THE
ADEN FORECAST
MONEY • METALS • MARKETS

OCTOBER, 2009 *in our 28th year*

Q & A
MOST ASKED QUESTIONS

The markets remained remarkably resilient this month with many reaching further highs. But the impressive gains this year are starting to consolidate. A downward correction would be normal at this time in several of the markets, which we'll cover inside this issue. First though, since we've been receiving many questions from you, we'll answer what's on your minds...

Q. Is inflation going to happen in the U.S.? What are the chances of hyperinflation?

A. For many reasons, we believe that inflation is eventually coming. This will primarily be in reaction to the massive amounts of money that have been created due to the unprecedented amount of deficit spending. Excessive money is the direct cause of inflation but it usually takes a couple of years to filter through and become obvious. And considering the amounts involved in the U.S. and the world, hyperinflation is not out of the question.

Q. The Elliot Wave Theory foresees deflation and a coming stock market fall, whereas you feel we've seen the bottom of the recession. What are your differences?

A. All analysts have their way of looking at the markets. Our research is based on global fundamentals and our own technical indicators. The folks at Elliot Wave, who we have the greatest respect for, do their own research, but our conclusions differ. That's not unusual and it's why we always stress to keep an open mind. Deflation is not out of the question either, although it looks more unlikely than it did a few months ago. But things could change and if they do, we'll change with them.

Q. When you say a certain market is strong above X, does that mean if it stays above X, then the market will skyrocket after that?

A. Not necessarily. It simply means that the bull market rise or the major uptrend is strong, signaling it's going higher. It may skyrocket or it could just rise steadily but a strong trend is in your favor.

Q. When you recommend a new stock and an investor is already fully invested, do you advise selling a weaker stock listed further down on your list and buying the new stock?

A. No, it doesn't mean to sell another stock unless we specifically say to sell. Buy the new stock if you're buying new positions, as well as the best performers in each sector, which are always listed at the top of each sector category on page 12.

Q. I like your risk/reward and allocation strategies. But most investors have a mortgage. How does this fit in with your overall allocation?

A. Our allocation is based on your investment funds. It does not factor in real estate, mortgages or other debt since these are personal considerations each investor must make, depending on their overall circumstances. Basically, we feel it's good to pay debt down if you have it, but we like real estate in certain areas, especially considering current low prices. As for investment funds, we continue to feel that the majority of your portfolio should be in metals and cash.

Q. Is your asset allocation good for a retiree who needs income and protection of capital?

A. For protection of capital we feel it is, but you may want to invest less in stocks and gold shares, which are more risky than metals and cash. Income is tough because interest rates are so low and you have to be very careful. If X investment is paying a higher interest rate, it's almost always higher risk. Your best bet would probably be 10 year Treasury notes, at least for the time being. We'll alert subscribers when Treasuries become dangerous but, unfortunately, there's not many options out there.

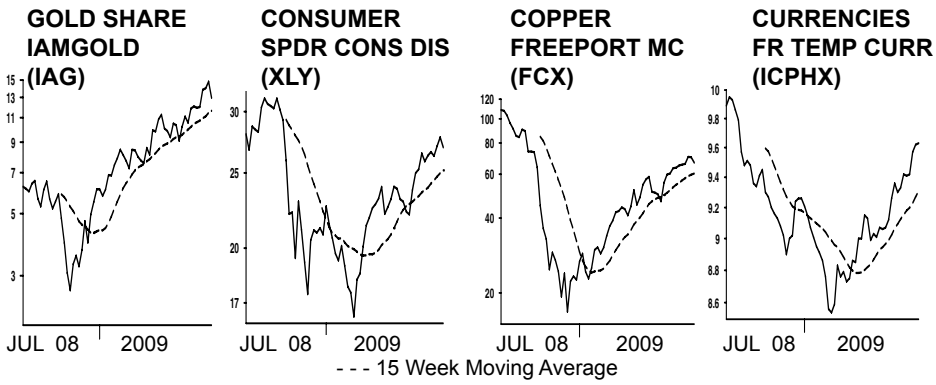
Q. Do you recommend trailing stops on everything except precious metals and their shares? Is it always 25% or are there times to lock in profits with tighter stops?

INSIDE

A. When a major trend is up, we like keeping a 25% trailing stop on all investments, including gold shares. The only exceptions would be gold and silver. But there are times, like now for stocks and currencies, when a downward correction is getting started and if you have good profits, you may want to take some or put tighter stops on your positions using the 15 week moving average (see **Chart 1** as an example). Our main point about major trends and downward corrections is this… if you sell and the downward correction doesn't amount to much, and then the market starts up again, you could be left behind and miss the big move, which is always far more profitable. On the other hand, there's nothing wrong with taking profits, especially if a correction is steep. A good compromise is taking some profits in the most overbought sectors and keeping a long-term position open until the major trends are mature.

CHART 1

A SAMPLE OF OUR POSITIONS



Q. Can you suggest a place in Costa Rica for a permanent home… near San Jose or a nice beach?

A. We get this question a lot. We live in the hills, outside of San Jose. Most of the natural beauty is outside of the city, at the beaches, mountains and forests. We have a home at our favorite beach, Manuel Antonio. But there is so much to choose from, it all depends on what you like. Pam's son, Omar Ayales, can help you. He's a very knowledgeable attorney and as honest as they come (oayales@solers.cr)

Q. How do you recommend that I buy physical gold or silver?

A. Buying from a reputable coin company is most important. We recommend Dana Samuelson at www.amergold.com because we've known him for about 25 years and he's honest, efficient and provides good service. For any metals related stock investments, we recommend our old friend Rick Rule at 1-800-477-7853. He's the best and the same great characteristics apply to him too.

Q. I'm concerned about gold and silver ETFs. Should I buy physical gold and silver instead?

A. If you are truly concerned, then buy only physical gold and silver, or at least keep a larger position in the physical metals.

Q. Do you think this is a good time to buy gold, silver and their shares? What if stocks correct in a steep decline and/or the U.S. dollar rises? Won't gold go down too?

A. Yes, it's a good time to buy, especially if you're looking out to the long term and considering gold's current C rise has further to go. But gold could stall if the dollar rises and stocks decline. If so, you could buy more at better prices. But again, the major trend is most important and we'd just go ahead and buy.

Q. China is switching to short-term Treasuries. This will keep short-term interest rates low, and the yields on the 10 and 30 year will start going up soon. Correct?

A. Yes. Currently, long-term interest rates remain under downward pressure, but that's unlikely to last too much longer. Once the first signs of inflation emerge, or even a surprise pick up in the economy, long-term rates will begin to rise in what could become a huge rise if inflation gains momentum as we suspect. This brings us to the next question, which many of you have asked…

Q. The 30 year Treasury is near 4%. When will it be time to short the long bond or buy an inverse Treasury ETF? What will the trigger be?

A. Here's what we're watching… a rise above 3.35% on the 10 year yield would be the first sign, ideally followed by a rise above 4.30% on the 30 year. We'd also want to see our leading indicators confirm a major trend change.

The final signal that a mega upmove in interest rates is unfolding, which would totally confirm the big inflation scenario, would be a sustained rise above 4.65% on the 30 year yield. Currently, we're checking the best ways to take advantage of this should it play out. It's not time to buy yet, but the probable candidates when the time comes, are ones like the Rising Rates fund (RRPIX) and ProShares Trust (TBT).

Q. Once rates rise, it'll be time to sell bonds. Would this trend apply to tax-free municipal bonds and should they be sold as well?

A. Yes. These markets generally move together and if a mega interest rate rise and bond price decline is coming in the next year or so, municipal bonds will also be affected.

Q. What's the best way to go about currency investing?

A. We recommend opening an account with Everbank (www.everbank.com). We have worked with these very good people for many years. They're reputable, the bank is sound and accounts are backed by FDIC insurance. You can have an account in any currency you wish. They also have BRIC CDs, gold accounts and other instruments we like. Contact Chris Gaffney at 1-800-926-4922.

And now, let's move on to the markets…

U.S. & WORLD STOCK MARKETS

A great rise this year

The stock market keeps on keeping on. It got through the dreaded month of September without any trouble and it's still strong, again hitting a one year bull market high this month.

A GLOBAL AFFAIR

This bull market is clearly a global one. Many of the international stock markets have been much stronger than the U.S. market, especially those in Asia and Latin America (see **Chart 2**). The BRIC countries (Brazil, Russia, India and China) have been among the strongest too.

We have been recommending several stocks in order to take advantage of this superior global strength, but we've also avoided some of them.

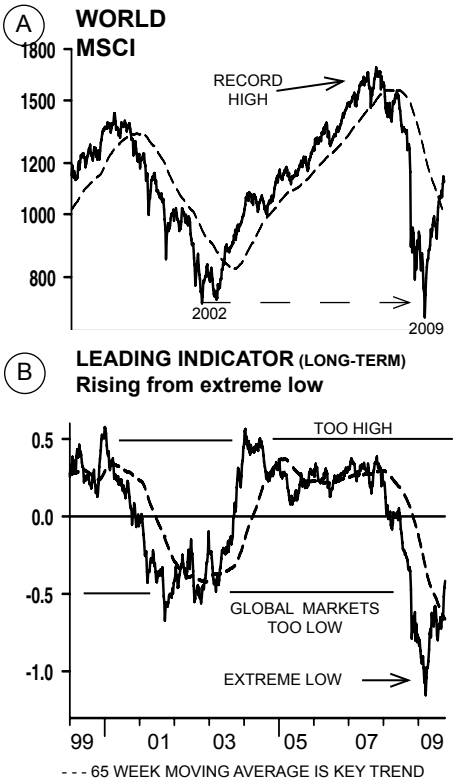
This would primarily be due to political considerations, higher risk and so on. That would be the case, for instance, with markets like Sri Lanka or Pakistan, which are currently among the top 10 in gains for this year.

But that's okay. There's plenty of other candidates to go around, and we'll continue to work on keeping the profits and odds in our favor. For now, all signs show there's more to come.

Looking at the World stock index on **Chart 3A**, you can see it's risen sharply this year. It's currently bullish above its moving average, signaling the major trend is up and stocks are headed higher. That's also the case for all of the individual world stock markets.

CHART 3

GLOBAL MARKETS: Bullish



BEST IS STILL TO COME

Most impressive is the fact that the World's leading (long-term) indicator is only now starting to rise from an extremely, bombed out low level (see **Chart 3B**). These levels have always preceded significant stock market rises. This means that the global bull market rises are still in their early stages. They have much further to go on the upside before these markets are too high, despite the double digit gains they've already chalked up this year.

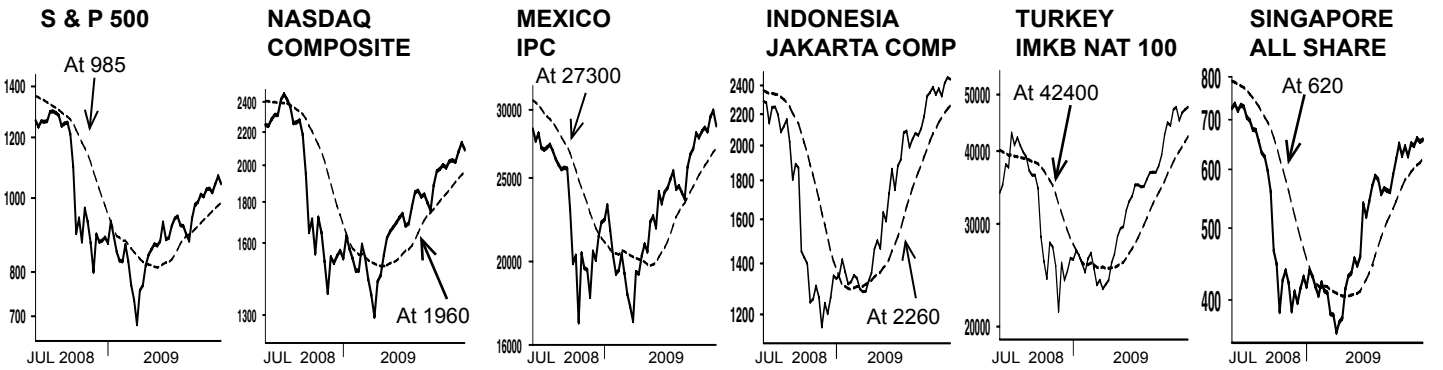
But that doesn't mean that stocks will go straight up from here. There will be ups and downs along the way, like always, in any market. That's simply the way markets work. And as we've been pointing out, following any steep rise, it's totally normal for a market to correct downward, take a breather, digest the gains and give some back before moving higher.

Ideally, these corrections will provide a good opportunity to buy into a market at a better price, assuming the major trend stays up. But it doesn't always work that way because intermediate timing can sometimes be tricky.

The major trend is by far the most important. That's where your main focus should be. The best profits are consistently made by buying and holding on for as long as a major uptrend lasts. It also provides more peace of mind. As simple as this sounds, it's hard for many investors to do this, especially when a market corrects downward, which

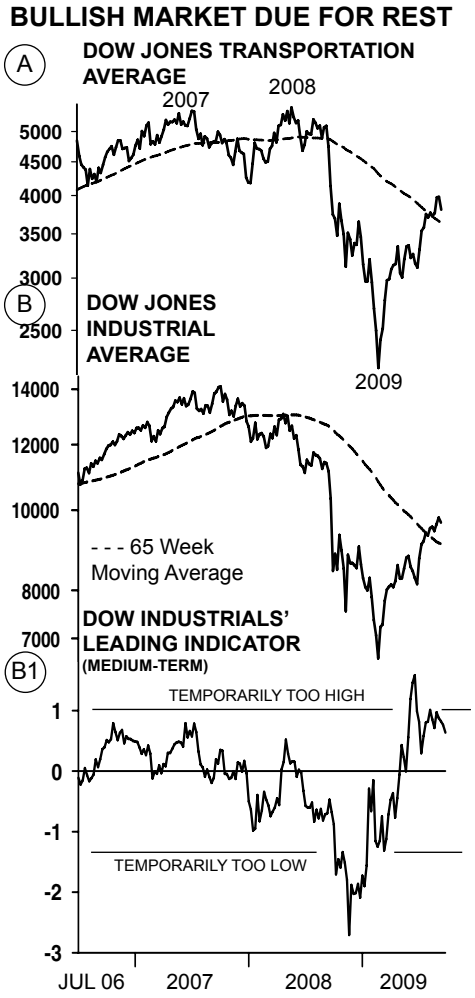
CHART 2

A STRONG RISE THIS YEAR



- - - 15 Week Moving Average, key medium-term trend

CHART 4



brings us to the current situation.

TIME FOR A BREATHER

Stocks are looking good, but the market is still temporarily too high. That goes for the U.S. and the global stock markets.

So don't be surprised if we see some ongoing, further downward pressure for stocks in general, or at least some sort of pause, in the weeks ahead before the market rises further (see the medium-term leading indicator for the Dow Industrials on **Chart 4B1** as an example). Once it comes down some, the stock market will then be in gear to resume its major trend upmove.

The stock market loves the liquidity the Fed is providing. Whether you agree with what's happening or not, Wall Street views the Fed's actions as positive. It's not looking at the super long-term consequences.

Instead, it's focusing on the likelihood that business will improve as a result of the Fed's efforts and the worst for the economy is over. It sees the global economy recovering and it likes what it sees. That's why stocks have been rising and why they'll likely continue to rise. Our leading indicators also keep reinforcing this.

Note that the Dow Industrials and the Dow Transportations both hit new bull market highs this month (see **Charts 4A** and **B**). This signals that these markets are poised to rise further.

Plus, they've both risen and stayed above their longer-term moving averages, which is a strong technical sign that the major trend has indeed turned up and stocks will, therefore, probably rise for at least another year or more.

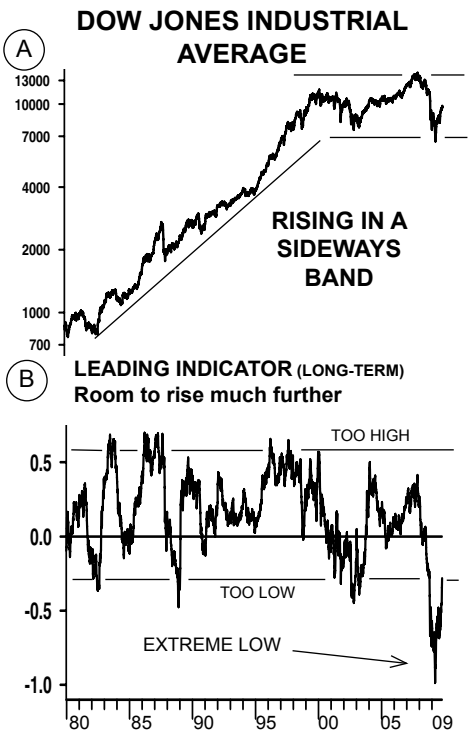
Like the World index, the Dow's leading (long-term) indicator is confirming this as well. As you can see, it too is just starting to rise from an extremely low level (see **Chart 5B**).

It has plenty of room to rise further before the Dow is too high, suggesting the Dow Industrials shouldn't have much trouble rising up to its old high area near 12000-14000, which is the top side of the sideways band (see **5A**). Of course, if it were to exceed the old high at 14160 it would be extremely bullish.

FOCUS ON MAJOR TREND

Whether the stock market corrects by much or not is secondary at this point. If the major trend stays up, you'll want to keep some of your funds invested in the strongest stock sectors. This is most important as it'll maximize your gains. Even though the market is rising, some sectors will strongly outperform others and that's where you want to be.

CHART 5



Currently, that would include the stronger global stock markets. We're also generally seeing superior strength in technology, and interestingly in some sectors you wouldn't expect. Discretionary consumer spending, retail, leisure and entertainment are a few examples, along with housing.

Gold shares, however, have been superior but they're in another category, taking their cue from gold and getting an extra boost from the general stock market.

So the bottom line is, keep the common stocks you have. For new positions, go with the strongest sectors and ideally buy these positions during upcoming weakness.

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U.S. INTEREST RATES AND BONDS

Low rates: Good for markets & economy

Interest rates declined this month. This is good news. Why?

LOW RATES HELPING

There are several reasons why… First, as long as interest rates stay low it'll help boost the stock market. That's because the stock market thrives on low interest rates since it's good for business.

Good business in turn will help the economy grow, bringing back jobs, spending and so on. It'll also help the real estate market by making loans more affordable, therefore increasing demand. The causes and effects keep going from there, reverberating through the economy.

INTEREST RATES: THE FUEL

As we've often said, interest rates are probably the most important markets that exist. Most people don't realize this. They think interest rates are boring, and of course they can be. But when you consider that interest rates are the fuel that makes everything run (or not run), then you gain a new respect for the vital role they play.

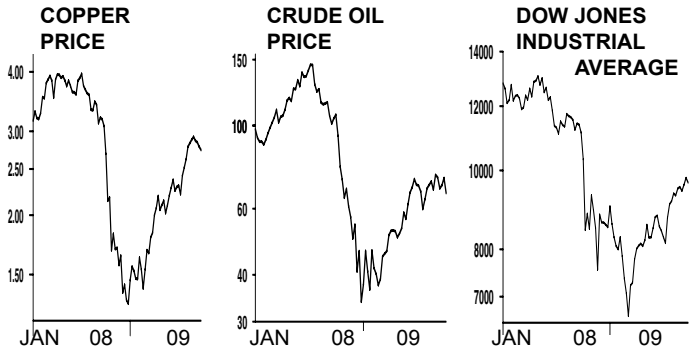
Interest rates also tell you what's coming. They look ahead. That is, the market is very perceptive. It'll pick up on subtle signs long before other markets do.

One good reason for this is because bond investors are known to be more sophisticated than say stock investors, or investors in most other markets. They're sensitive to what's happening and they're informed. That's why the bond market often leads other markets, as well as the economy.

Plus, the bond market is huge and much larger than other markets. It cannot be controlled, although some might argue that point due to the Fed's recent intervention. Unlike short-term interest rates, which the Fed essentially influences, long-term interest rates are different. Technically, it's a free market and that makes it more reliable.

CHART 6

RISE WITH BETTER ECONOMY



ECONOMY STABILIZING

So what are interest rates currently telling us? For starters, we know that interest rates are extremely low and the Fed is planning to keep them low until the economy is on more solid footing. In fact, Bernanke recently said that stimulus will remain in force until March. That would obviously mean low interest rates too, and so far, so good.

The economic numbers generally continue showing improvement. Consumer sentiment hit the highest level in almost two years, for example, and leading economic indicators has risen for five consecutive months. Retail sales are up and industrial production surged at a nearly 10% annualized rate. Mortgage rates are below 5%, enticing buyers. Most important, global confidence is at a record high.

Also important, the markets are reinforcing the economic numbers. They're telling us that the economy is getting back on track (see **Chart 6**).

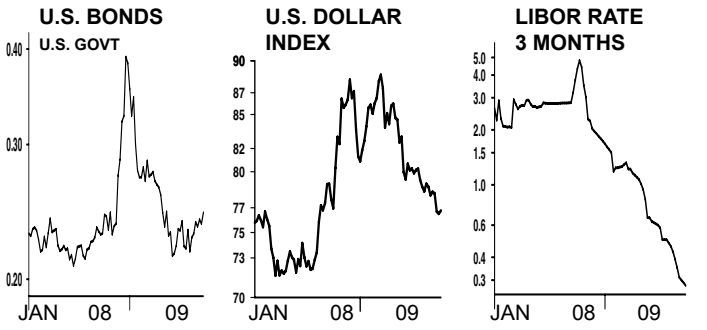
Note that copper has soared 150% this year and it's always been a reliable barometer for the world economy. This rise signals stronger demand, which would not be happening if the economy was on the verge of worsening. The same goes for the oil price. It's up 118% this year. That's also why the stock market has been rising with the Dow gaining 50% since March.

At the same time, U.S. bonds and the U.S. dollar have been declining this year (see **Chart 7**). They're no longer in demand, like they were during the heat of the crisis.

Most important is the Libor interest rate. This is the global free market U.S. dollar rate and it has plunged from more than 5% last Fall to almost zero. In fact, it's now lower than the Japanese yen Libor rate for the first time in over 50 years. Since the Libor rate tends to be a barometer for the health of the banking sector, it's signaling that all is well on that front too.

CHART 7

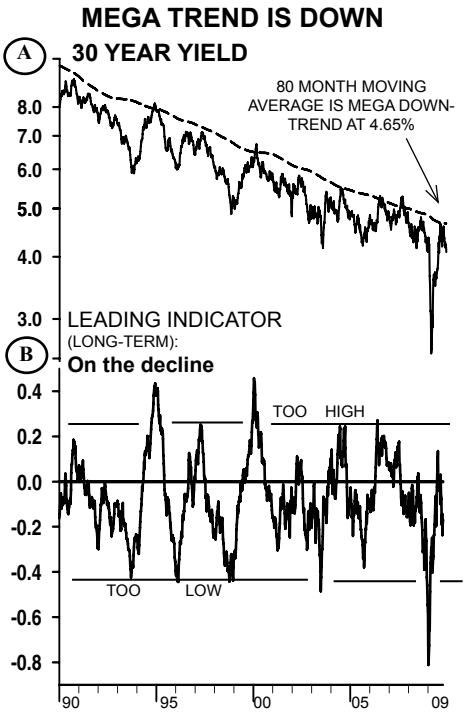
DECLINE WITH BETTER ECONOMY



SKEPTICS REMAIN CAUTIOUS

Some find that hard to believe. They're convinced we're headed for a double dip "W" type bottom, and that may be. Obviously, serious fiscal problems remain. There's way too much debt, deflationary pressures persist, there are too many

CHART 8



bonds, foreigners are getting turned off, unemployment remains high, and so do problem loans.

Nevertheless, the markets are singing a different tune. And we learned long ago not to argue with the markets. Instead, let the markets tell you, and until they say something different we'll go with what they're telling us.

KEEP AN EYE ON BONDS...

For now, keep watching the bond market. So far, it's not worried. With all the spending that's going on, inflation has become a greater concern, looking out to next year and beyond. But bonds are indicating that it's not a problem yet, despite this month's jump in both producer and consumer prices.

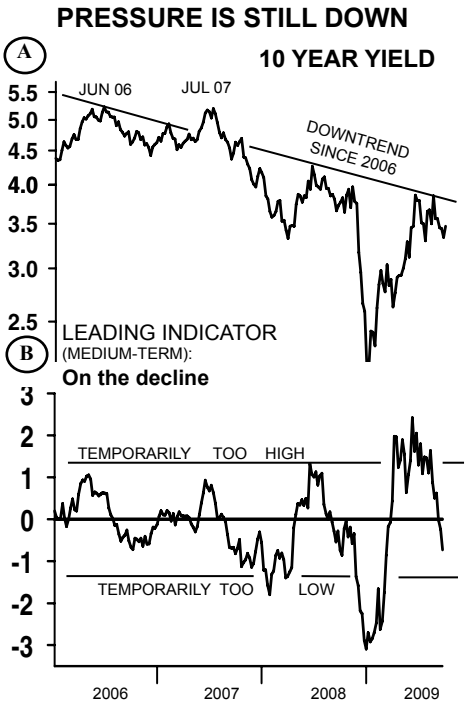
We'll know it is a problem when the 30 year yield starts rising strongly, along with other long-term interest rates (see **Chart 8A**). And if this yield rises above its mega trend at 4.65%, it'll be a huge deal, marking a change that only happens every 20 years or so. At that point, the bond market will be screaming that big inflation is coming and interest rates are going to soar. It hasn't happened yet, but it could and we'll be watching.

In recent months, long-term interest rates have again been under downward pressure (see the 10 year yield on **Chart 9A** as an example). And since the leading indicator has not yet reached the low area, rates could still fall further in the weeks ahead (see **Chart 9B**).

As we've mentioned before, the 10 year rate sets the standard for mortgage rates. So if you've been thinking about refinancing your mortgage, this is a great time to make your move.

Interest rates will not stay this low for much longer. Sooner or later, they're going to head higher. In the meantime, we'd continue to sit tight. Don't trade, one way or the other, at least for the time being.

CHART 9



CURRENCIES

U.S. dollar: Four decades of pressure

The U.S. dollar fell again this month, to another new one year bear market low. This is really nothing new. It's been happening for a very long time.

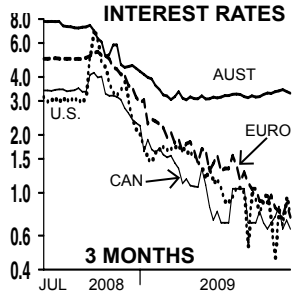
JUST ANOTHER PAPER CURRENCY

The dollar has actually been falling for nearly 40 years, ever since 1971. That's when President Nixon eliminated the dollar's last link to gold, removing the last bit of fiscal discipline that existed prior to that time. From that point on, the U.S. dollar became just another paper currency. The government could then spend what it wanted, and more dollars were simply created to pay for it.

As more dollars were created, it made the dollar worth less. And as you'd expect, the U.S. dollar has lost nearly 80% of its value against the major currencies since 1971 (see **Chart 11**).

This process will not only continue, but it's now intensifying on a much greater scale. That's because of the massive amount of deficit spending that's taking place.

CHART 10

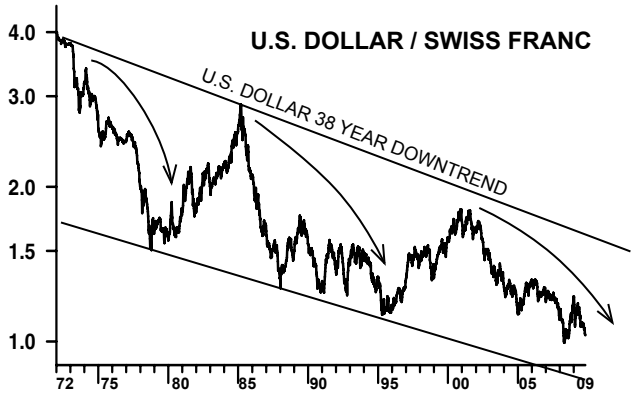


The whole world is extremely concerned about this. In many cases, several countries are already taking action and global dollar reserves recently hit a 10 year low. Momentum is clearly growing against the dollar's role as the world's reserve currency.

At the recent G20 meeting, China was the first country to call for a new currency to replace the dollar. Other nations agreed, including Brazil

CHART 11

U.S. DOLLAR: LONG ROAD DOWN



and Russia. This has been going on for quite a while but the voices are now growing louder and much more frequent.

A PRIVILEDGE

Reserve status is a privilege. Over the centuries, several countries have held this position and they were normally the most powerful and sound nations, both economically and fiscally.

That used to be the case for the U.S., but it's not anymore. The U.S. is currently the world's largest debtor nation and debtor nations are simply not entitled to this status. So the big question is, will the end come sooner or later?

Our guess is that once the dollar breaks down to new record lows, the decline will intensify and so will the calls for an alternative global reserve currency. But there isn't a replacement waiting in the wings. The alternative, therefore, could end up becoming a basket of currencies.

This would be very bad news for the U.S. because it could no longer print the currency that their debt is denominated in. The U.S. standard of living would decline and there would be dozens of other repercussions involving trade, social issues and so on.

YUAN: Trying harder

Many believe that China is gearing up to eventually take over this reserve status role. After all, their economy is among the world's strongest and they have tons of money. China is the world's largest creditor and it's also become the world's largest gold producer. As we've mentioned before, China has been boosting its gold holdings by large amounts. It plans to increase these gold reserves even more and it's been encouraging its citizens to buy gold too. What would happen if China were to partly back its currency with gold?

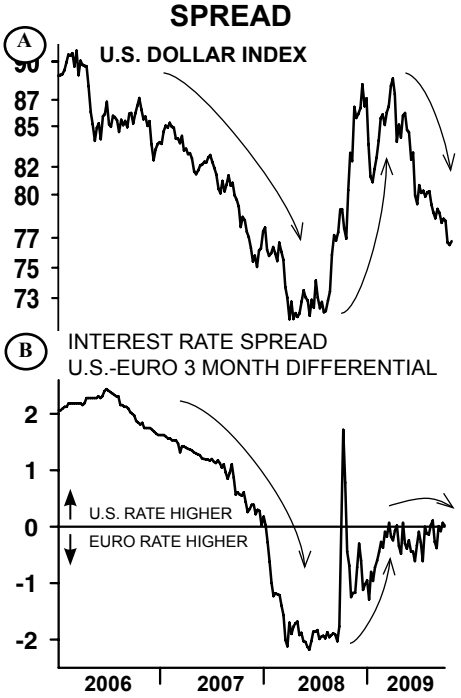
Bingo! Everyone would want the yuan because it would instantly be considered safer and stronger. Money would move out of the dollars, into yuan and it would gain reserve status around the world.

Whatever the final outcome, none of this will likely happen in the near future. It's a slow process but over the long run the U.S. world learn to cope, like Britain did nearly 100 years ago. It's doing just fine and the same goes for Spain, France and other countries who had this privilege in the past and lost it.

So contrary to what many say, the end of reserve status doesn't have to be a death sentence. Things will change, there will be painful adjustments. Power will shift… in this case probably from West to East… but it's all happened before, and it will again.

CHART 12

DOLLAR & INTEREST RATE SPREAD

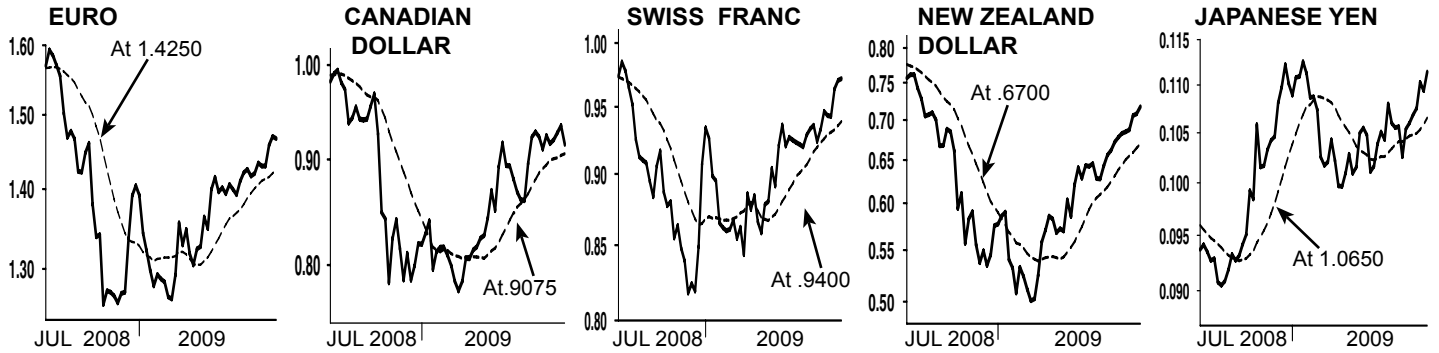


LOW RATES HURT DOLLAR

Okay, that's looking at the really big picture, but what about now? For starters, Bernanke says he's going to keep interest rates low for a long time. That means U.S. rates will likely stay lower than interest rates in other countries (see **Chart 10**). This will keep the dollar unattractive and it'll keep downward pressure on the dollar.

CHART 13

CURRENCIES: SOLID RISE THIS YEAR



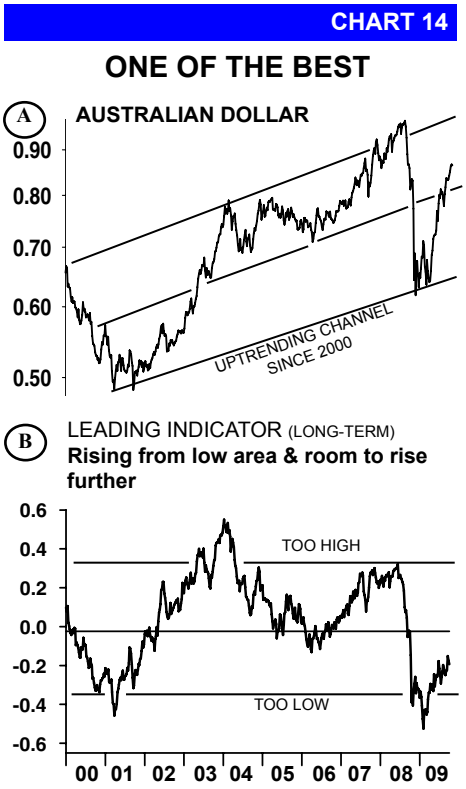
- - - Bullish above 15 Week Moving Average, key medium-term trend

As you can see on **Chart 12B**, when the U.S. interest rate is declining, or it's less than the euro rate, the dollar falls. In other words, it's not going to take much to push the dollar down below the 2008 lows, which would be a new record low (**Chart 12A**). This could happen in the new year.

CURRENCIES: Strong

When it does, the other world currencies will soar, especially the ones that have been among the strongest (see **Chart 13**). They'll be driven higher by improving economies, the deteriorating U.S. fiscal outlook, higher more attractive interest rates, greater demand out of Asia for oil and other commodities, preservation of purchasing power and the carry trade.

The carry trade is when investors borrow the declining dollar at super low interest rates, for instance, and then turn around and buy stronger currencies that're paying a higher interest rate. Later they repay their dollar loan and keep the profits, which have recently been the best in about 10 years. And as the dollar continues to weaken, these carry trades will keep upward pressure on the currencies.



Our technical indicators are reinforcing this as well (see **Chart 14**). Here you'll see that the Australian dollar's leading indicator (below) still has plenty of room to rise further before it's too high. Despite the most monthly gains in 26 years, this suggests that the Australian dollar is going even higher. The same is true of the other currencies.

So short-term ups and downs aside, or normal downward corrections as we're now seeing, stay with your positions. Keep the currencies you have and continue to buy new positions in the strongest ones during weakness. The major trends are up and they're looking good for the long haul.

METALS, NATURAL RESOURCES & ENERGY

A red hot market cooling down

The gold price finally did it. It shot above $1000 on September 11, closing at a further record high the following week. Silver and gold shares followed, rising nearly three times more than gold since the July low.

Even though they have since come down some, the fact that gold reached a record closing high is enough to say that the rise since April (we call a C rise) is a strong bull market rise and it's the eighth one since 2001. This means gold's bull market is alive and well.

STRONGER BULL PHASE BEGINNING

Even more impressive, the bull market is entering a stronger phase. **Chart 15** shows you what we mean. First, notice how the gold price tends to reach an important low every eight years. The last eight year low occurred in 2001 when gold was beaten down following a 20 year bear market.

But then a new bull market started right at the eight year mark. The market was so out of favor, it took years for investors to notice it was rising. Gold went on to reach a record high in March 2008, which was the first wake up call. Gold then fell only to rise to another record high last month.

Gold has risen 300% since its 2001 low, yet even today it's not commonly known that gold has produced consistent gains for eight years, and 2009 will be the ninth year of consecutive gains. On a big picture basis, this is powerful.

By reaching a record high in September, gold confirmed that the low last November was indeed another eight year low (3 months shy). Plus, the fact that gold reached this low in between two record highs is very bullish. It feels like a new, even more stronger phase is getting started. The giant is waking up and the market is starting to bubble.

GOLD IS TRULY PRECIOUS

Gold is special and it has been throughout recorded history. With the ongoing uncertainty in the world as a result of unprecedented monetary actions, it's more important than ever to truly understand gold's historical importance and preeminence over all other forms of wealth.

Gold has played a key role for nearly as long as civilizations have existed… from the Egyptians, to the Greeks, to the Romans, to the Incas, and in more recent centuries, the California gold rush, which fueled rapid growth in the American West. Why?

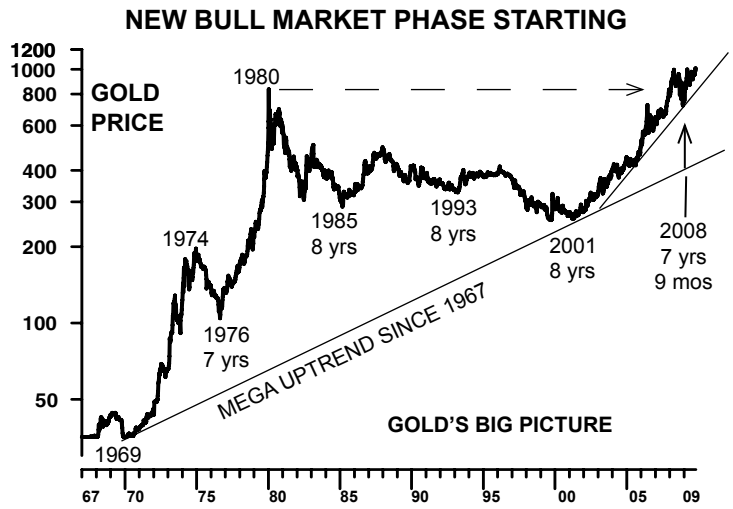
Gold has always been the international currency and store of value accepted and known throughout the world, and it still is. It has stood the test of time.

The Founding Fathers of the U.S.

knew this. In the Constitution they defined real money as gold and silver and they warned against paper money.

Two examples of gold's role in uncertain times during the past century were the Great Depression and the huge inflation of the 1970s. In both cases the outcome was similar… gold instruments rose strongly in 1930-35, and gold soared 2300% in the 10 years from $35 in 1969 to $850 in 1980. **It rose during uncertain times.**

CHART 15



Today's financial crisis is the worst yet as the entire financial system was on the brink of disaster just a year ago. The result is a monster debt, and it's still to be seen how it will be paid off.

Unfortunately, debt has been an ongoing problem since the Federal Reserve was created in 1913. This gave the new central bank the power to essentially create U.S. dollars, which has caused the dollar to lose 95% of its purchasing power.

The situation intensified in 1971 when President Nixon closed the gold window. Debt soared and so did prices. Today the U.S. dollar is backed by the world's largest debt. Not a good picture.

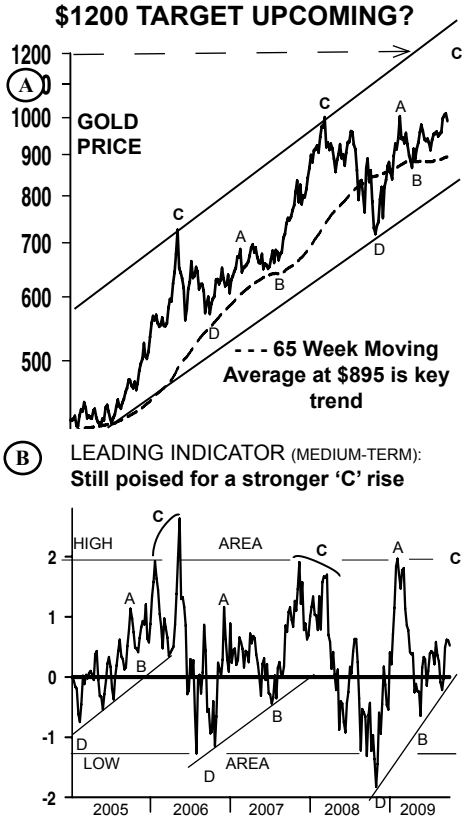
We know it's tiring to continue hearing about the ongoing record deficit spending, the soaring money supply and the out of sight debt. But we can't stress enough the importance of protecting yourself and your assets from the repercussions to come.

GOLD: Measuring target potential

The only bull market we can really compare to today's eight year rise is the 10 year rise in the 1970s. The first part of the bull market, from 1969 to 1974, had a better gain than today's 2001-2009 rise. Gold rose 470% then compared to the 300% now. But interestingly, the two declines were similar in proportion to the rises. Gold fell 50% from its 1974 peak to its 1976 low, while last year gold lost 30%.

The focus now is on the next phase of the current rise. If we continue to use proportions, the bull market's second rise from 1976 to1980 gained 750%. Using the same growth and applying it to the current bull market, we could see gold eventually reach $4100 during the next run-up. And if you take the entire bull market gain in the 1970s at 2300% and extrapolate, then $5800 would be the equivalent upside target.

CHART 16



Considering gold's relatively quick rebound back to the highs, you could argue that this time around it's much stronger. And with today's bull market being far more global in scope compared to the 1970s, we could eventually see these much higher gold price targets realized.

This is especially so factoring in that gold's peak in 1980 at $850 is the equivalent of about $2400 in current dollars. Gold has not even approached that level yet and the situation is far more serious now than it was then.

Whatever the outcome, it's not going to happen from one day to the next, but today's underlying foundation is going to keep gold strong within its bull market.

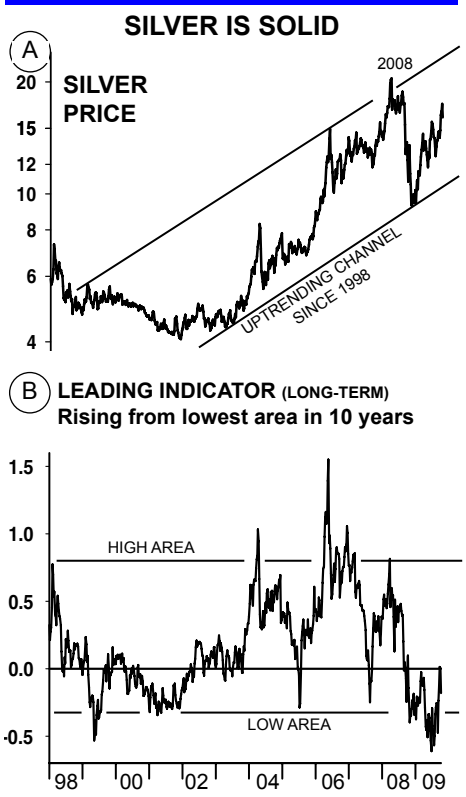
WHAT'S NEXT?

For now, we have a gold price wanting to break clearly above $1000, but it's been resisting somewhat. In other words, the best intermediate gold rise in a bull market is underway yet gold is resisting.

We all know that a rising gold price, and especially a record high price, symbolizes the world's doubts about the worth of fiat money. But if the U.S. dollar takes a breather, we could see some downward pressure on gold. If so, we believe it would be temporary.

We'll let the market do the talking. And **Chart 16A** shows gold's impressive moves since 2005 when it first broke above $500. This was a major feat at the time and gold entered a stronger phase of the bull market. The two C rises since then have been strong crisp rises. In both cases, gold gained over 55%, which is about twice as much as the C

CHART 17



rises during 2001 to 2004.

The current C rise has risen 17½% from its April low to the September peak. This rise is, so far, similar to the rises in 2001-2004. But if gold ends up rising more in line with the last two C rises (as the leading indicator below suggests), we will clearly see our next $1200 target reached and likely surpassed. Note the indicator is still holding above the zero line with room to rise further before it reaches the high area, which would complete the C rise.

Keep an eye on $990 as gold is very strong above this level, meaning that the $1020 record high could be surpassed at any time. If, however, $990 is broken on the downside, we could see gold temporarily head lower.

On the downside, once gold's C rise is over, a D decline will follow. This is the worst intermediate decline, but keep in mind, even if gold falls as much as the worst percentage decline yet, it would still stay clearly above last November's low. And gold's major bull market rise will remain in force above $895, regardless of near-term ups and downs.

Gold is in the process of reacting to the financial crisis. It's interesting that a new phase of the bull market is starting the very year following the worst financial meltdown in history. We don't think it's a coincidence.

DEMAND: Continues to grow

Investors are slowly but steadily moving some investments to gold. The exchange traded funds have made it easy to buy a gold position and new ETFs continue coming onto the market.

The newest Gold ETF stores its gold in Switzerland, unlike GLD which uses London. The symbol is SGOL and like GLD and IAU, it trades in 1/10 ounce units. It's also a way to be diversified in other countries. But keep in mind, when you buy ETFs, it's a paper trade because you can't trade it in for physical gold. This is why we recommend buying gold coins as well.

Central banks buying

Central banks are reversing course by buying gold too. China continues to look for ways to acquire gold and commodities. The IMF recently approved a sale of 403.3 metric tonnes of gold, which is one eighth of their stockpile, to pay for long-term finances. And China appears to be the first in line to buy the gold.

It's become common knowledge that China's nearly $300 billion Sovereign Wealth Fund is stepping up investments in commodities. According to a former CEO of BHP Billiton, China is getting sophisticated in commodity investments since it has a vested interest, being the world's largest metal's consumer. Plus, its citizens are buying gold.

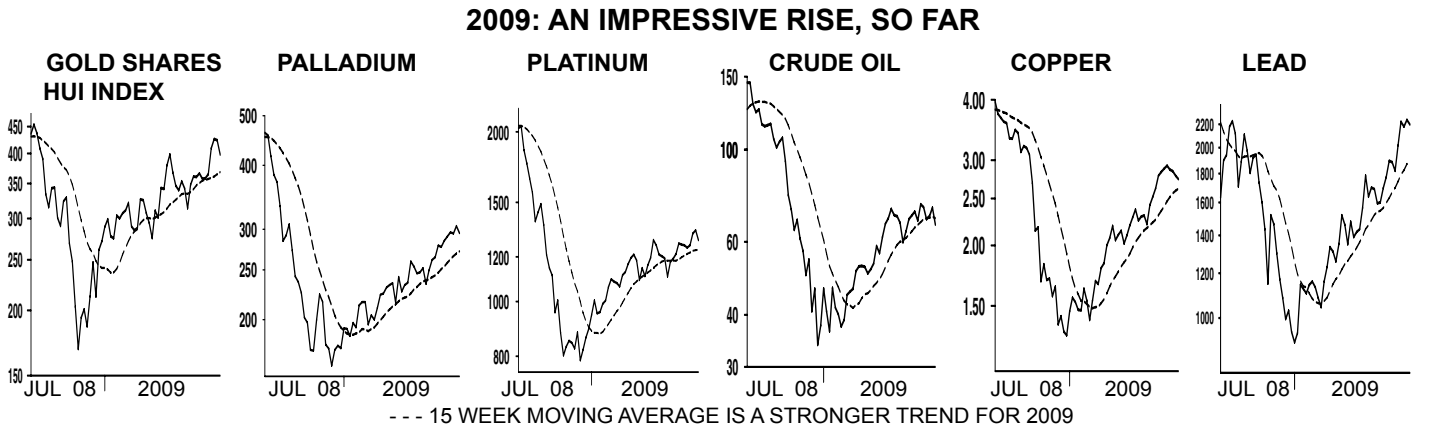
Indians are the largest holders of gold. They own more gold than the citizens of any other country. It's a long standing custom, and now gold loans are growing in popularity. They are using their gold, as you would use a house, as collateral for a loan. Gold is becoming a rural credit card for some banks and finance companies.

SILVER: Better than gold

Silver is more volatile than gold. It fell more than gold last year, and it's risen more than gold this year. This makes sense because silver is both a precious and a base metal.

To foresee silver's potential compared to gold, look to copper as a guide. Copper is a good barometer

CHART 18



because it rises during times of global economic growth. That is, when you see both gold and copper rising together, then silver will most likely be stronger than gold.

When global economic growth is strong, like it was in 2003 to 2007, silver shot up much more than gold (see **Chart 17A**). This year silver has gained almost 100% from the Nov 2008 lows to last month's highs, compared to gold's 45% gain. During the C rise since April, the rise has been even more dramatic. Silver's up 48% compared to gold's 17½% gain.

If global growth remains on a positive track, we will continue to see silver outperform gold.

Note that silver's been in a strong rise within a solid upchannel since 1998. But silver's leading indicator (**17B**) shows that a renewed rise is just getting started as it's moving up from a low area, which coincides with rises in the silver price. But silver is poised for a great upmove and it's very strong above $16. Its next target is the $19-$20.80 level, the 2008 highs.

GOLD SHARES: Similar to silver

Gold shares have been outperforming gold because they've been getting an extra boost from the rising stock market. The HUI gold share index has gained 175% since its lows last November! An impressive rise (see **Chart 18**).

Gold shares are also poised to head higher in the years ahead but a breather decline from that stellar rise would be normal. The HUI index will remain very strong by staying above 365.

RESOURCE & ENERGY: Firm

This sector remains strong, even though some of the shares, crude and copper have settled down some. The recovery is having its ups and downs and, therefore, we'll continue to see these markets react to the world economy.

The big picture in this whole tangible sector, however, has great potential in the years ahead. We believe countries will need to protect their natural resources and their imports more as time goes on and as demand grows.

Chart 18 shows this year's strength in oil, copper, lead, platinum and palladium. They all remain strong above or near their 15-week moving averages, which has been identifying this year's stronger trend. If these moving averages are clearly broken, it means the major uptrends could be tested.

CRUDE: Big bullish picture

Next let's look at crude oil's big picture since 1946 on **Chart 19**. It's been rising in a mega uptrend since then. And although oil came down seemingly hard last year, it essentially remained above its 1990 and 1980 peaks near the $38 to $40 level, which shows great strength.

Most impressive is the leading indicator because it's recently fallen to an extreme low, in spite of the 118% rise this year. This means oil is in a great long-term buying area.

In the meantime, much will depend on the type of recovery we end up having. As we mentioned last month, the commodities, especially oil and base metals, will move depending on the slope of the recovery. A gradual, more moderate U recovery seems more likely and if this ends up being the outcome, we could see some sluggishness before they continue to rise.

Alternative energy like natural gas and uranium are trying to form a bottom. Likewise for the soft commodities (see **Chart 20**). It's still premature to say they've turned the corner, but at some point they will because their big picture outlook is also bullish. Take uranium, for example, demand is rising and it's projected to exceed supply in 2014 as China and Russia add more nuclear power stations.

So overall, stay invested in all of these various metals related sectors and we think you'll be glad you did.

CHART 19

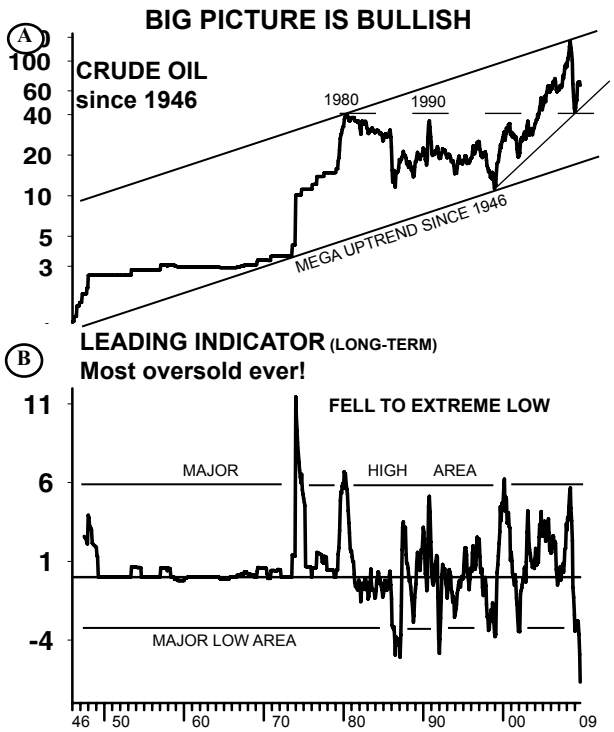
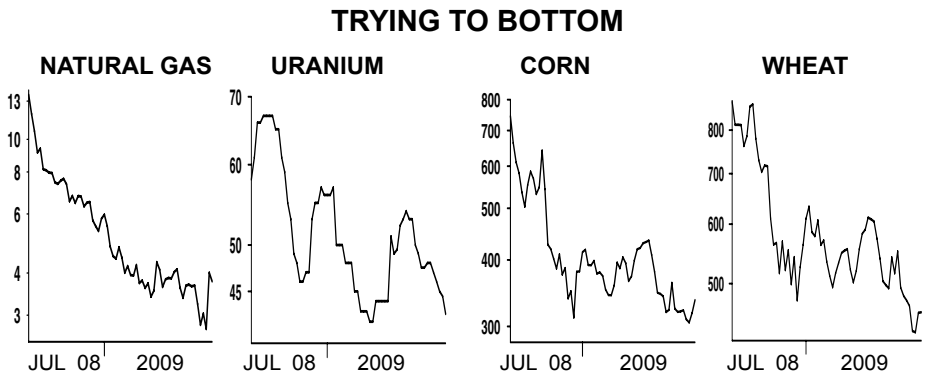
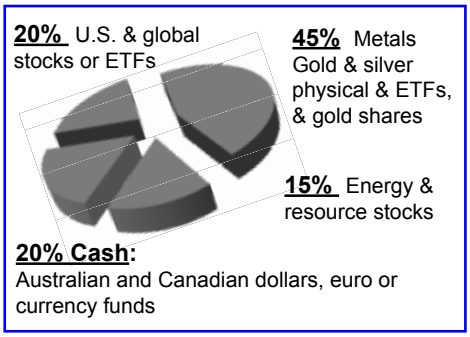


CHART 20



OVERALL PORTFOLIO RECOMMENDATION

The markets are still looking good and they remain strong and bullish. Gold hit a new record bull market high and it's poised to rise further. Stocks and currencies, however, are beginning downward corrections, but this is normal following their strong upmoves in recent months. Keep the positions you have for now, ideally keeping your total portfolio broken down in the markets and percentages shown on the right. Buy new positions in the strongest stocks in each sector, which are always listed at the top of each category, ideally during temporary weakness.



STOCK MARKET RECOMMENDATION

The stock market got through September without any trouble and it's still strong, again hitting a one year bull market high this month. The same is true of the stronger world stock markets. As we've been pointing out, however, they're all temporarily overbought and downward corrections are now getting started. This is not unusual following the significant rises they've had and this will probably continue in the weeks ahead. But following these corrections, the U.S. and global stock markets remain poised to rise much further. Keep the common stocks you have. For new positions, go with the strongest sectors and ideally buy during upcoming weakness.

PRECIOUS METALS, ENERGY, RESOURCE & THEIR SHARES RECOMMENDATION

The gold price broke into record high territory on September 11 as it closed above $1000, then it reached a further record high the following week. Silver and gold shares soared even more. Since April, gold has gained 17½%, whereas silver is up 48% and gold shares have gained a whopping 60%.

Gold has started a stronger phase in the bull market, which means it's poised to continue rising for several years to come. Plus, the current intermediate rise we call a C rise is underway and it's poised to rise further before the rise is over. Keep your gold, silver and their shares position and buy new ones in the strongest shares listed at the top of the list, as well as gold and silver themselves.

The resource and energy sector essentially took a breather from their stellar performance. They too are headed higher in the years ahead and the major trends are up. Keep your positions.

INTEREST RATE & BOND RECOMMENDATION

Interest rates declined again this month. Even though the 30 year yield is currently near 4%, interest rates could still fall further in the weeks ahead. Mortgage rates are down too and if you've been thinking about refinancing your mortgage, this is a great time to do so. Interest rates will not stay this low for much longer. Sooner or later, they're going to head higher while bond prices fall. If you have bonds, keep them for now. Otherwise, sit tight. Don't trade, one way or the other for the time being.

CURRENCIES RECOMMENDATION

The U.S. dollar fell again this month, to another new one year bear market low. Our recommended currencies remain bullish and they hit new bull market highs. But they're now starting to correct downward following their steep rises. This is normal and it'll provide an opportunity to buy new currency positions at a better price. Keep the currencies you have and continue to buy new positions in the strongest currencies during weakness. Our favorites are still the Australian and Canadian dollars, and the euro, as well as the New Zealand dollar. We also manage currency accounts through Everbank. For info, write info@adenforecast.com

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

Iamgold	IAG-NYSE
Silver Wheaton	SLW-NYSE
Eldorado Gold	EGO-AMEX
iShares Silver Trust	**SLV-AMEX**
GoldCorp	GG-NYSE
Kinross Gold	KGC-NYSE
Agnico Eagle	AEM-NYSE
Mkt Vectors ETF	GDX-AMEX
Central Fd of Can	CEF-AMEX
SPDR Gold Trust	**GLD-NYSE**
iShares Comex Gold	**IAU-AMEX**
Central Gold Trust	GTU-NYSE

U.S. & GLOBAL STOCKS

Turkish Invest	TKF-NYSE
SPDR Consumer Dis	XLY-NYSEArca
iShares S&P Glbl Tech	IXN-NYSEArca
Prshrs Dynamic Soft	PSJ-NYSEArca
iShares S&P Tech	IGM-NYSEArca
Nasdaq ETF	QQQQ-Nasdaq
Dow Diamonds	DIA-NYSEArca
Japan Smlr Cap	JOF-NYSE
iShares Mexico	EWW-NYSEArca
Templeton Emg Mkts	EMF-NYSE
Gldn Dragon China	PGJ-NYSEArca

RESOURCE & ENERGY SHARES

Freeport McMoran	FCX-NYSE
BHP Billiton	BHP-NYSE
Transocean	RIG-NYSE
Cameco	CCJ-NYSE
Suncor Energy	SU-NYSE
RioTinto	RTP-NYSE
Denbury Res	DNR-NYSE

CURRENCY ETFs & FUNDS

Australian Dl Tr	FXA-NYSE
Merk HD Cur Inv	MERKX-NSDQ
Euro Currency Tr	FXE-NYSE
Franklin Temp Hard	ICPHX-NSDQ
Canadian DL Tr	FXC-NYSE

Note: All of the shares, funds and ETFs are listed in order of strength in each section. Buy new positions in the strongest ones. The gold and silver ETFs are listed above in bold.

