THE
ADEN FORECAST
MONEY • METALS • MARKETS

SEPTEMBER 2015 *our 34th year*

IT'S ALL ABOUT CHINA

VOLATILITY REIGNS!

The markets were wild again this month. This is becoming a common occurrence, but that doesn't make it any easier.

This time it was the stock market. Once again China was the culprit, triggering the steep decline. That's been happening a lot lately.

Two months ago it was the gold price. But this shows you how important China is on the world stage. It's basically been the driving force.

THE CHINA STORY

Currently, for instance, everyone is spooked about China's economy. Is it falling apart and taking the rest of the world down with it? That's the basic question keeping the markets on edge. And you can see why...

China's story is amazing and it's unprecedented in world history... China essentially went from the deepest poverty, including mass starvation in the 1960s, to becoming an economic powerhouse and one of the world's greatest and most influential nations in less than 40 years.

For more than two decades, China's economic growth was far greater than growth in other countries. This happened year after year until market observers got used to it and expected it would continue indefinitely.

During this period, China literally boomed. Nearly a billion people left the poor rural areas and moved to the cities in search of a better life. This helped fuel China's rapid growth. Factories popped up everywhere and China became a huge exporter to countries all over the world.

The world's buyer

Along the way, China became very rich. Its reserves, which are like a country's savings, grew to unheard of levels, far surpassing those of any other country.

With so much money, China invested in infrastructure and just about anything else you could think of. For example, it's been buying about half of the world's copper, aluminum, steel, nickel, tin, lead and other natural resources to satisfy its massive demand.

China is also the buyer of one-third of the world's cotton and rice. This proved to be a real boom for commodity based countries, and other countries too.

China also lent money and gave expensive gifts to countries worldwide (Costa Rica's soccer stadium is one small example). And it became the biggest buyer of U.S. Treasuries.

In other words, China was the U.S.'s largest creditor, essentially financing the U.S. debt. Eventually, the Fed took over the #1 position, but China has been one of the top creditors for a very long time, not only in the U.S. but around the world.

As a result, China won friends and influenced people. Its economy surged to become the second strongest in the world and it became the engine of global growth. As long as China was doing well, so was the rest of the world.

China's growth & commodities

Even during the financial crisis and recession of 2008, China played a key role in stabilizing the world economy. It bounced back to strong growth in 2009-10 and commodity prices moved up with it (see **Chart 1**).

Even though global growth was sluggish, dragged down by too much debt and deflationary forces, China was instrumental in keeping things going.

In recent years, China's growth dropped below 10% but this was still much greater than growth rates in other countries. So it wasn't much cause for concern.

That's why it was a shock to see China in serious trouble for the first time in decades.

The slowdown hurts

As China's economy continued to slow, their demand weakened and commodity prices were hit hard. This in turn hurt the commodity exporting countries and it hurt other countries as well.

Then the Chinese stock market dropped sharply. As panic set in, millions of speculators rushed to the exits, unwinding their huge margin debt positions.

This eventually resulted in the devaluation of the yuan. China's

INSIDE

woes also spread to other global stock markets and they came crashing down too last month (see **Chart 2**).

For now, China has spent $240 billion since June, and last month its reserves dropped the most on record in its attempt to stabilize the yuan and its stock market.

China also cut interest rates five times and said they'll do whatever they have to do, taking even more measures to keep things afloat...

Meanwhile, Chinese leaders expressed concern for their economy at last weekend's G-20 meeting. They also said they expect growth to stay around 7%.

So can they stabilize or not? Again, that's the big question. But remember, China still has huge reserves and room for more monetary stimulus, so they may be able to pull off a soft landing.

Changing times

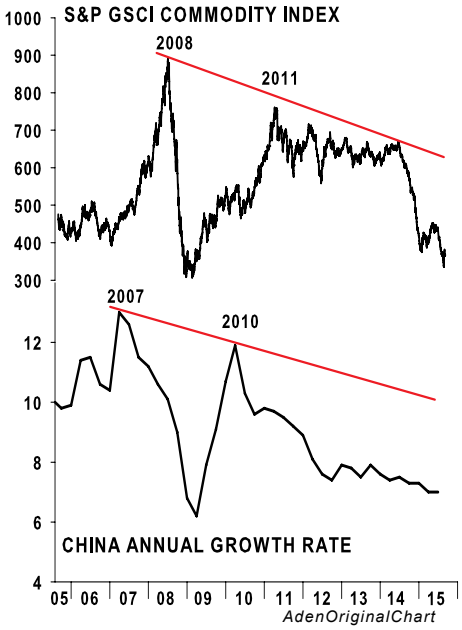
For now, there's no question that China is going through a period of change. It's in a transition and this again reminds us that nothing goes straight up forever. There are ups and downs along the way and China is not an exception.

But considering their great successes over the past three decades we don't believe it's all going to fall apart.

Things may change and stay slow for some time as global deflationary pressures become more entrenched, but China will continue on its path, despite the challenges now making this path more difficult.

We'll want to keep a close watch on China, now more than before. Whatever the outcome, it's going to affect all of us in one way or another. As our friend John Mauldin says... "Just as we all shared in China's growth, we will all share in its contraction."

CHART 1



STOCKS TURNED BEARISH

So what happens next? That's something we'd all like to know and opinions are all over the place.

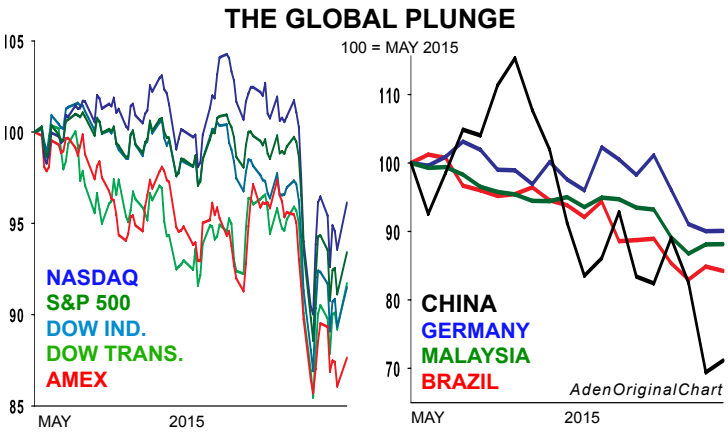
Some feel the stock market plunge was a fluke and the bull market will continue. Others believe a global bear market is just beginning.

As you'll see in this month's Stock Market section, despite the recent rebound rise, the stock market is indeed bearish. That's why we advised selling your stocks. The market is signaling it's going to get worse before it gets better.

If so, this suggests it's just a matter of time before the next recession hits, not only in the U.S. but internatioally as well. As we all know, few economies have gone a decade without a recession. So based on timing alone, this recovery is maturing.

Of course a renewed round of QE could postpone this. But considering the U.S. has already spent $4½ trillion to boost the economy since the last recession, which is more than what was spent on World War II, we don't know how far they'll go.

CHART 2



RECOMMENDATIONS

Currently, however, with the markets uncertain, volatile and nervous, we believe the best strategy is to have a large portion in cash.

We recommend keeping 45% of your total portfolio essentially balanced between the U.S. dollar and some of the currencies. This may not be the case for long, but it's the safest for the time being while we wait for new opportunities.

We also recommend keeping a 40% position in U.S. government bonds. They're still a safe haven and if the global economy stays sluggish or weak as we suspect, they'll continue to do well.

And finally, we're keeping our small 15% position in the metals sector. For now, it's basically an insurance policy against a financial crisis. Hopefully, it won't happen but the way things are looking, it's best to play it safe across the board.

PLEASE JOIN US...

•We'll be speaking at the New Orleans Investment Conference on October 28-31, 2015. There's a great lineup of speakers and we hope you'll join us. For more info go to *jeffersoncompanies.com/landing/adens*.

•We'll also be speaking at the "Beyond the Dollar Summit," at beautiful Rancho Santana in Nicaragua on January 12-17, 2016. This is hosted by the Oxford Club and the speaker lineup is excellent. For more details, go to *www.oxfordclub.com/nicaragua*.

•On a final note, we've been posting articles or news of interest on our Facebook page almost daily. If you're not receiving these, go to The Aden Forecast page and "like" it. You should then start getting them on your Newsfeed.

U.S. & WORLD STOCK MARKETS

Bear market has begun

The stock market has turned bearish. This means it's now poised to fall further in the months, and possibly years ahead, and it's best to get out of the way.

TIME TO SELL

For that reason, we recommended selling your stocks in our August 20 weekly update. Several days later the market went into fall panic mode with stocks around the world plunging. And it looks like they're going to fall further.

CHART 3

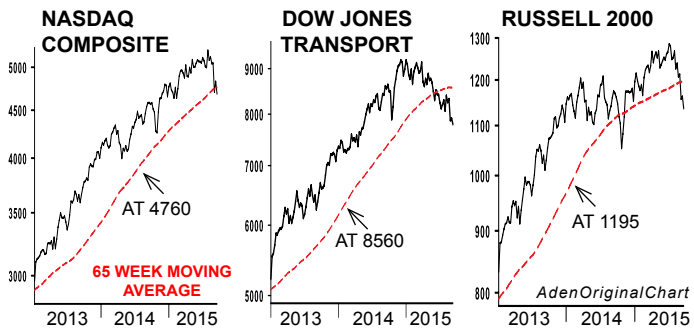
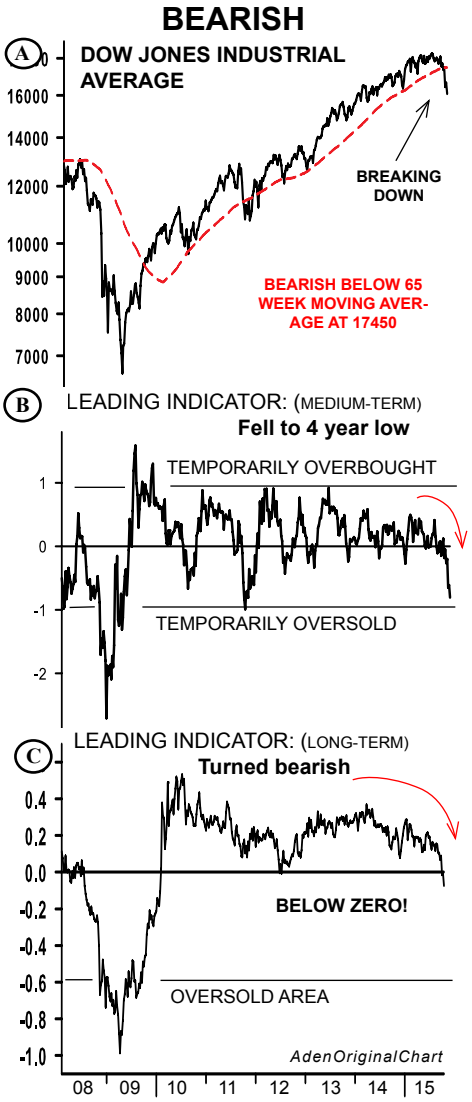


CHART 4



Currently, however, stocks are rebounding. This is normal following such a steep drop and stocks could continue to back and fill for a while longer.

If you haven't sold your stocks, (except gold and bond related stocks), this rebound is providing a good opportunity to sell at an equal or better price. And if you don't want to sell all of your stocks, then at least lighten up on a good portion of the stocks you own.

At this point, we don't know if this bear market will be a mild one or a big one like in 2007-08.

But with many things out of whack and investors nervous about China, global growth, a possible interest rate hike and lots more, it could be a steep decline and it's best to play it safe. If not, we can always buy again later, once the coast is clear.

THE BEARISH CASE

Here's what we're watching...

• First, the stock indexes have dropped below their 65-week moving averages (Nasdaq is marginal; see **Chart 3** as an example). In most cases, they're way below the average listed on the chart, and by staying below these levels the bear market will remain in force.

In addition, several of the indexes have experienced "death crosses." That's when the medium-term moving average declines below the long-term moving average, reaffirming the bearish trend.

• As you saw on **Chart 2**, most of the **global stock markets are bearish too**. And like the U.S., they're also poised to fall further.

As we've often noted, for a real bull or bear market to gain momentum, all of the stock markets should move together. That's what we're now seeing on the downside.

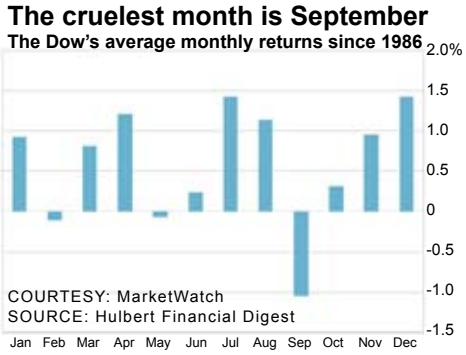
• **The Dow Theory confirmed** a bear market signal. And Richard Russell's reliable Primary Trend Indicator confirmed this as well.

• Our own reliable leading indicators are also confirming the start of a bear market (see the Dow Jones Industrials on **Chart 4** as an example). Note, the two leading indicators have dropped below the zero line, into negative territory. This tells us stocks are headed lower in the upcoming months.

Most important, **the (long-term) leading indicator is now turning bearish for the first time since 2008**. And we all know what followed... the steepest and deepest bear market in decades. This indicator does not turn bearish often, so when it does it's an important flashing signal.

• September is seasonally the worst month of the year for stocks (see **Chart 5**). So if a renewed decline is going to get started, it'll likely happen this month.

CHART 5



• There are few new highs and many new lows, which is also a bearish reinforcement.

• **The VIX**, which is the fear and volatility index, shot up into dangerous territory. Currently, the VIX is at 24. But as Goldman Sachs points out, when VIX hits levels in the high 20s to low 30s, it's usually an indication the U.S. economy is headed for a recession.

Since 1990, for instance, the VIX was at 25 and 26 during the recessions of 1990-91 and in 2001. It surged to 34 in the worst recession of 2008. And it jumped up during financial crises, like the Russian default and collapse of Long Term Capital Mgmt in 1998, and in 2011 when S&P downgraded U.S. debt.

So we'll want to watch the VIX closely this month too.

• By several measures stocks are also expensive and that doesn't bode well either.

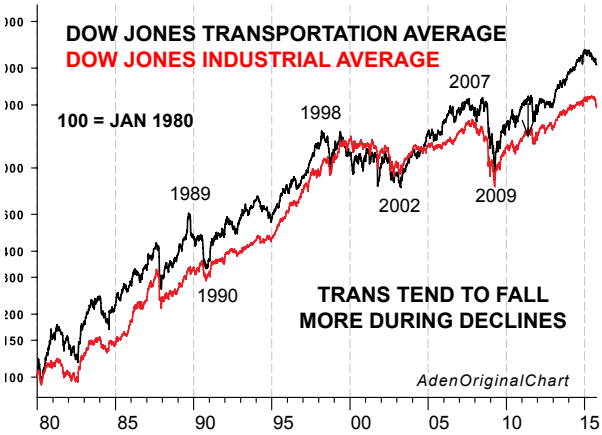
• You'll also want to keep an eye on the **Dow Jones Transportations** (see **Chart 6**, which shows the Transports along with the Dow Industrials).

As you'll remember, the Transportation Average was the first index to turn bearish. It was leading the way down. But since the other stock indexes weren't following, we weren't sure if it was leading or lagging. Now we know.

Interestingly, the Transports are more volatile. During previous bear markets, the Transports fell harder than the Industrials. They also rose more during bull markets. And since the Transports is currently much higher than the Industrials, it could be in for a very sharp decline.

CHART 6

TRANS MORE VOLATILE THAN DOW



STEEPEST FALL IN 4 YEARS

We'll soon see how this unfolds. But so far, this has been the steepest decline in the stock market in four years (see the S&P500 on **Chart 7**).

Note the current decline has so far been 12.40%. And during previous declines the Fed took action to boost the market. Will it happen again? It could.

Meanwhile, this decline has created some confusion because most commentators are calling this a correction since it's more than a 10% fall. They say a bear market will not kick in until the stock market drops more than 20%.

This is a relatively new rule that became popular. But as you've just seen, there are too many bearish signs to ignore. In other words, why wait for a 20% decline before confirming a bear market?

The writing is on the wall. The markets are jittery and afraid of the unknown. China is the dominant force calling the shots, and so is the Fed to a lesser degree.

WE DON'T LIKE BEING BEARISH

We didn't like selling all of our recommended stocks. We made some good profits on some of them, but we also took steep losses on others and that's never pleasant. Nevertheless, we have to go with what the market's telling us, and for now it's saying to stay on the sidelines.

Sure we hope to see the market bounce back soon. But until we do, we recommend staying safe and out of harm's way.

If you're still holding some stocks, then please put stop losses on your positions. You can decide what works best for you, but under the circumstances we'd keep these tight at no more than 10% below current prices. Since the markets are so volatile, we'd also set the stops based on the closing price.

In the meantime, if this bearish outlook begins to change, you'll be the first to know. But we could be in for some wild times so stay tuned.

CHART 7

WE HAVE MORE THAN A 10% CORRECTION!

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U.S. INTEREST RATES AND BONDS

Bonds: A safe haven

Bonds are a safe haven. Period. And if you had any doubt before, we're now seeing it again.

With all the wild swings in the world's stock markets, investors turned to bonds, driving them to a four month high. And bonds will continue to be a safe haven in this sea of uncertainty.

HOW DO WE KNOW?

U.S. government bonds have historically been considered one of the safest markets in the world. That's because they're backed by the U.S. government, which makes them more secure than most other investments.

This provides comfort to many investors, especially during times like these when the markets are volatile and scary.

That's why so many investors are buying U.S. government bonds. And it's not only private investors... the Fed has also been buying bonds, even though QE3 ended last October. This demand will keep upward pressure on bond prices.

CHART 8

FED'S RATE DILEMMA

As you know, bonds have been skittish lately. They're waiting to see if the Fed's going to raise interest rates this month or not.

But now, with China slowing down and some countries already in recession, the global stock markets and commodities have been heading South. The same is true of exports. And with the world economy also slowing down and many central banks cutting their interest rates, it's unlikely the Fed will raise rates in this deflationary environment.

Some argue the Fed will still raise interest rates. After all, it's been a decade since the Fed last raised rates and since everyone's been expecting a rate hike, the Fed needs to save face.

Plus, the U.S. economy is basically looking better. It rebounded to near 4% in the second quarter and several economic signs also remain firm.

Housing, for instance, is showing its best upmove since the last recession (see **Chart 8**). Home prices are rising, and confidence among home builders is the highest in almost 10 years. This is important because housing tends to lead the economy.

But stock markets are also economic leaders and if they're all tanking, it's not a good sign for the world economy. On the contrary, they're signaling weaker times lie ahead.

If push comes to shove, which is where we are now, it seems like the ongoing weakness in China and the world stock markets will trump the good U.S. housing and GDP numbers.

All things considered, **the bottom line is it would simply be too risky for the Fed to raise interest rates at this time**. If they're pressured to take action because of the frenzy that's surrounded a rate hike in September, the Fed could blame China and the changing global climate for their decision to sit tight for the time being.

Everyone would understand and all would be well. If so, this too would give bonds the green light to move onward and upward.

BUY AND KEEP GOV BONDS

These are the main reasons why we continue to recommend buying and holding long-term U.S. government bonds. They're in an uptrend and set to rise further, as you can see on **Chart 9** which reinforces the bullish case.

Even though bonds have already gained 40% since we recommended

CHART 9

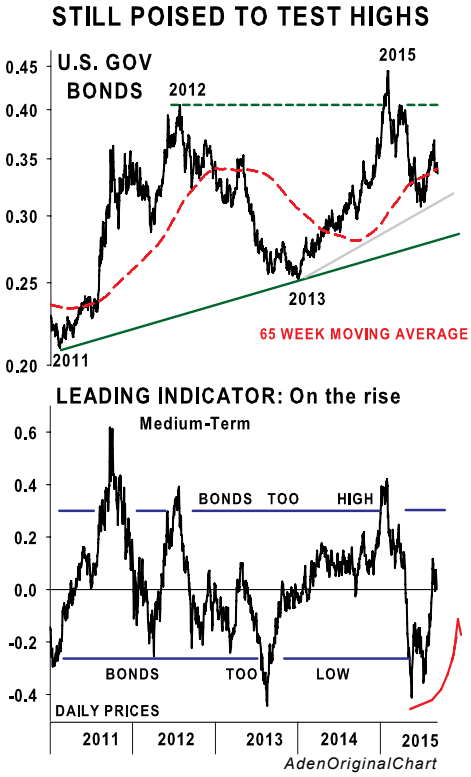


CHART 10

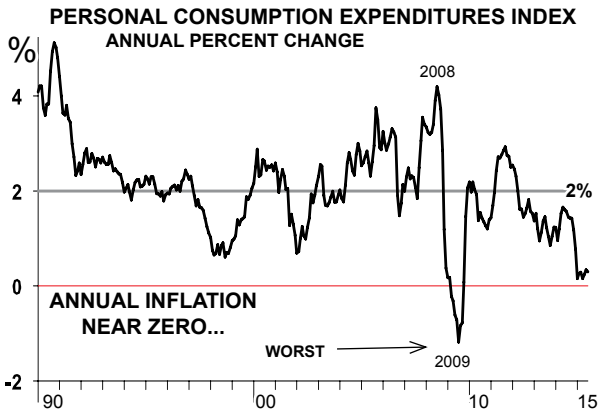
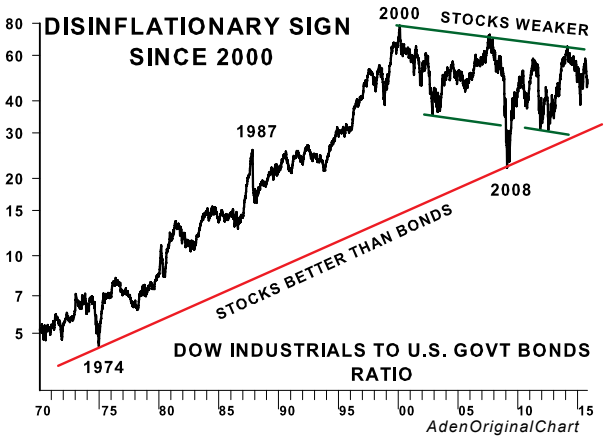


CHART 11



them last year, the leading indicator shows they're headed higher, and we advise riding this bull market for as long as it lasts.

The fundamentals are telling us the same. And when the technicals and fundamentals coincide with one another, it makes bonds even more bullish.

As for the bond ETFs, they've been volatile but our favorites are still UBT, TLT and TLH.

BONDS: Not in a bubble

We know some experts are saying bonds are in a bubble and it's ready to pop. But the market itself is telling us the opposite...

The Fed has said they're going to be focusing on inflation. With inflation currently near zero and far below the Fed's inflation target level at 2%, this too suggests the Fed won't be raising interest rates this month (see **Chart 10**).

In other words, the Fed can't run the risk of raising interest rates too soon, even if it's a small rise. With the world economy and inflation still vulnerable, it wouldn't want to be responsible for possibly driving the U.S. economy into recession.

In the meantime, the IMF, World Bank and Bank of International Settlements have practically been begging the Fed not to raise interest rates, and it looks like the Fed will oblige. We'd be surprised if they don't.

But as you know, anything is possible so we'll want to keep a close watch on what the Fed decides at their next meeting on September 16-17.

Another important reason why the Fed will unlikely raise rates is because China has been selling over $200 billion of U.S. Treasuries from their reserves. As Tyler Durden explains, "this serves to tighten money markets."

That is, the more China liquidates to stabilize the yuan, or for whatever reason, it essentially offsets a big portion of QE3. It's like QE in reserve and this could put upward pressure on interest rates.

It could also blindside the U.S. recovery. And it could result in another round of QE to inject liquidity into the financial system again. That is, one complication could lead to another.

BONDS BETTER THAN STOCKS

Meanwhile, you can see this has been going on for over a decade. It's nothing new. But it's becoming more intense (see **Chart 11** which compares the Dow Industrials to the bond price).

Note that stocks have been weaker than bonds since 2000 and bonds have been the better investment.

This has coincided with a period of disinflation, volatile markets, two recessions, QE1, 2 and 3, Operation Twist and other economic stimulus plans, near zero interest rates, booms, busts and deflation.

Are we finished yet? No. In Japan it's been going on for 20 years. We're not saying this is going to be exactly the same, but it's already been 15 years and we're still riding the wave.

So stay with your bonds until the market tells us otherwise. Bonds will remain bullish and the major interest rate trend will remain down as long as the 10 year yield stays below 2.45% (see **Chart 12**). For the 30 year yield the number is 3.20%. (Note these numbers have been readjusted to allow for volatile swings.)

CHART 12

CURRENCIES

Yuan's weight

China was the big news in the currency world this month.

China devalued the yuan by nearly 5%, its steepest drop in 21 years (see **Chart 13**).

This reverberated around the world, affecting currency markets, stocks, and commodities, fueling even more repercussions.

THE GIANT STUMBLES

Most outstanding was the global realization that the Chinese economy is probably weaker than most people thought. And since China is the second largest economy in the world (or the largest by some measures), this spooked investors because the effects will continue to be felt worldwide.

Already, China's largest trading partners are feeling the heat. Countries like Singapore, Malaysia, Indonesia, Thailand, Korea, Australia, So Africa and Brazil have seen their currencies drop between 11% and 35%.

This has basically been in an effort to keep their currencies com-

petitive and to help boost their economies. (Brazil and Canada are now in recessions.)

A weak currency, for instance, makes a country's exports cheaper and, therefore, more attractive to foreign buyers. It also makes imports more expensive, which helps fuel local sales by making those products more appealing.

Along with weaker economic signs at home, that's probably the main reason why China devalued their currency.

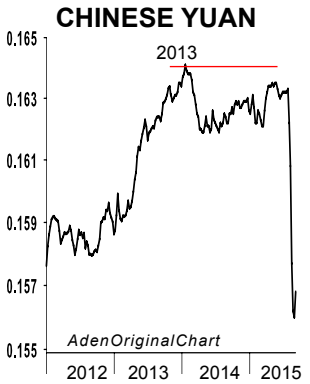
Since **the yuan had gained nearly 35% in the past 10 years** it had become too expensive and China's exports were tumbling. So China didn't want the yuan linked to the strong U.S. dollar anymore.

Plus, by letting the yuan float, China moved closer to its goal of joining the IMF's global currency reserve basket next year...

But China has also been intervening to support the yuan because there's been a flood of money leaving China, looking for stability, growth and greener pastures.

A large chunk of that money has ended up in global real estate, mainly in the U.S., Canada, U.K. and Australia. And more Chinese money is on the way, which should keep upward pressure on real estate prices in these countries.

CHART 13



CURRENCY WAR... Ongoing

Meanwhile, China is being blamed for causing a currency war. But the currency war has been going on for quite a while now with many of the other world's currencies also down by double digits. This is far greater than China's 4.6% decline.

In fact, looking at the rest of the world, it's hard to find a currency that hasn't dropped this year (see the commodity currencies on **Chart 14** as an extreme example). And again, you can understand why...

With China's giant economy stumbling, demand for products and resources is down sharply. Remember, China has been the world's main buyer of raw materials for many years, so when it sneezes the rest of the world catches cold.

And with China now getting sicker, global growth is slowing and exports are way down in many countries, despite the decline in their currencies. Japan's exports, for example, are down 21%, Latin America has declined 19% and Europe is down nearly 8%.

So it's been a race to the bottom and China has now joined the marathon. Interestingly, one of the few currencies in the world that hasn't declined is our Costa Rican colon. It's actually been stronger than the U.S. dollar. Its high interest rates have been attracting an influx of dollars, but we don't expect this will continue for long.

U.S. DOLLAR: TOO STRONG

Looking at the U.S. dollar index, you can see that it still appears to be forming a top (see **Chart 15A**). Its leading (long-term) indicator (**C**) is also topping. This tells us the dollar's days are numbered.

Plus, the U.S. is not an exception. It doesn't want a strong currency either because it's been keeping a lid on inflation, growth and commodity prices, and it's adding to deflation pressures.

Nevertheless, the U.S. dollar could stay firm for a while longer. It could rise to test its March high near 102, but it'll remain vulnerable below it. This is being reinforced by the leading (medium-term) indicator (**B**), which has room to rise further before it reaches the high area.

Once it does, the dollar could head down and this might coincide with the Fed's announcement to leave interest rates as they are.

The true test will come once the dollar index declines and stays below 93. When it does, it'll be a strong sign that a steep decline is

CHART 15

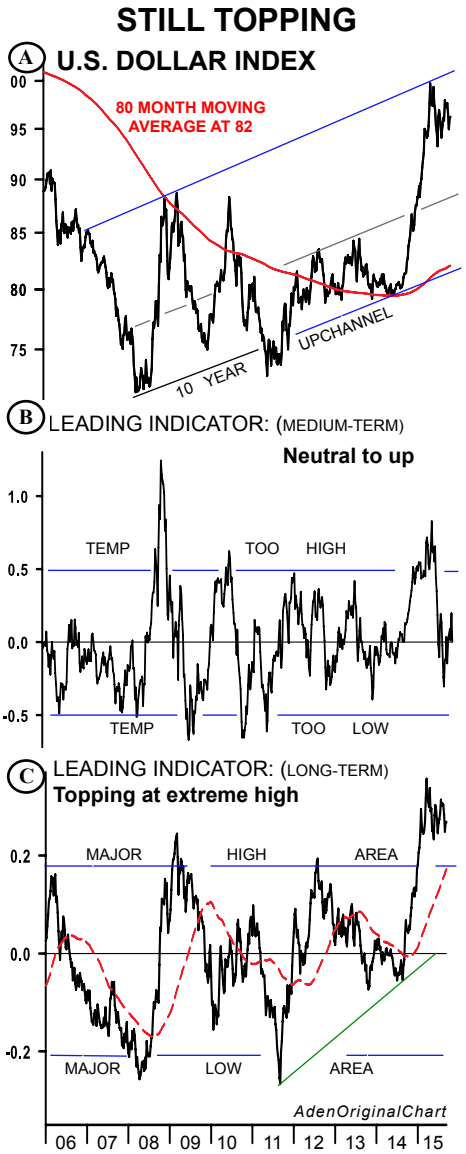
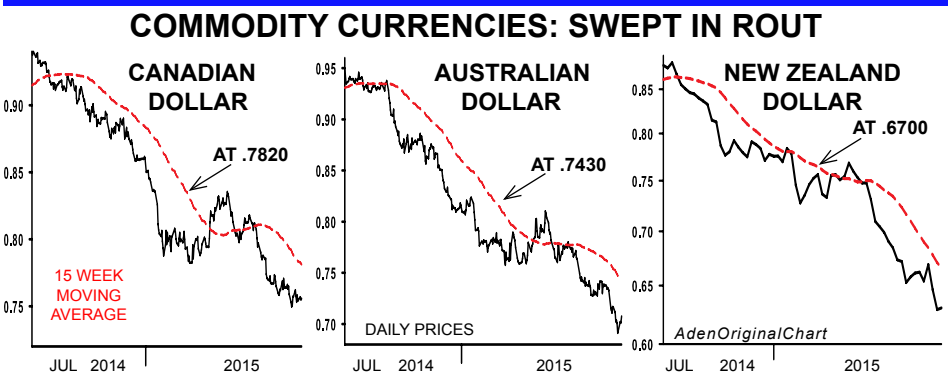


CHART 14



getting started. It could then fall to the mid-channel line near 88.

But until that happens and having sold our stocks, we'll continue to recommend keeping a good portion of your cash (25%) in U.S. dollars for now.

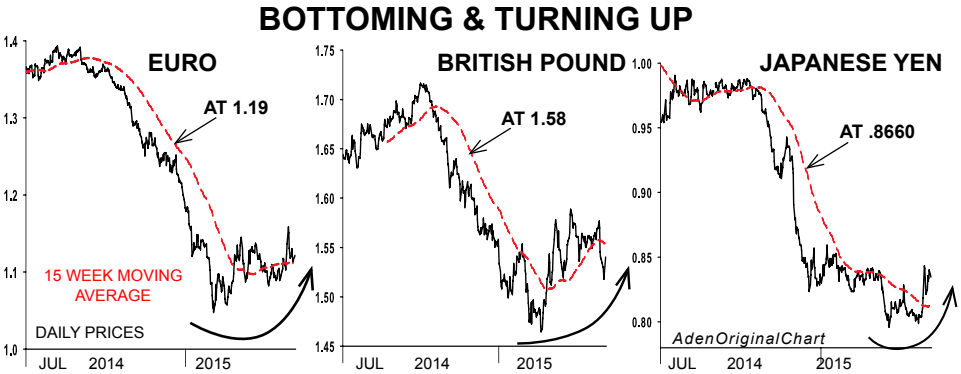
CURRENCY HAVENS

Surprisingly, as investors grew more nervous, they turned to the Japanese yen as a safe haven (see **Chart 16**). With the highest debt to GDP ratio in the world, and more QE in the pipeline for the umpteenth time, Japan doesn't fit the profile as a safe haven. But many things don't make sense these days.

The euro and British pound both benefitted as safe havens too, at least for a while, and they probably will again.

Europe's four biggest economies are growing and they're looking better. And once the euro heads higher, most of the other currencies will go along for the ride too.

CHART 16



As you can see, these currencies are still bottoming and they're set to rise further. But a new bull market rise will not be confirmed until they can get above 1.19 for the euro and 1.58 for the British pound.

Currently, we still recommend keeping about half of your cash (20%) divided between the euro, British pound and Canadian dollar and/or their ETFs, which are FXE, FXB and FXC.

Even though the Canadian dollar has been hit hard by the decline in oil, it's likely near the lows and that's why we don't advise selling it at this point. Buy new positions in the euro and British pound.

CURRENCY PORTFOLIO

With the currencies bottoming, you may be interested in our managed account program through Everbank. If so, write to info@adenforecast.com

METALS, NATURAL RESOURCES & ENERGY

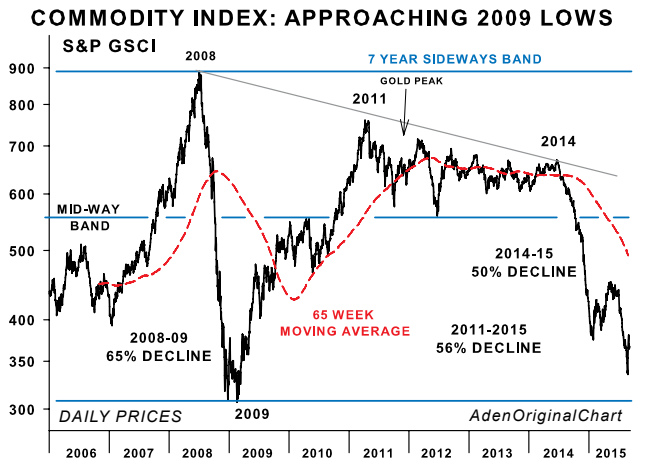
Global Drag on Commodities... Gold Faring Best

The commodity market also took center stage when China's slowdown rocked the world economies and markets. With China being the world's major commodity consumer, they sold off even more than they already had.

Kicking a guy when he's down is what the commodity markets feel like. You can see on **Chart 17** they've been out of favor, falling sharply over the past year, and the recent sell off is now causing commodities to test their 2009 lows.

In other words, today's commodity drop is about as bad as it was during the 2008 financial crisis! It's now to be seen if this low holds, but we think it will provide solid support.

CHART 17



Gold: Rises during uncertainty

The global stock markets' sell off boosted gold's safe haven appeal, in spite of copper declining to a six year low. The stark contrast was impressive. Copper was down on China's slowing growth, putting a damper on demand. But this very slowing caused a rout in the markets, and therefore a need for a safe haven.

Gold held up well when uncertainty caused investors to run to safety. In fact, **demand for physical gold has been good this year.** Sales in Germany increased 50% during the first half of this year, and July sales reached the second highest on record.

And it's not only Germany. China bought tones of gold in July and August while India's high buying season is just starting.

Gold has been rising since its July low in a rise we call 'A'. The Fed's intention to raise interest rates for the first time since 2006 has been keeping a lid on gold. It's still to be seen if the 'A' rise has more legs, but if rates stay unchanged this month we could see a higher gold price.

These intermediate gold moves give us good insight at each turn for the overall big picture in gold (more later).

Commodities led Stocks

Meanwhile, this year's drag on the Transportation Average had many scratching their heads. It was the star performer up until the turn of this year. But the recent drop in both commodities and the stock markets is clearing the picture.

Commodities and Transportations tend to move similarly, but they clearly went their separate ways in 2013 (see **Chart 18**).

Transportations shot up with the rest of the stock market after QE3 got underway. Gold fell into a clear bear market, yet commodities moved essentially sideways to down. That is, until they plunged last year, see green arrowed line.

Commodities were already well on their way down when the stock market dipped last October following the end of QE. But the Transportations couldn't take it after the final hurrah peak in December.

They began to follow commodities down, and the latest drop took them ALL lower. It also turned the stock market into a new bear market.

So in the end, commodities were leading equities, and China's devaluation and stock plunge were the final straws.

Considering that gold (and bonds) held up the best during this wild volatility, let's see how gold looks compared to other markets in the big picture.

Gold compared....

With a new bear market getting started in the stock market, many are asking us how gold looks compared to stocks and bonds.

Chart 19 shows this big picture since 1967. Here you can see both ratios (**A&B**) have been on the rise since 2000, but also on the decline since 2011.

Note how well gold has held up versus bonds (**B**). The ratio is only now testing the mega uptrend that favors gold. Let's see if this trend holds.

And compared to stocks, the recent lows are the key (**A**). If the ratio holds, it'll be the start of a turnaround. It's too soon to say, but we'll be watching this.

It's also very interesting to see the gold to silver ratio as well (**C**). Since silver has weakened more than gold with the commodities decline, we think this ratio could play a clearer role in seeing the effects of the global slowdown.

Note the ratio has been in a mega uptrending red channel since 1968. It's dipped below this trend only two times since then, and both times were at gold peaks.

In both cases, silver was much stronger than gold at the end of the bull market euphoria.

After the 1980 peak, gold outperformed silver for 10 years when both were in a bear market. From 1990 to 2011, gold was weaker than silver during a bear and bull market. And now, once again, gold has been stronger than silver since 2011.

This four year rise has formed fanlines. If the ratio breaks above the third fanline, we'll see a breakout as gold continues to outperform silver.

In the past, silver was always much stronger than gold when the bull market heated up, but this time may be different.

CHART 18

OUT OF WHACK

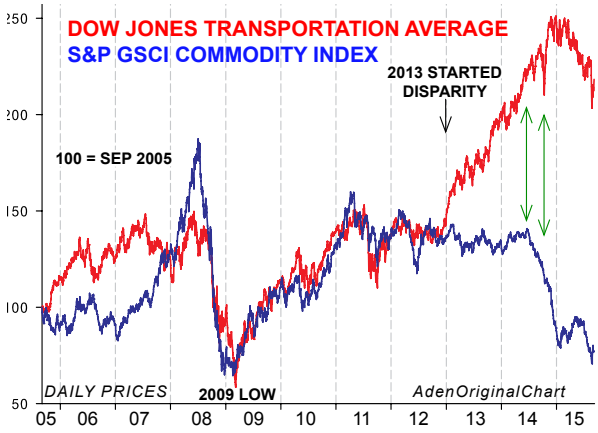


CHART 19

GOLD: NEAR LOWS VS STOCKS & BONDS

Let's say gold continues to be a safe haven in the coming years as the world economies sag. In this scenario, gold could rise as a safe haven while silver remains pressured by the global slowing. The ratio's indicators also back up a stronger gold price.

You could also say the ongoing four year bear market could last longer. And we know the bear market is in the driver's seat until it's over. But our cyclical studies suggest we'll see a bull market get started sometime within this year. That is, it could happen at any time in the months ahead.

Gold: It's all about timing

The uncertainty surrounding a rise in interest rates has kept gold uneasy. And more so, the possibil-

ity of a rise has kept the dollar relatively firm.

But as we've been suspecting, it now looks like this won't happen, at least not this month, with low inflation and a weak global economy.

If so, it'll push gold up further in the 'A' rise that started in July, just prior to the commodity drop. The A rise is stalling and it's having trouble rising (see **Chart 20A**).

And if this is all we get for this A rise, the bear market will still be in full control. And if the July 24 lows at $1080 are broken, it could become an ugly upcoming B decline.

Normally, B declines are mild and it's unusual for them to break down to new lows. Bs tend to test the D lows, in a worst case. We'll see if this will be the case this time around.

Interestingly, we're ending the seasonally low time for gold. High season is starting, which is why gold tends to rise in the Fall. This also means we still have hope for a better A rise.

Keep an eye on $1100. If gold can stay above this level, the 'A' rise still has a chance to surpass its August 21 high at $1160. Gold could then test the $1200-$1220 level. This type of rise would be promising.

But if gold declines below $1100, a B decline will be clearly underway, and it could test the July lows at $1080. This would be normal. But a very bearish leg would be underway below $1080, and it could then test $1000.

Silver is dragging with the weak resources as you can see on **Chart 23**. But for now the $14 level is a good support level. Silver is clearly in the doldrums and, surprisingly it's not oversold. This alone says the downside is still open.

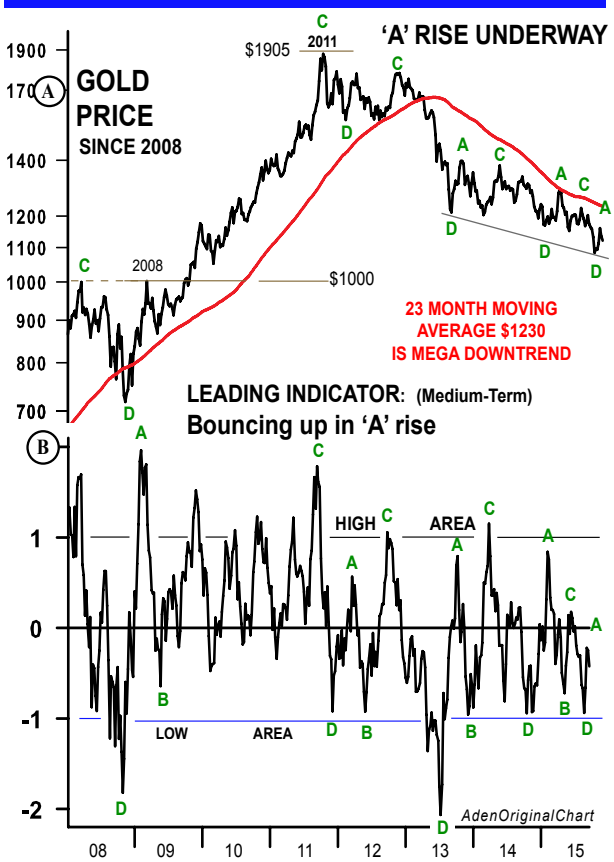
Silver broke below $15.50 in July and it hasn't had the strength to rise back above it since then. Above $15.50 would be the first step to stability. It'll remain bearish until it closes and stays above its declining 65 week moving average now at $17.

We'll be keeping an eye on $14, $15.50 and $17 for the next direction.

The Past Year: Brutal

Who would've guessed that just a year ago (last September) that commodities would be so much lower now than they were then.

CHART 20



Crude was starting its plunge from the $100+ level, gold shares were in another leg down, while copper continued to drift downward. Palladium was the only solid one... for a while (see **Chart 21**).

Prices have plunged this past year after years of overinvestment led to a supply glut at the same time China's growth was slowing.

The value that commodity producers have lost in the past year almost equals India's entire economy. The fall in raw materials have wiped out over $2 trillion from the shares of mining and oil companies since the middle of last year.

In fact, import prices in August fell in the biggest year-over-year drop since the great recession in 2009. This is also adding to deflationary pressures.

Crude's slide down to our final $40 target level this month was the other rumble in the commodity world. Oil companies have reduced spending by $180 billion this year.

But to see the gold share drop compete with the oil plunge over the last three months has been interesting to say the least (see **Chart 22**).

Since gold held up better than the others, it's no surprise to see that gold shares and crude are both bombed out compared to gold. Note gold shares fell to yet another low versus gold, while crude slipped below the 2008 lows, but it's now holding near there.

CHART 21

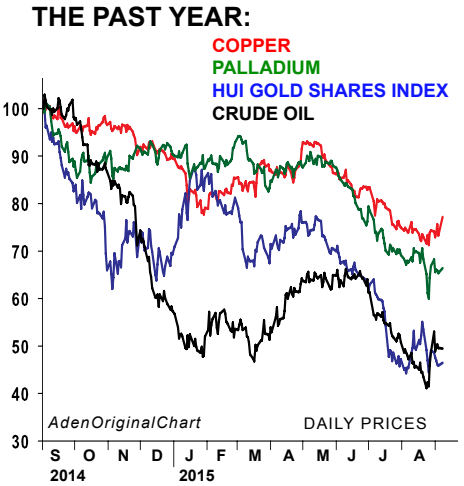


CHART 22

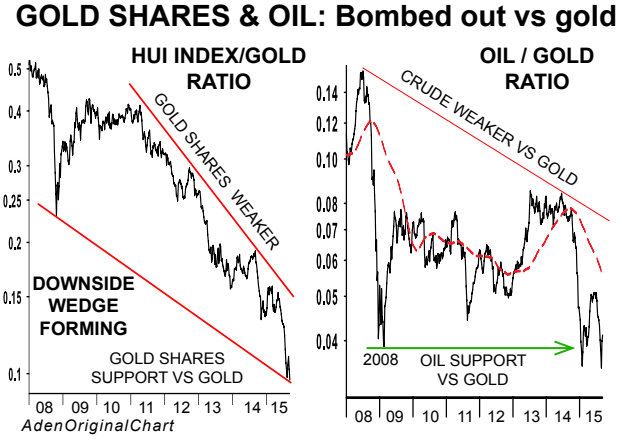
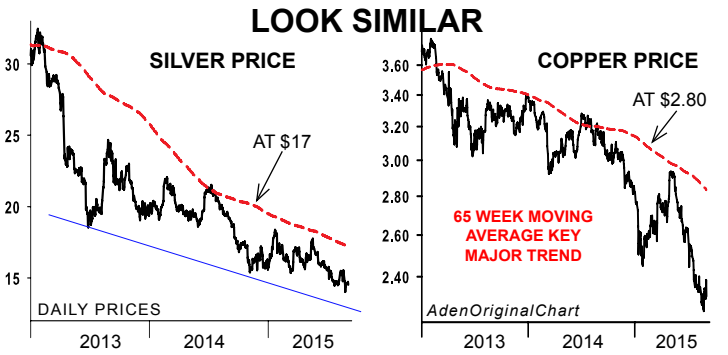


CHART 23



Both are clearly oversold against gold. Gold shares are forming a downside wedge versus gold, and versus the dollar! This means gold shares are becoming like a coil, ready to spring upward at any time.

Gold shares: Trying to bottom

In fact, **Chart 24** shows that the latest HUI weakness fell below the wedge while its leading indicator is starting to bottom in a low area. This area coincides with intermediate lows in gold shares.

It's no secret that gold shares are at super sale levels and bombed out. They've been in a bear market since April 2011, and it's been a brutal one. It's been the second worst bear market since World War II.

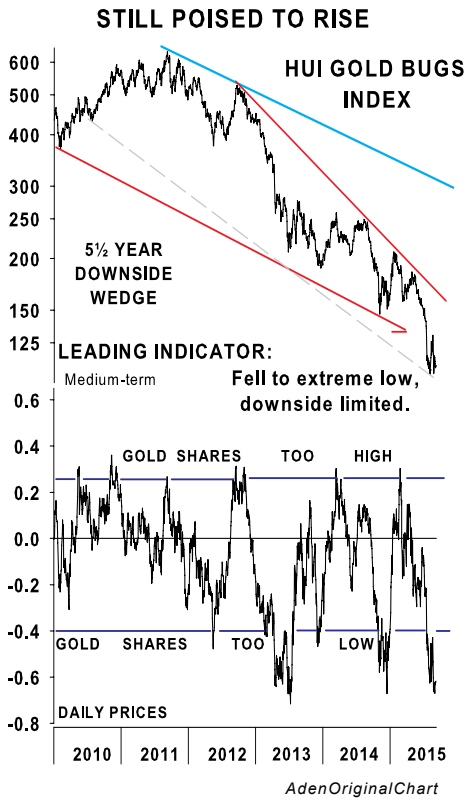
It's just a matter of time before a rise gets underway.

In fact, junior shares (GDXJ) are holding up better than the seniors. The ratio is on the rise, which is saying the risk in juniors is good, which is also a positive sign for all gold shares.

This means if the HUI index rises and stays above 131, a decent renewed rise would be underway. It's still to be seen when a major turnaround will occur, but meanwhile, the strength of this intermediate rise will tell us a lot about the overall gold share market.

And once a bull market is confirmed we definitely want to be on board for the rise. Just think, HUI rose well over 1000% from 2000 to 2007, and it rose again for three years from its 2008 lows, gaining over 300%. The point is, when gold shares take off, you don't want to miss it.

CHART 24



RESOURCES: Down but not out

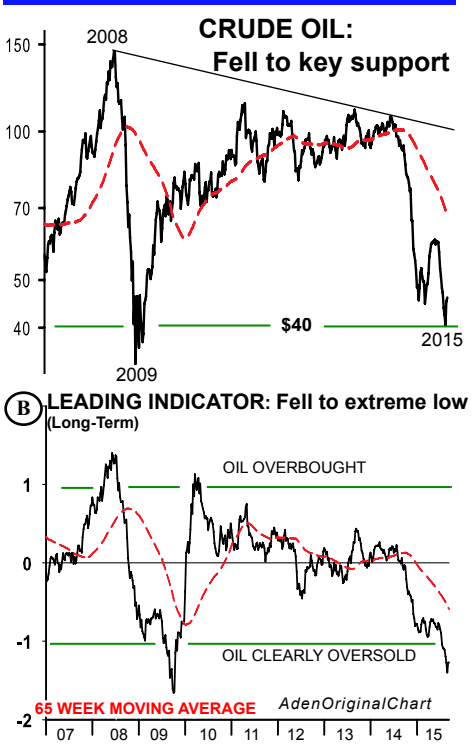
Crude oil fell sharply, dipping below $40 this past month. It's testing the March 2009 lows, which makes today's extremes similar to the financial crisis panic (see **Chart 25A**).

An unexpected rise in U.S. crude supplies is aiding the fall. But considering how oversold oil is (**B**), and at a time when oil fell to its key mega support area, it's saying oil will likely hold above the 2009 lows.

The industry is hurting. Oil below $40 is scaring investors. Energy is still a substantial part of the U.S. economy and stock market, as well as for many countries that depend heavily on profits from selling oil.

Interestingly, oil demand is also up. It's growing at the fastest pace in five years and world demand is at the highest levels on record, according to OECD/IEA. This demand will also probably keep oil from falling much below $40. This is truly a solid support, as shown last month.

CHART 25

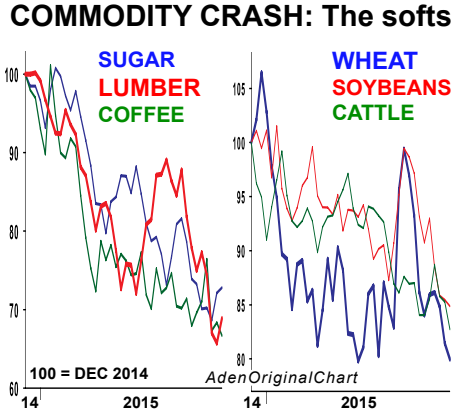


On the upside, crude will begin to look more stable above $51.

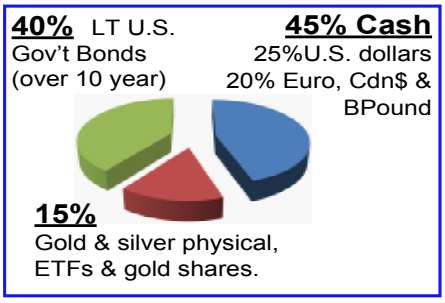
Copper is now bouncing up from its six year low. At a seven week high, it's looking the best since May. If it now stays aove $2.25 and rises above $2.50, it'll be on a good track. It would turn bullish above $2.80 (see **Chart 23**). Perhaps copper is saying the worst is near an end... we'll see.

The soft commodities have also been taking a beating, especially lumber, coffee and sugar (see **Chart 26**). Good weather has produced bumper crops in the grains this year, which is adding to lower prices. Again, these are deflationary signs.

CHART 26



OVERALL PORTFOLIO RECOMMENDATION



PRECIOUS METALS, ENERGY, RESOURCE

Gold bounced up from its July low on safe haven buying during the global stock and commodity markets' plunge. The 'A' rise took over, and so far this rise reached a high on August 21 at $1160. This mild rise is not over yet, and if $1160 is clearly surpassed, the 'A' rise will be promising. On the downside, if gold breaks below $1080, a very bearish leg would be underway.

The market could have one more washout, but it's getting closer to a major low area. The high season for gold is starting which is a good sign. We recommend keeping the positions you have. We'd wait until the bottoms are in before buying new positions. Once the market turns around, we want you all to be on board for a new bull market. The energy and resource sector is starting to bounce up from the washout. Let's see if the lows are near. It's still too soon to tell.

U.S. & GLOBAL STOCK MARKETS

The stock market has turned bearish. It's set to fall further and it's best to stay safe on the sidelines. That's why we recommended selling your stocks (except gold and bond related stocks) in our Aug 20 weekly update. For now, stocks are rebounding and they could back and fill for a while longer. If you haven't sold your stocks, or lightened up, this rebound is providing a good opportunity to sell.

For now, the bear market will remain in force with the Dow Industrials, Dow Transportations, Russell 2000 and S&P 500 staying below 17450, 8560, 1195 and 2036, respectively. This will be reinforced if Nasdaq declines and stays below 4760.

CURRENCIES

The U.S. dollar continues to form a top and the major currencies are bottoming. But the U.S. dollar index could stay firm for a while longer. Once the index declines below 93, however, it'll be a strong sign of a start to a steep decline.

Until that happens and having sold our stocks, keep 25% of your cash in U.S. dollars. Also keep 20% divided between the euro, British pound and Canadian dollar and/or their ETFs, which are FXE, FXB and FXC. This gives us a total of 45% of our portfolio in cash for the time being. Buy new positions in the euro and British pound.

OUR OPEN POSITIONS in order of strength per section

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Central Fund of Canada	CEF	Jan-15	13.36	10.74	-19.61	Hold
Gold Shares SPDR	GLD	Jan-15	125.23	106.38	-15.05	Hold
Gold (physical)		Oct-01	277.25	1109.30	300.11	Hold
Silver (physical)		Aug-03	4.93	14.65	197.06	Hold
iShares Silver Trust	SLV	Jan-15	17.61	13.99	-20.56	Hold
Gold Miners ETF	GDX	Jan-15	21.74	13.12	-39.65	Hold
Silver Wheaton	SLW	Jan-15	23.05	11.41	-50.50	Hold
Royal Gold	RGLD	Mar-14	66.04	44.28	-32.95	Hold

BOND ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Ultra 20+ Treasury	UBT	Feb-14	58.00	73.96	27.52	Buy/Hold
10-20 Treasury Bond	TLH	Feb-14	125.73	134.86	7.26	Buy/Hold
20+ year Try Bond	TLT	Feb-14	107.78	120.63	11.92	Buy/Hold

CURRENCY ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Euro ETF	FXE	May-15	110.15	110.63	0.44	Buy/Hold
British Pound ETF	FXB	Jul-15	153.18	151.38	-1.18	Buy/Hold
Canadian dollar ETF	FXC	May-15	81.78	75.11	-8.16	Hold

INTEREST RATES & BONDS

Bond prices are benefitting as a safe haven. The bull market remains intact and they're set to rise further. Bonds have been skittish lately, waiting to see if the Fed's going to raise interest rates or not. We don't believe they will because it would be too risky, but we'll soon see.

For now, continue to buy and hold long-term U.S. government bonds and/or the bond ETFs. Even though they've been volatile our favorites are still UBT, TLT and TLH.

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

