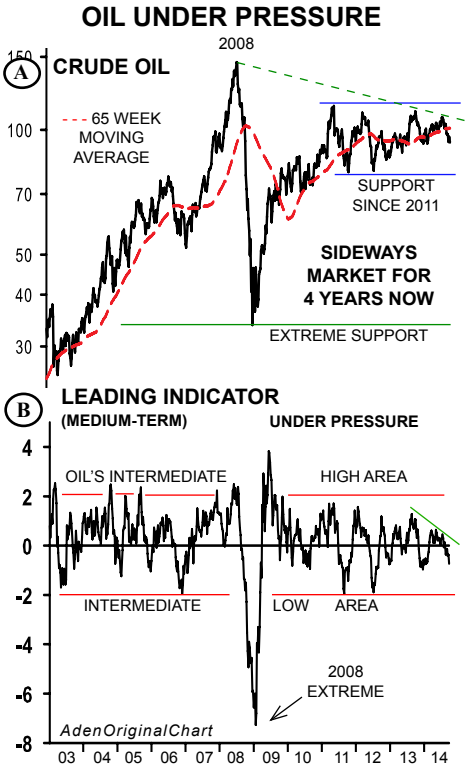


CHART 24

you can see on **Chart 24**. We're also seeing topping action in the housing index. The two normally move together, and they've both been rising since the 2008 low area.

If lumber breaks its uptrend, it could be leading housing downward. We'll be keeping our eyes on this.

ENERGY: Major changes

Crude oil is going through major changes. Matt Badiali said it best when he said, "The U.S. shale oil revolution is this decade's greatest investment theme." And we don't think it's a coincidence that crude has been moving in a sideways band for over four years now.

The cracking shale oil industry is only five years old, and it seems to already be affecting the oil price. The 2011 high near $114 marked the cap of this sideways band.

Chart 25 shows oil under pressure. It's been struggling to stay above its 65 week moving average, and it now looks poised to fall to the lower side of the band near $75.

This technical situation coincides with more supply in the market. And the shale technology has opened up vast oil supplies in the US. Many industry giants are projecting U.S. oil production could nearly double within the next 20 years.

The best part is that this industry is in its infancy. And we look forward to having you ride this wave as investors.

OVERALL PORTFOLIO RECOMMENDATION

The markets mostly went higher this month, at least that goes for stocks and bonds. And they're poised to rise further, especially with interest rates so low. The U.S. dollar also surged, but the metals markets were disappointing. For now, we advise staying with our allocations in the various markets and our recommendations remain the same.

PRECIOUS METALS, ENERGY, RESOURCE

Gold stayed under downward pressure this month. Today it fell to a 14 week low and the third quarter is shaping up to be a down one for this year. That being the case, we went back to the drawing board and readjusted gold's intermediate moves, which you'll want to see on page 10. For now, the December lows are the key to gold's bottoming process. Palladium has been the clear winner in the metals sector and it remains bullish near a 14 year high. For now, keep the metals and shares that you have, but don't buy new positions for the time being.

U.S. & GLOBAL STOCK MARKETS

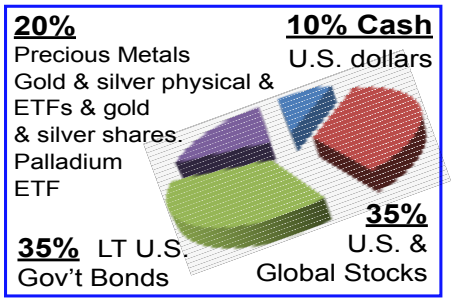
The stock market remains bullish, hitting several new record highs. Nevertheless, some caution is still warranted. For now, most of our recommended stocks are doing well, so keep them. But hold off on buying new stock positions for the time being.

CURRENCIES

The U.S. dollar is the world's #1 safe haven currency. So keep your cash in U.S. dollars for now. Most of the other currencies are weak or bearish. If you're still holding other currencies, keep them for the time being, but plan to sell during any type of upward rebound.

INTEREST RATES & BONDS

Bond prices are surging and they're still the best investment this year. Bonds are bullish and they're set to rise further in the months ahead. That is, interest rates are headed lower. We continue to recommend buying and keeping 35% of your total portfolio in over 10 year U.S. government bonds, or bond ETFs. For new positions buy UBT, TLT, TLO and TLH, which are the best.



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

OUR OPEN POSITIONS

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Palladium	PALL	Jan-13	69.71	83.55	19.85	Hold
Royal Gold	RGLD	Mar-14	66.04	72.29	9.46	Hold
NewGold	NGD	Apr-10	5.13	6.03	17.54	Hold
Agnico Eagle	AEM	Feb-14	33.68	34.38	2.08	Hold
Junior Gold Miners	GDXJ	Jul-14	43.66	38.45	-11.93	Hold
Silver Wheaton	SLW	Sep-09	11.66	23.82	104.29	Hold
Central Fd of Canada	CEF	Apr-04	6.39	13.32	108.45	Hold
iShares Gold Trust	IAU	May-05	4.17	12.17	191.85	Hold
Gold (physical)		Oct-01	277.25	1248.50	350.32	Hold
SPDR Gold Shares	GLD	Nov-04	44.38	120.87	172.35	Hold
Central Gold Trust	GTU	May-09	36.53	43.64	19.46	Hold
iShares Silver Trust	SLV	May-06	14.50	18.31	26.28	Hold
Silver (physical)		Aug-03	4.93	18.92	283.77	Hold

STOCKS & ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Microsoft	MSFT	Feb-13	28.01	46.76	66.94	Hold
Nasdaq Powershrs	QQQ	Jun-14	92.82	99.25	6.93	Hold
iShares Transports	IYT	Oct-13	118.85	152.74	28.51	Hold
S&P Glbl Tech	IXN	May-14	87.75	92.09	4.95	Hold
iShares US Med Dv	IHI	Oct-13	86.70	103.49	19.37	Hold
iShrs Mexico	EWW	Jul-14	70.93	71.47	0.76	Hold
Dow Diamonds	DIA	Jun-14	169.08	170.12	0.62	Hold
iShrs Hong Kong	EWH	Jul-14	21.65	22.03	1.76	Hold
iShrs Canada	EWC	Jul-14	32.65	32.48	-0.52	Hold
iShrs Singapore	EWS	Jul-14	14.04	13.76	-1.99	Hold
Procter & Gamble	PG	Sep-12	68.10	82.99	21.86	Hold
Utilities Select	XLU	Apr-14	43.11	42.85	-0.60	Hold
Johnson & Johnson	JNJ	Feb-13	76.16	103.80	36.29	Hold
DJ US Telecom	IYZ	Sep-12	25.22	30.60	21.33	Hold
Global 100	IOO	Oct-13	72.97	78.42	7.47	Hold
Energy Select SPDR	XLE	Aug-12	72.37	95.16	31.49	Hold
BHP Billiton	BHP	Aug-13	67.68	66.02	-2.45	Hold

BONDS

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Ultra 20+ Treasury	UBT	Feb-14	58.00	67.43	16.26	Buy/Hold
20+ year Try Bond	TLT	Feb-14	107.78	115.69	7.34	Buy/Hold
SPDR L-T Treasury	TLO	May-14	66.40	67.32	1.39	Buy/Hold
10-20 Treasury Bond	TLH	Feb-14	125.73	130.11	3.48	Buy/Hold
Intermediate Muni	MUNI	Feb-14	52.69	53.45	1.44	Hold

