THE
# ADEN FORECAST
MONEY • METALS • MARKETS

OCTOBER 2010

*our 29th year*

# GOLD SOARING TO RECORD HIGHS

It's been an exciting month. Gold rose, surging well above the $1300 level and it hasn't looked back.

Silver and gold shares soared even more. The U.S. and global stock markets also headed North. The U.S. dollar was clearly the loser as it fell to a new low, while the currencies forged ahead.

## REALITY HITS

Finally, the fundamentals are coming back into play. This hasn't been the case for quite a while but eventually it happens.

This tells us that investors are not as uncertain as they were before, and they're not just reacting to nervous sentiment. They're looking at the fundamentals, which are now in synch with the market action, at least that was the case this month and it looks like this will continue (see **Chart 1**).

Okay, you may be thinking... but with the fundamentals so rotten, why is everything going up?... That's essentially true. But the world economies are looking better, some much more than others.

INSIDE



In many countries, however, the fundamentals under the surface are terrible and, unfortunately, the U.S. falls into this category.

Meanwhile, it's important to recognize that the world has become far more interconnected than at any time in modern history. And while the U.S. is still very powerful, it's not the absolute center of what's happening anymore. So you have to take a global perspective because this factor alone is driving the markets and the world economies.

## GOLD IS GLITTERING

Let's take gold as an example because it all boils down to gold... We hear that gold is in a bubble, it can't rise much further and so on. Many wonder, why is it even rising so much? For that, you again have to look at history from a global perspective and it'll provide the answer.

We've often pointed out that gold is money. It has been for thousands of years. Paper money is not really money and there isn't one paper currency that has survived over time. Gold, on the other hand, has. It can't be created at will, it's durable and it's always maintained its purchasing power.

**Until the 20th century money was defined as gold and silver**, but then things changed. Our long-time friend and market expert for more than 50 years, Richard Russell, explains this best in a recent summary, which we think helps put the current situation into perspective... Here's Richard...

**"**The Bretton Woods system of monetary management established the rules for financial relations among the world's major industrial states in the mid 20th century. Preparing to rebuild the international economic system as World War II was raging, 44 allied nations gathered in Bretton Woods and signed agreements in 1944.

Setting up a system to regulate the international monetary system, they established the IMF and an obligation for each country to adopt a policy that maintained the exchange rate of its currency within a fixed value in terms of gold.**"**

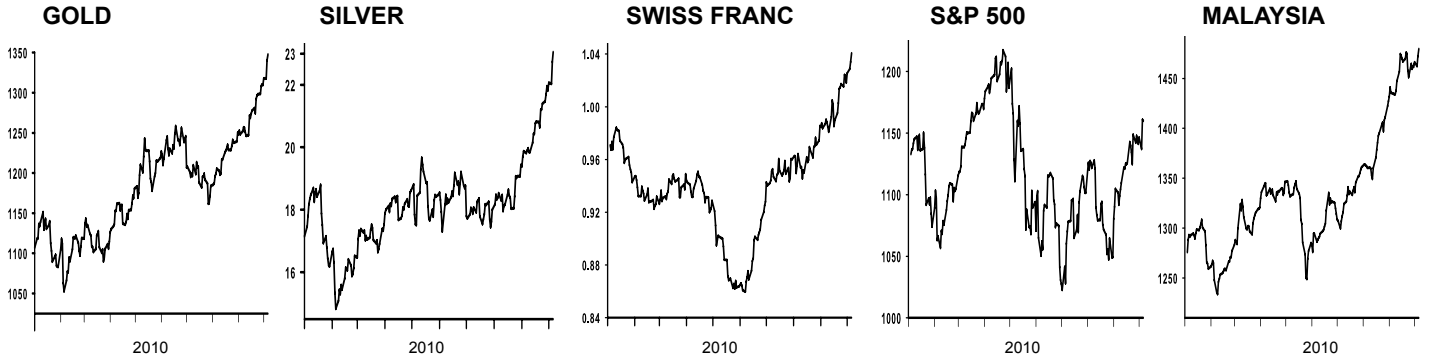
This worked well for several decades, but then costs in the U.S. began to escalate due to the Vietnam war and the "guns and butter" program, which was more social spending. Summarizing more of Richard's report...

In 1971 when foreign nations (particularly France) demanded that the U.S. settle its deficits with gold, Nixon, who was worried about the disappearing gold reserves, said "no." In doing so, he shut the gold window. So the time honored link between the U.S. dollar and gold was broken, the world went off the gold standard and the U.S. dollar became the world's reserve currency.

The Bretton Woods agreement fell apart and central banks were free to create all the currency they wanted. The U.S. created a false prosperity via inflation and ever larger quantities of money. But this

CHART 1

## 2010: AN INCREDIBLE YEAR




was a fantasy that's now meeting head on with reality.

"The people of the world will, at last, realize that money by fiat is not reality. In essence, what we're seeing now is a battle between intrinsic money (gold) and the fiat paper created by the world's central banks."

## ABUSED DOLLAR IS THE CULPRIT

As you'll see in this month's issue, the battle is on. Since the U.S. dollar is still the world's reserve currency, but the U.S. is going overboard with massive deficit spending and out of control debts, the world is taking note. They don't want dollars, but they do want real money, which is gold. And that's why the dollar is falling and gold is soaring.

For now, that's also why the currencies are rising. As for stocks, you'll read more about this in this month's Stock Market section. It's a little more involved but you'll see that it all ties together.

Also interesting this month is **Chart 2** by our good friends at Casey Research. This too shows that gold is far from being in a bubble.

## MASS EMOTIONS MEASURED

Here you'll see the typical stages of a mega bull market, in any market. It basically illustrates the psychological steps that seem to always repeat. And since gold is in a solid 10 year mega bull market, it warrants taking a good look.

First, the market will start rising steadily. That's when the so-called smart money buys. Then the institutions will get in. Next comes the media attention and we believe this is where gold is now… between the Awareness Phase and the Mania Phase, which is likely just beginning.

That's when the public starts to jump in. We're not there yet and it could take quite a while before this happens. These stages take time and it could still be years until gold reaches its ultimate peak. In the meantime, gold will keep rising.

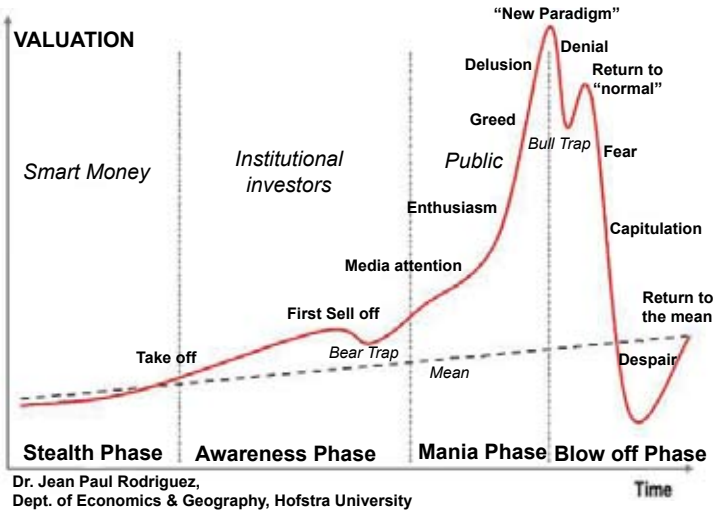
The last time this so obviously happened was with the stock market in the 1980s-90s. You'll remember that it took nearly 20 years for the frenzy to hit full speed in the late 1990s.

At that time, everyone was talking about stocks. It was totally mainstream. People were quitting their jobs to trade stocks and get rich. This will happen again. It's the delusion phase, only this time it'll happen with gold, which has all the makings of a full blown mega bull market.

Naturally, there will be corrections along the way. No market goes straight up, or straight down and the hardest part is to stay with it. We've been consistently recommending gold since 2002 and yes, there have been ups and down. But if you stay with this mega bull rise, we're sure that you'll be very glad you did.

CHART 2

### WEIGHING THE EMOTIONS OF THE MASSES




Dr. Jean Paul Rodriguez,
Dept. of Economics & Geography, Hofstra University
Courtesy: Casey's Daily Dispatch, Casey Research, caseyresearch.com

Editors:
Mary Anne Aden
Pamela Aden

www.adenforecast.com

info@adenforecast.com

Published monthly by Aden Research. Also includes access to a weekly update $250 per year. Send all customer service or market related questions to Aden Research, Dept. SJO 874, P.O. Box 025216, Miami, Florida 33102-5216 or E-mail adenres@racsa.co.cr Questions will be answered in future issues.  The Editors may have a position in the securities recommended and may change such positions without notice. This publication's sole intended purpose is to provide investment-related information and opinions to subscribers. FREE WEEKLY UPDATE every Wednesday at 8 P.M. (Eastern time). You can access it through our website, http://www.adenforecast.com. To receive the market update by fax every week (52 weeks) $160 per year for U.S. subscribers and $260 for subscribers outside the U.S. FASTER NEWSLETTER DELIVERY OPTIONS: Downloading from the website, no extra charge. Fax only, $65 more per year for U.S. subscribers and $170 more outside the U.S. Air Mail and Fax, $90 more per year for U.S. subscribers and $220 more outside the U.S. Make checks payable to Aden Research, S.A.

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

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

# U.S. & WORLD STOCK MARKETS
# On the rise!

Stocks are rising around the world. The markets are moving up because the world economies are looking better. They're showing steady improvement and this has helped boost investor sentiment and confidence.

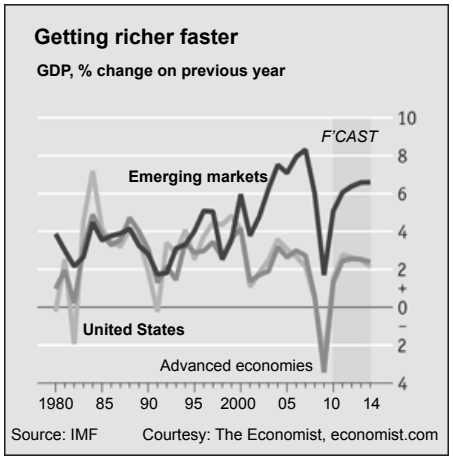
## TWO-TIERED BULL MARKET

The global stock market picture, however, has become a two-tiered situation. There are the emerging markets, which are in a league of their own. These are the countries that generally used to be considered poor but they're now showing strong growth. Countries like China, India, Brazil and many other Asian and Latin American countries would fall into this broad group.

Then there's the developed countries. These have been doing well for decades and they encompass the world's major countries like the U.S., Japan and the European nations. In more recent times, their economic growth has been much slower than the growth in the emerging nations (see **Chart 3** as an example).

As a result, **the emerging stock markets have been far stronger than the markets in the developed countries.** Over the past decade, for instance, these markets have tripled. In sharp contrast, the U.S. stock market has declined.

**CHART 3**




This growth difference is expected to continue, both economically and in the stock markets (see **Chart 4**). Currently, half of the world's growth is due to the emerging countries and this is expected to increase to 60% in the next few years. As the *Daily Reckoning* points out, this will be about five times the growth that the big G7 countries will contribute.

## EMERGING COUNTRIES HAVE EMERGED

These countries are just beginning to blossom, historically speaking. Their standard of living has greatly improved over the past decade or two. In Brazil, for example, poverty plunged by half in just four years and the middle class is growing by leaps and bounds. Spending is way up, debt levels are low and economic growth is 8%-10% per year.

This is happening in many other countries too, most notably China and India, which we've discussed many times before. This is changing the world and it's why a recent Bloomberg survey shows that these countries are the preferred places to invest.

Plus, valuations are lower than those of the developed stock markets at around 13 times earnings. That's a huge advantage over Nasdaq or the Dow Transportations, which trade at 25 and 31 times earnings.

For these reasons, the emerging markets are at over two year highs. And since the value of these stocks is expected to soar in the coming years, along with their economies, they'll likely continue to outperform. So again, as an investor you simply must take a global view because everything is linked.

A good example of this can be seen on **Chart 5**, which shows how the Australian dollar and the Chinese stock market generally move together. That's because the Australian economy is very dependent on China's ongoing growth and its huge demand for commodities, which Australia provides. This year

**CHART 4**

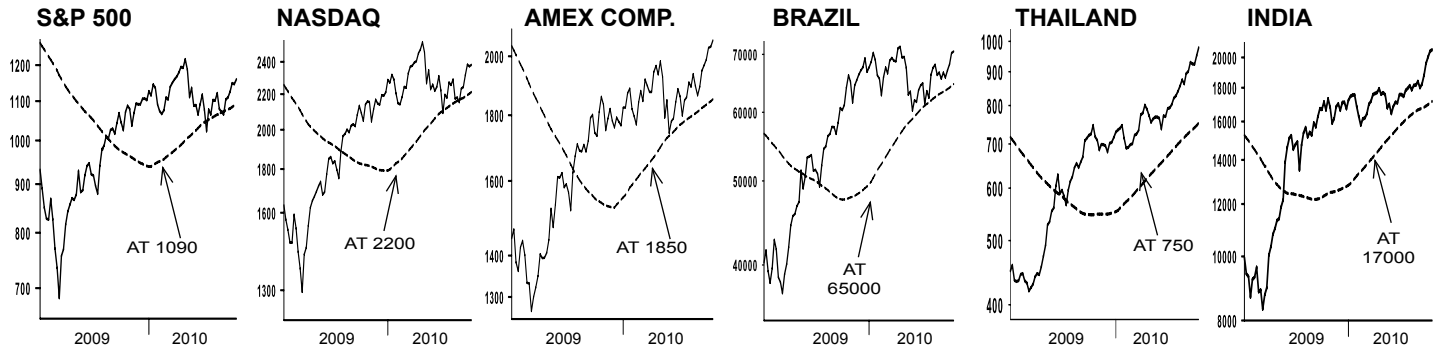
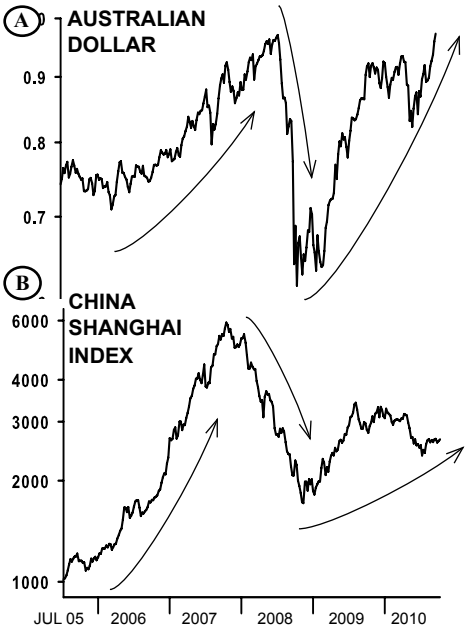


CHART 5

**CHINESE STOCKS & AUSTRALIAN DOLLAR: MOVE SIMILARLY**
**IS AUSSIE LEADING?**




the Aussie dollar has been leading the way up and we're fairly certain the Chinese stock market will soon be going the same way.

## U.S. DOING FINE

For those of you who prefer staying closer to home, that's okay too. It's also important to be comfortable and since most of the global stock markets generally move together and they're poised to head higher, it's fine to stay with what you know. Let's take the U.S. as a good proxy for the developed countries.

Despite what many experts say and the underlying fundamentals, the U.S. stock market is looking good. The market is at a five month high, it's technically bullish and it's set to rise further…

September is known to be a bad month for stocks. Yet this year, the S&P500 had its best September since 1939! But that's not all…

Let's look at the big picture for the S&P500 going back to the 1950s (see **Chart 6A**). As you can see, the mega trend since then remains up.

In addition, the leading indicator (**B**) is rising from its lowest level ever and it has plenty of room to rise further before it even comes close to a major high area. This tells us that stocks could still rise much more. In other words, a rise to the 2007 highs would not be unreasonable.

## WATCH APRIL HIGHS

If that happens, it would mean a rise to about the 14000 level for the Dow Industrials, which would be about a 27% gain from current levels. And since the stock market leads the economy by about six months, it would also strongly suggest the economy is going to keep improving, at least for the time being.

The first important sign that it's happening would be a rise in the Dow Industrials above the April high near 11205 (see **Chart 7**). This would be reinforced if the Dow Transportations also rise above the 4760 level.

For now, these two stock indices have already triggered a Dow Theory bull market signal when they both rose above their August highs. But above the April highs would be even better, as it would be a new high for the move.

CHART 6

**BIG PICTURE:**
**Still lots of room to rise further**

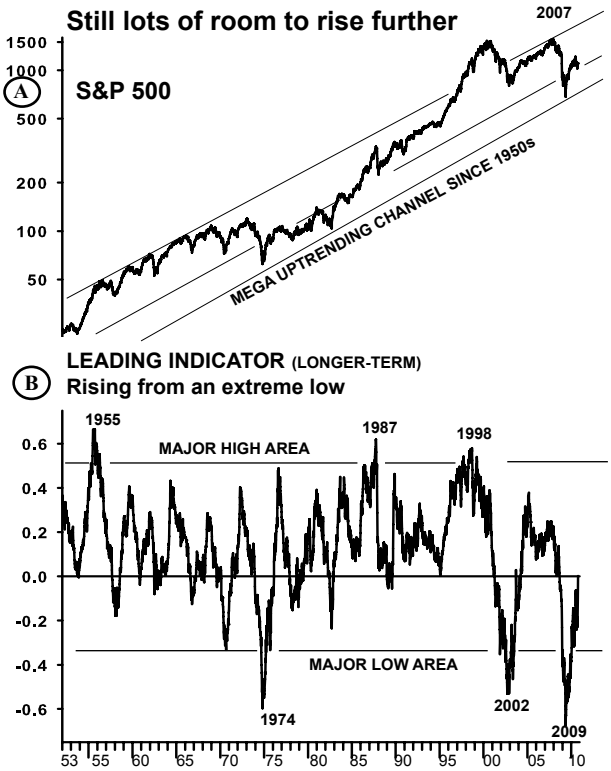
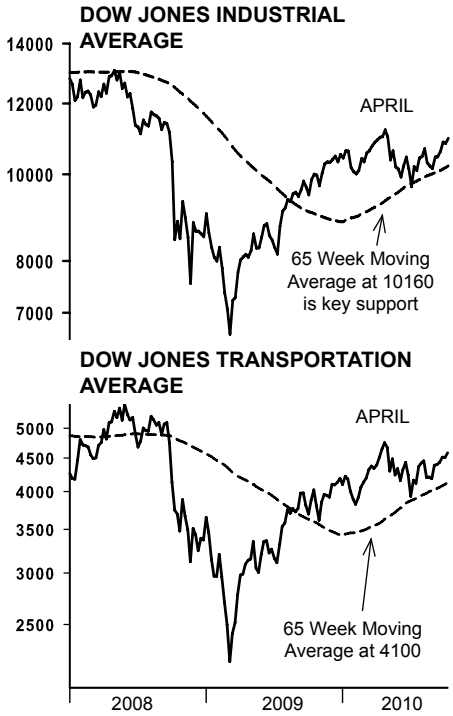



CHART 7

**DOW THEORY TRIGGERING A BULL**




We'll see what happens but so far, so good. Low interest rates and more money are helping the economy and the stock market. Even though this is not fundamentally sound since it's all built on a mountain of debt, the market doesn't seem to mind and we'll go with what the markets are telling us.

And currently they're saying, stay in stocks. Commodities are also surging and so are the metals. That's what's driving the Amex up and it's leading the way for the other U.S. stock indices. The same is true for the global economy, which is being led by the emerging markets. So we'll let the markets be our guide, despite all the reasons why stocks shouldn't be rising.

The fact is they are. Remember, it's a global world and the U.S. is enjoying the ride, along with the others. So continue to hold the stocks you have and only buy new positions in the strongest ones, listed on page 12.

# U.S. INTEREST RATES AND BONDS

## Low rates persist

The Fed was again in the driver's seat this month. With baited breath, the markets waited… and when the Fed spoke, they listened. Then the markets reacted strongly.

### WHEN THE FED SPEAKS...

So what did the Fed say that was so important? Actually, it was the obvious and what we already know.

Basically, the Fed said they're prepared to support the economy via more "accommodation and a return to inflation." In other words, spend more money and keep interest rates low, which is what they've been doing all along.

As we've often noted, all of this money will eventually fuel inflation, but the Fed has now officially confirmed that they're taking this route and whatever the outcome, they'll save the day.

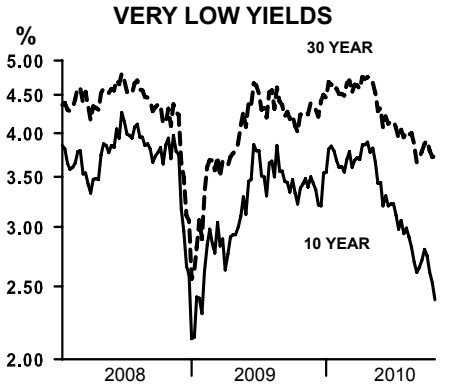
### ... IT PAYS TO LISTEN

The markets took this as a green light. The U.S. dollar plunged, gold soared and stock markets around the world surged higher, and so did the currency markets. Interest rates declined yet again as bond prices rose further (see **Chart 8**).

The general view is that the Fed is going to keep interest rates low for a long time. But can they?

As you know, China and Japan are the biggest lenders the U.S. has. They lend their money by buying U.S. government bonds. Lately, however, these countries have been cutting back. Japanese investors have been buying up Brazilian bonds, more so than in any other area of the world.

CHART 8

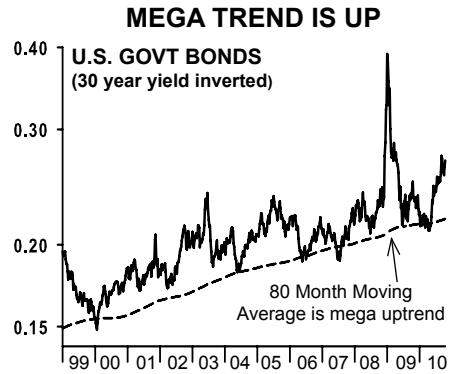



In China's case, with 65% of its reserves in U.S. dollar based investments, it's still the largest holder of U.S. government bonds. But in 2009-10, Chinese bond holdings dropped from $938 to $846 billion in just nine months.

Over the past year, their bond holdings have declined 11%. Instead, the Chinese have been buying more Japanese and So Korean bonds. So they're diversifying out of U.S. bonds.

For now though, most investors don't seem to care. Despite nearly zero interest rates, investors have been swarming into the bond market over the past year or so, seeking the safe haven security that bonds provide. This growing demand has been the primary factor driving interest rates down and bond prices up (see **Chart 9**).

CHART 9



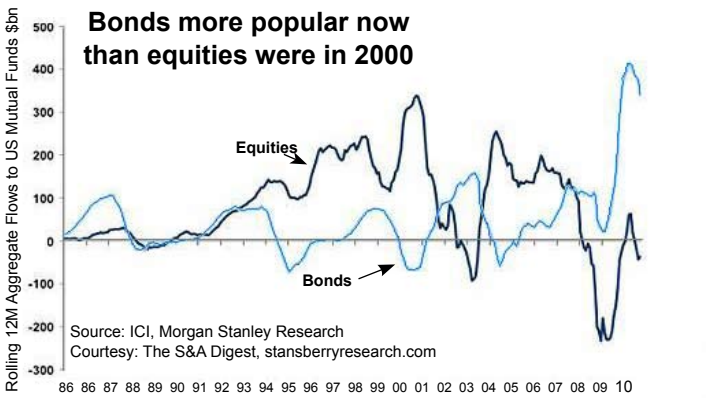

### BONDS NEAR A PEAK

Many experts believe bonds are in a bubble, and the evidence is pointing in that direction. One interesting chart we came across this month clearly illustrates this.

As you can see on **Chart 9**, bonds have risen to a level that is way out of whack compared to stocks. In fact, bonds are now more popular than stocks were in the frenzy of 2000, prior to the stock market plunge that killed the tech stock boom. And stocks are now poised to outperform bonds.

So will bonds follow a similar fate as stocks in 2000? They sure could. When you consider that the fears of a double dip recession and uncertainty are easing, and other investments are now looking a lot more attractive, it makes bonds less appealing. This is being reinforced by the Libor international interest rate, which has been declining (see **Chart 10**). Historically low U.S. interest rates also reinforce this sentiment.

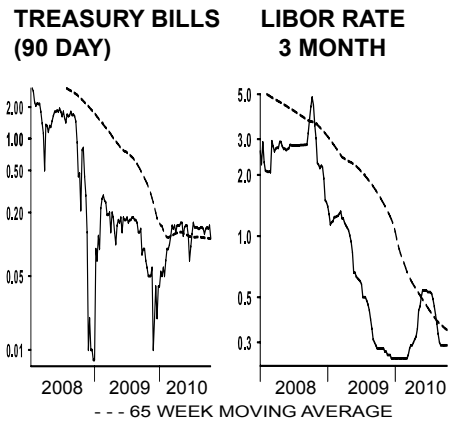
CHART 9




Plus, don't forget that commodity and metals prices are booming. This will eventually make consumer goods and necessities more expensive. This is indirectly a result of the inflation route the Fed has chosen. And once inflation becomes more obvi-

CHART 10

LOW RATES




ous, investors will drop bonds like a hot potato.

Since inflation is the bond market's worst enemy, investors will quickly sell and bond prices could plunge. Interest rates would then rise, whether the Fed likes it or not because the bond market is huge and it's truly a free market. So even though the Fed can control short-term interest rates, they cannot control long-term rates.

## SERIOUS PROBLEMS LOOM

Whenever that happens, we're convinced that the fundamentals will come back to center stage. That is, the falling U.S. dollar, the massive spending and debt, the slow growth compared to other countries and horrendous deficits for as far as the eye can see. That's what will count and it'll drive interest rates higher.

Obviously, the Fed's not going to like it. Unemployment continues to be a big problem. It remains high and it's clearly lagging behind every recovery following a recession since World War II (see **Chart 11** as an example).

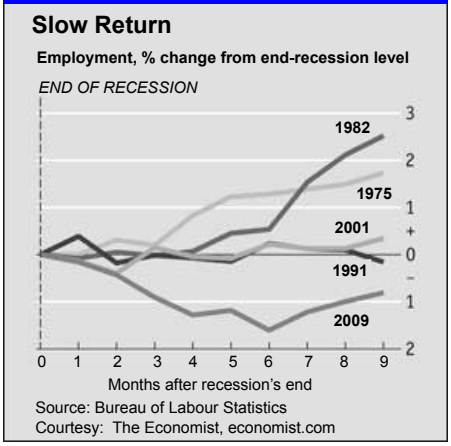
Unfortunately, many of these jobs are gone. They've been transferred to emerging nations where wages are much lower. This is a fact the U.S. has not openly faced so the government is trying to make jobs more available by improving infrastructure and so on, spending more money even though they can't afford it. In this environment, rising interest rates would only make matters worse. That's why the Fed wants to keep rates low.

Will they succeed? We don't think so. Ultimately, the market will have the final word.

This could take some time. But in the meantime, we recommend holding onto the interest rate investments we previously recommended. They'll come back and the first sign that's happening would be a rise above 3.82% on the 30 year yield.

At that point, we'll either sell or ride the up-wave, depending on what happens.

CHART 11




# CURRENCIES

# U.S. dollar: Feeling the pain

The currency markets were quick to react to all of the news this month. And despite the ups and downs we've seen in recent months, it suddenly became crystal clear that the number one fatality was going to be the U.S. dollar.

## DOLLAR: NEAR RECORD LOW

The dollar index fell sharply, hitting a new eight month low. It broke below all of its support levels and it's now close to its all time record low reached in 2008. In fact, against the Swiss franc, the dollar already hit a new record low and it's likely just a matter of time until the U.S. dollar index does the same.

There are several reasons for this. Most important was the Fed's announcement that it'll keep spending and inflating if need be. This was a death knell for the dollar because indirectly this means that by doing so, the Fed's willing to devalue and throw the dollar to the wolves.

But this is nothing new. The Fed's been doing this for years, especially since 1971 when the U.S. went off the gold standard. Since then, fiscal discipline also went out the window, and the dollar has been in a long, slow, steady decline (see **Chart 12,** which goes back to 1972).

So the dollar is now simply resuming its downward path due to years of excessive spending. Note that back in 1972, one dollar bought four Swiss francs. Currently, one dollar will buy less than one Swiss franc. This is a devaluation, but it's just happening slowly rather than abruptly.

## A REPEAT PERFORMANCE

Interestingly, what's happened to the U.S. dollar since 2000 is similar to the dollar's action in the 1985-95 time period (see patterns labeled 1 through 4). As you can see, #4 in 1995 marked a new record low in the dollar at the time and the current #4 is evolving in a similar way.

Coincidence? Maybe, but it's more likely a repeat of the devaluation policies that have been in place for decades.

This time, however, the cards are all stacked for an outcome that could be far more serious. Why? All you have to do is look at **Chart 13** and it tells the story.

Debt and money are skyrocketing, thanks to out-of-this-world

spending. That's why the dollar's falling and the Fed's prepared to keep this ball rolling. Too much money is the cause of inflation and inflation cheapens the dollar.

Unfortunately, we see no end in sight, so the dollar will continue to fall and that's why so many countries are beginning to cut back on their dollar holdings.

## DOLLAR: SLOWLY LOSING RESERVE STATUS

Many people say so what? This won't affect me… But it does and it will. If your savings, stocks and bonds are all in dollars, you're going to lose purchasing power over the years and again, this trend seems to be intensifying.

The fact is, the rest of the world sees what's going on and they don't like it. As a result, the U.S. dollar is slowly losing its reserve status. Russia and China, for instance, are planning to start trading in each other's currencies, therefore eliminating the dollar from their transactions. The oil countries are planning to do the same.

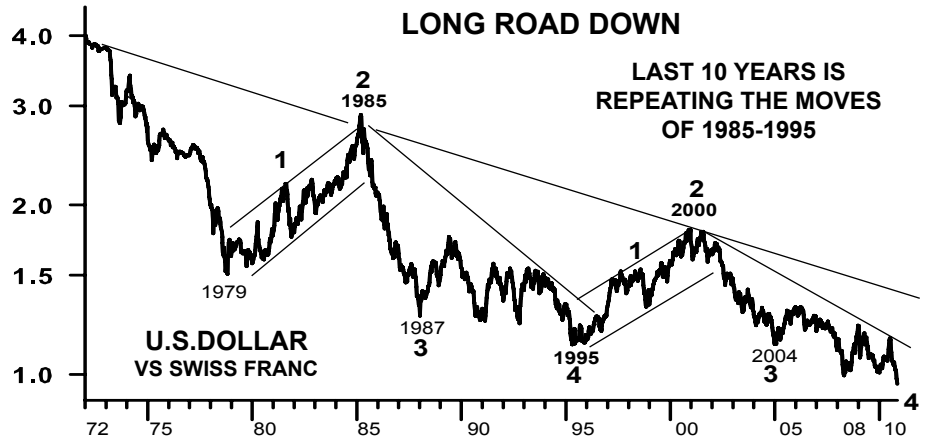
China is already doing this with their trading partners in South America and Asia, and it's developing into a growing global trend with massive repercussions for the dollar as the dollar's international reserve position starts eroding.

We'll see what happens. But along these lines and also very interesting is that the closely linked world is most obvious in the currency markets.

## CURRENCY MARKET: Sensitive

What happens in say China or Brazil, strongly affects the Swiss franc, Australian dollar, the U.S. dollar and all the rest in one way or another… and it goes on from there.

CHART 12




Here's why… Let's say the European debt crisis shows signs of worsening, then the Australian dollar falls because this suggests the global economy could slump again. And if it does, investors will avoid the Aussie dollar. Instead, they'll want a safe haven currency like the U.S. dollar, Japanese yen or Swiss franc.

On the other hand, if the U.S. or China appear to recovering and/or booming, then the growth or commodity currencies like the Canadian and Australian dollars will do very well and the U.S. dollar will fall.

Currently, the global economy is recovering and that's good for the currencies, which is why they're rising, and in part why the dollar is falling.

## SAFE HAVEN CURRENCIES: Near highs

The so called safe haven currencies are the ones that move up when things aren't looking good for the global economy. For now, they all appear to be stalling, like the yen, or declining (the U.S. dollar), or near a top like the Swiss franc (see **Chart 14**).

The Swiss franc has been unusual. Even though the global recovery is picking up steam, the Fed's announcement fueled a further rise in the franc. But it's now temporarily too high, and it's due for at least a downward correction.

**The Australian dollar** has also been unique and it seems to be in a category of its own (see **Chart 15**). It's a growth currency and basically, if China is booming, so is the Aussie dollar.

Australia has the commodities China needs and they're big trading partners. In addition, Australia raised its forecast for commodity exports this year to a record due to increasing demand, which boosts Australia's economy.

CHART 13

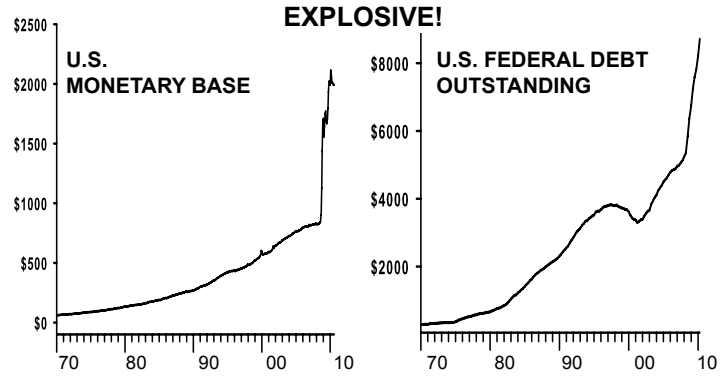



CHART 14

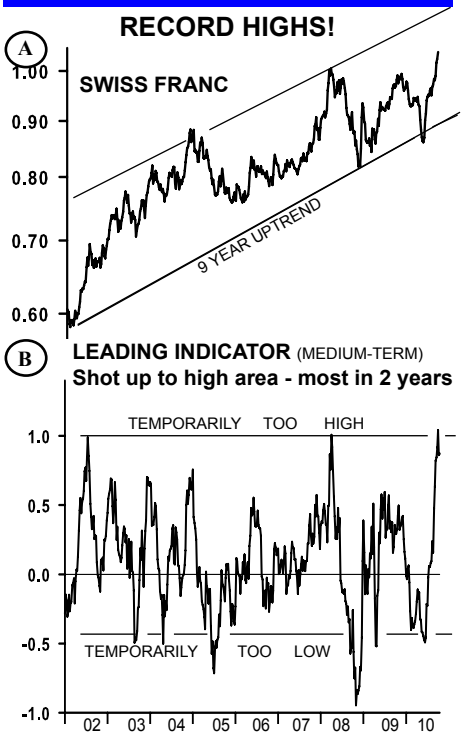
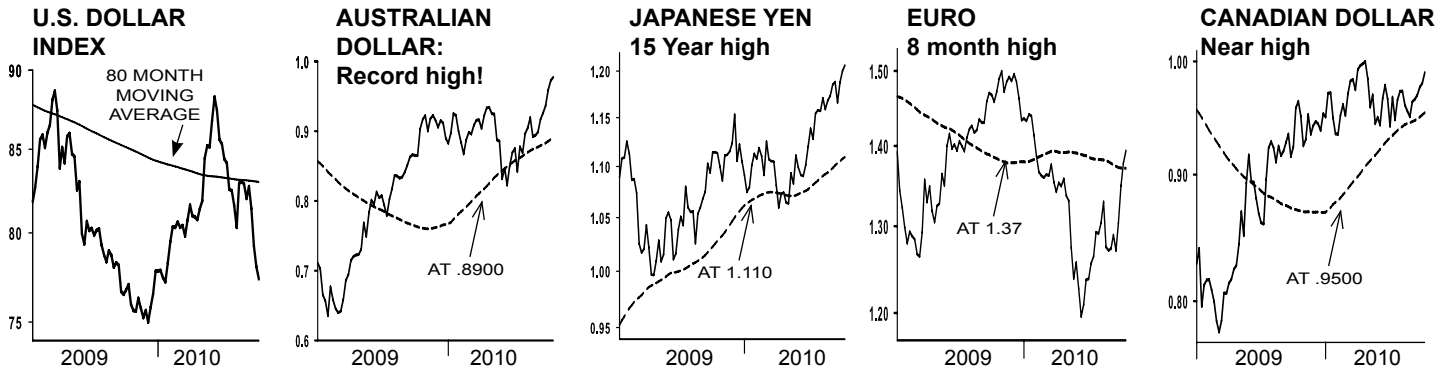


CHART 15




- - - 65 WEEK MOVING AVERAGE IS KEY TREND. MAJOR TRENDS ARE UP ABOVE THESE LEVELS.

Unemployment and deficits are down, business confidence is up and their interest rates are high, which makes the Aussie dollar attractive.

Plus, several countries like Japan and Switzerland have been intervening lately to keep their currencies from getting too strong. That's not the case with the Australian dollar or our other recommended currencies. So with the dollar now breaking down to new lows, it's still fine to hold these currencies. And with the exception of the Swiss franc, it's okay to buy new positions if you haven't bought yet.

But remember, following steep rises, corrections along the way are normal. Nevertheless, the major trend is most important and it's very clearly down for the U.S. dollar, and up for the major currencies and gold.

# METALS, NATURAL RESOURCES & ENERGY

## Gold & silver... Blast off!

Gold is soaring to record highs while silver is shooting up even more, reaching a 30 year high. Palladium, platinum and gold shares are closely following and reaching new highs too.

Yes, the stronger phase of the bull market is flexing its muscles. Gold is rising in another leg up, which is part of this ongoing phase. Gold was primed for takeoff, and it's taking off!

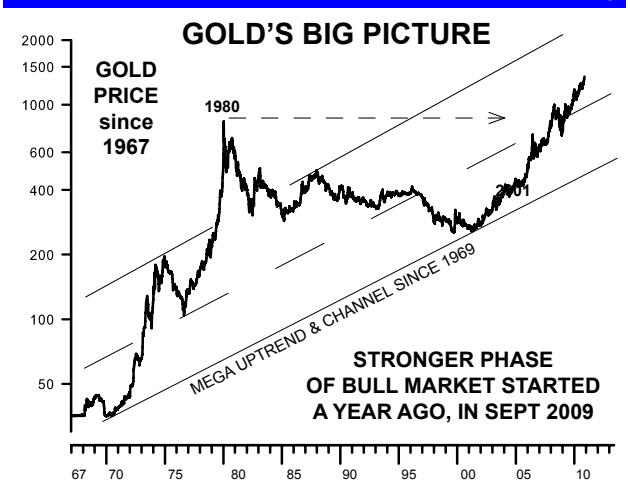
The big picture of gold shows it best on **Chart 16**. Note that the gold price has been in a clear and clean uptrending channel since the late 1960s. It has risen each year since 2001, but once gold reached a sustained record high last year, a stronger phase of the bull market began.

Gold's exceptional rise has now reached our current target level at $1350. It's been a super rise, up 55% since April 2009... or you could say, gold has soared 17% in the last 10 weeks alone! By any standard, the surge is due for a rest, and perhaps so. But keeping focused on the big picture, you can see the gold market is more likely to eventually get swept up in a mania.

When comparing the current 10 year old bull market to the two stellar mania bull markets of the past, the 1970s gold run and the stock bull leading up to the 2000 peak, the three look eerily similar. Most fascinating is the position of today's bull... as it looks ready to surge forward over the upcoming years.

Gold is still far from the mania stage. The average investor is just starting to appreciate the rise in gold. They know things aren't right and they are learning that gold is a safe haven. They see the dollar falling, the economy dragging with debt and the Fed trying to keep it together. The public is concerned, but a gold mania is clearly not here yet.

CHART 16



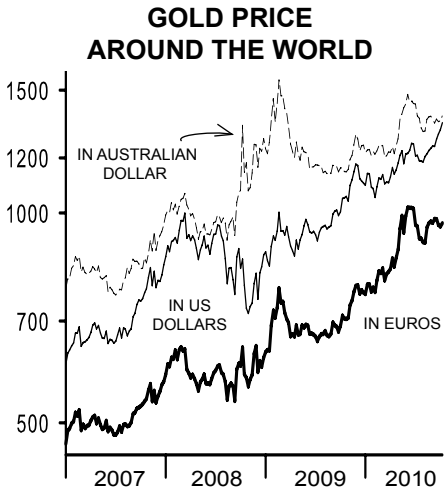

And it's not just the U.S., Europe is also hurting. Whether we like it or not, no country wants a strong currency. With stiff competition for exports in the global economy, a weaker currency gives a country an edge on trade.

This is one important reason why gold is rising in all currencies as **Chart 17** shows. Gold reached a record high last June in euros and in Swiss franc terms, and it's holding near the highs versus the Australian dollar.

Most interesting is the Swiss franc. It's been one of

CHART 17




the strongest currencies, reaching a record high against the dollar in recent weeks at the same time gold hit a record high. Yet when comparing gold to the Swiss franc, you can see it's holding near its record high (see **Chart 18A**). In other words, gold is stronger than the Swiss franc.

Also impressive and showing explosive potential is the leading indicator (**B**). It's now oversold, the most in a year, which means the gold price is oversold in Swiss franc terms. A powerful thought indeed! That is, gold is poised to rise versus the Swiss franc, in spite of its already stellar performance. This adds credence to the growing stronger trend.

## MEGA BULL MARKET

It's important to keep in mind that great bull markets in gold occur one or two times in a lifetime. The last one ended in 1980. It took 20 years before the next (and current) bull market got started.

It began at a moment when most thought gold was dead and buried. Central banks couldn't sell their gold fast enough. The Bank of England sold theirs at the major low in 2001. Meanwhile, gold producers had been hedging their production in order to stay afloat. This despair marked the low.

But now 10 years later, we've seen the gold price produce consecutive annual gains. And with gold up 20% this year, 2010 will make 10 full years of gains. This is the longest winning streak since the 1920s!

**Times have changed.** But it took the financial crisis and the ongoing aftermath to change the way people view gold. Confidence is growing and the change in the central banks' actions and attitude toward gold was key in giving a green light to investors.

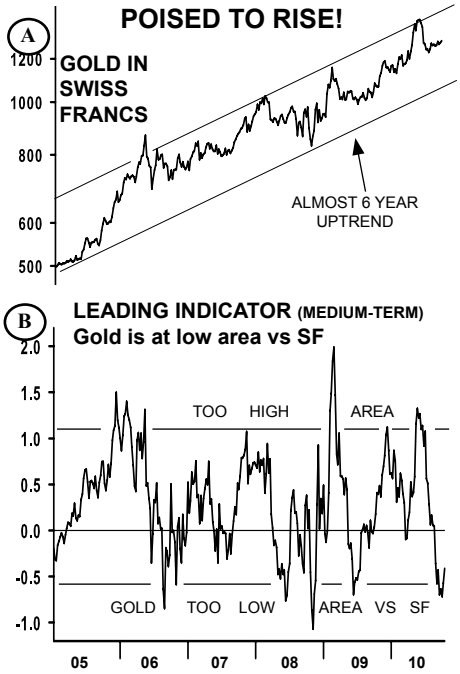
Central banks stopped selling gold and they've become net buyers this year for the first time in two decades. They're expected to buy 15 metric tones of gold this year, which is a major turnaround. Gold is becoming an important reservable asset.

Gold miners have been shutting down their hedging too. Anglo Gold Ashanti, the third largest mine, is closing their hedging by 2011. This means gold miners also believe gold is going higher. Plus, the global holdings of Exchange Traded gold funds are at a record.

Fear is another motivating factor as the dollar falls. If the Fed announces another quantitative easing plan, the dollar will continue to suffer and gold will rise further.

Some people claim that gold is in a bubble and it's ready to fall.

CHART 18




If you think a substantial rise in government confidence and a bull market in the dollar is at hand, then you would be correct to think gold is due to slide. We don't see it, not on a big picture basis.

## INFLATION, RATES AND GOLD

Historically low interest rates in the U.S. and Europe are providing another boost for gold because it doesn't have to compete with the currencies since gold does not pay interest. But actually, during the 1970s bull market, interest rates rose with gold. The key here is inflation as **Chart 19A** shows.

You can see that when inflation is higher than the T-Bill rate (above zero, shaded area), it coincides with a bull market in gold. So as long as inflation is higher than short-term interest rates, the environment will continue to be positive for gold.

## GOLD COMPARED

Gold is stronger than stocks and bonds, even though all are rising. We believe it's only a matter of time before bonds give way. But comparing gold to the gold universe of investments, there are other strengths.

**Chart 20** shows what we mean. It shows gold compared

CHART 19

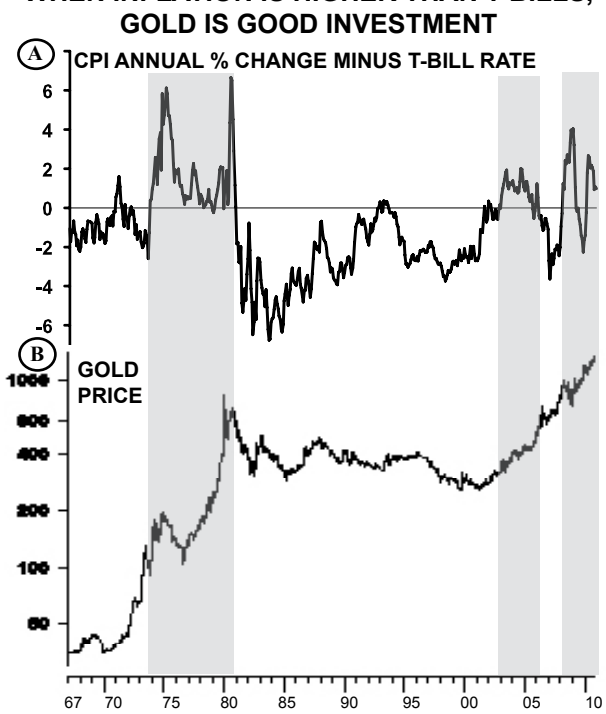
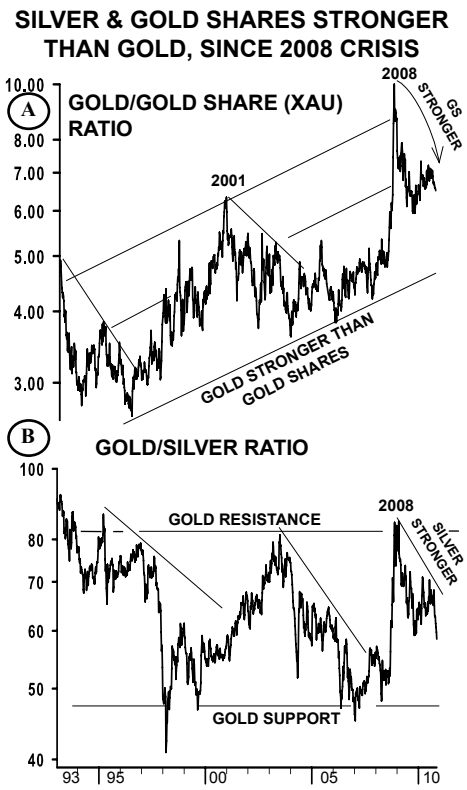


CHART 20




to gold shares (**A**), and compared to silver (**B**), since 1993. When these ratios rise, gold is stronger than gold shares and silver, and when the ratios decline, gold shares and silver are stronger than gold.

Gold was clearly the strongest during the financial crisis when both ratios shot up. But since then, the ratios have come down from these 2008 highs, favoring gold shares and silver over gold. In the past month silver jumped up more than gold as the ratio fell, and gold shares have also had an edge over gold. It looks like this will likely continue.

When silver is stronger than gold it tends to coincide with a rising resource sector. Silver then gets the benefit of being both a precious metal and a base metal. This is another way of saying that if silver continues to be stronger than gold, the emerging economies will remain strong and demand for resources will stay high.

CHART 21


## SILVER: The shining star

Silver jumped up to a 30 year high, gaining 31% in 10 weeks. **Chart 21** shows the big picture of silver. Here you can see that the slope of silver's rise since 2003 is similar to the 1971-1980 rise when silver hit nearly $50.

Silver is now headed in that direction with the recent breakout. It reached our $23 target, the next one is the $27-$30 level. And as much as silver has already risen, it's still not clearly overbought, as **Chart 22B** reflects. It's on a roll and it's very strong above $21.

Silver shares are jumping up. Our favorite share has been Silver Wheaton. Gold shares are also soaring with the XAU index recently reaching a record high. The big picture on **Chart 23** shows how close gold shares are to an all time record high. A clear breakout would suggest that gold shares could eventually reach the top of its trading channel.

## TIMING THE RISE

At this point most would agree that the surging rises in gold, silver, their shares, palladium and platinum are due for a rest. We agree that nothing goes straight up without a breather, but interestingly, gold and silver are not yet clearly overbought.

**Chart 24A** shows gold's stellar performance. Once it broke above its June peak, it soared to our next target level at $1350. As our older subscribers know, gold has formed an impressive A-D pattern that's been going on since the 1970s. It tells us when the best intermediate rises, or declines, are likely in the gold price.

The "C" rises are the best leg up in a bull market when gold reaches new highs. And when it does, it also reinforces the major bull market. Every C rise since 2001 has accomplished this, and the latest rise to $1350, once again, reinforced a solid bull and a stronger phase.

This C rise has now achieved the same percentage gains as in the 2006 and 2008 C rises (see **Chart 24A**). The current C rise has gained 55% since its April 2009 low, which is similar to the 2006 and 2008 gains near 55%-58%. But this C rise has lasted much longer, at 1½ years, compared to the others that

CHART 22

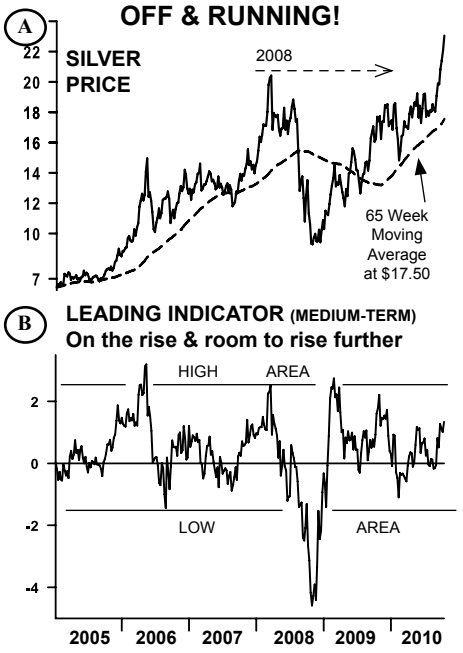
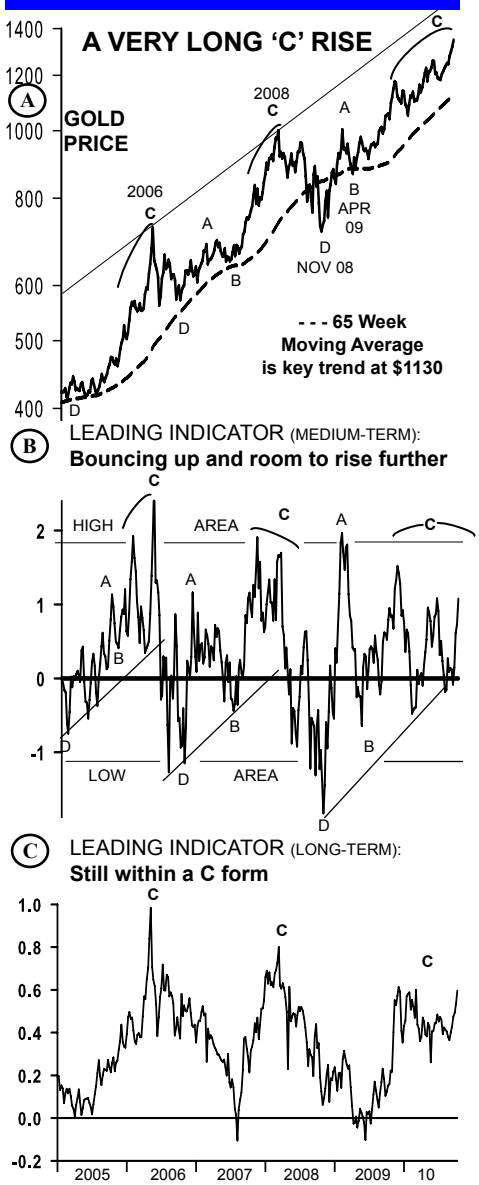



CHART 23

CHART 24




lasted less than a year. This is unusual, but like we said last month, we are in unusual times.

With gold meeting the criteria of a C rise, in spite of it not being overbought, we have to say... be prepared for a correction. Use weakness to buy more gold, silver and the best shares.

Keep an eye on... $1290 as the 10 week rise is super strong above this level. Gold's rise is in a solid intermediate trend above $1245. The major bull market trend is solid and it's now at $1130.

## BUY GRADUALLY

This is a good example of why buying new positions in a bull market is best when averaging in. Certainly when "D" declines are severe, it's ideal to buy during weakness. But if you wait for it, you could miss a major rise altogether.

It gets tricky. Take this year for instance. Gold had two corrections, in February losing 13.3% and in July when it was down 7.95%. We were expecting more weakness but it didn't happen. Now the July low at $1162 is a key support level. That's how fast the bull is developing.

For new buyers, our suggestion is to buy gradually this month and next. Buy gold, silver and the shares on weakness. Palladium has been very strong rising 38% since July. Platinum is following. Both are in major uptrends above $420 and $1500, respectively.

## RESOURCE: Heating up

The resource and energy sectors are on the rise too. Copper, the leader, has risen 35% in four months, recently reaching an over two year high. Tin has been even more impressive jumping up 62% since the Summer lows. Our resource shares are on the rise.

Commodities are becoming a more preferred asset by investors. The emerging economies have 80% of the world population, the best growth and potential for more. China is one main reason why demand has remained strong. Their latest industrial production, for example, again topped estimates.

As you know, the U.S. and global stock markets are getting a boost from this, which is also pushing up the base metals. The agricultural commodities have also risen sharply (see **Chart 25** as an example). Cotton is at a 15 year high.

**Crude oil** is finally following. It jumped up to a five month high and as **Chart 26** shows, it has room to rise further. If it now stays above $76, and closes above $87, a strong renewed rise will be underway.

CHART 26

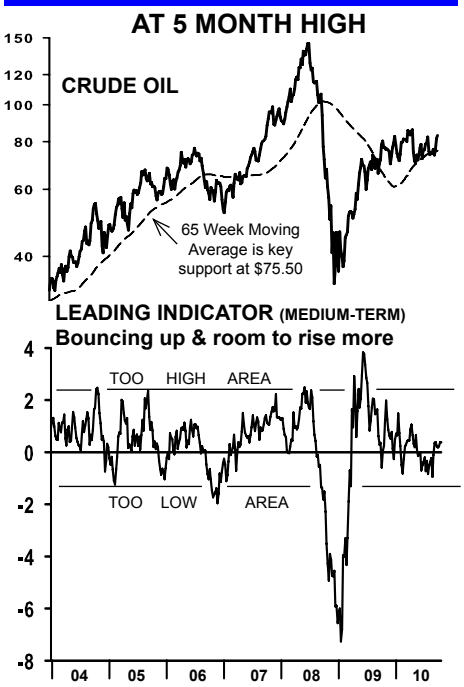
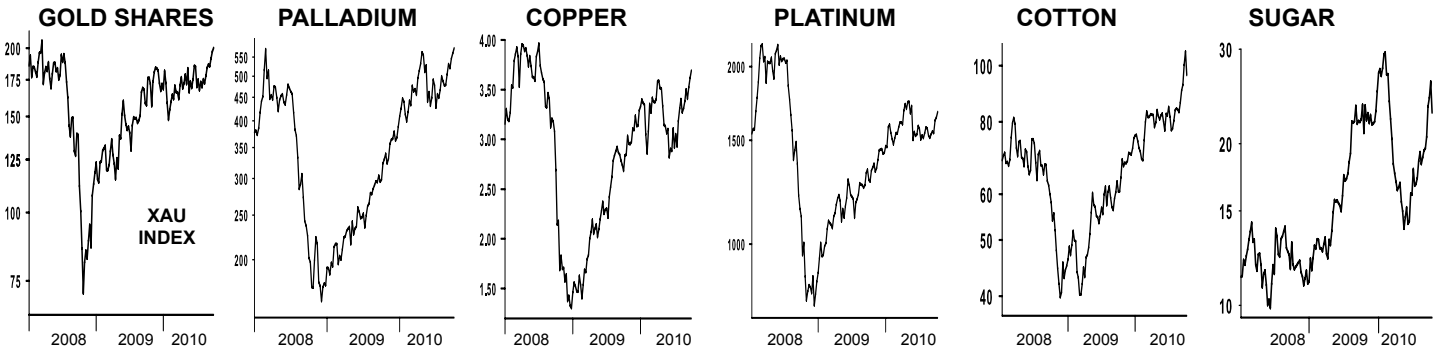
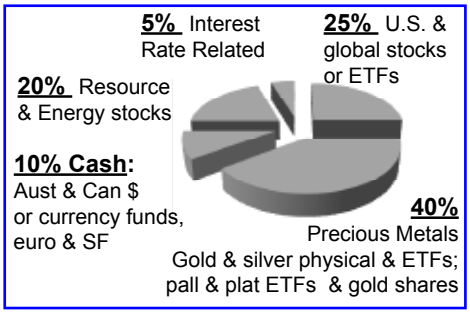



CHART 25



# OVERALL PORTFOLIO RECOMMENDATION

It's been an exciting month. Gold rose, surging to the $1350 level and a new all time record high. Silver and gold shares soared even more. The U.S. and global stock markets also rose, along with the currencies. The U.S. dollar fell to a new low. For now, we're well positioned and we recommend holding on to the positions you have but watch the stops listed below. For new positions, read on...




## PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

The precious metals and resource sectors are bubbling. Gold is at another record high, silver broke up to a 30 year high while gold shares, palladium, copper and tin are also at high areas. The Summer months ended up being a springboard for these hot markets. A stronger phase of the bull market is clearly underway even though gold has already produced solid gains for 10 consecutive years now. But it's far from a bubble stage and the mega bull has a bright future.

Considering the sharp run up since the Summer, producing 17% gains in gold, 31% for silver, 38% for palladium and 35% for copper, it would be normal now to see a correction. The question is how steep? For this reason we've added protective stops on some of our positions (see below). Weakness this month or next will provide a great time to buy new positions. We recommend averaging into the market by buying new positions gradually this month and next, ideally on weakness.

## U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

Stocks are rising around the world and they're looking good. In the U.S., the market is at a six month high and it's poised to rise further. The global stock markets are leading the way, and the emerging markets have been soaring, clearly outperforming. Continue to hold the stocks you have but if you haven't bought the emerging markets yet, it's best to hold off since they've risen far and fast for now. Buy new positions in DIA and QQQQ.

## CURRENCIES RECOMMENDATION

The U.S. dollar fell sharply this month. It's now at a record low against the Swiss franc and the dollar index will likely follow. The currencies are surging. Even though they've risen far and fast, it's still fine to hold the currencies and funds we've been recommending. And with the exception of the Swiss franc, it's okay to buy new positions if you haven't bought yet.

## INTEREST RATE & BOND RECOMMENDATION

The Fed is ready to spend more money and keep interest rates low to help the economy. This drove bond prices higher and interest rates lower, but this is unlikely to last long. Bonds appear to be in a bubble and the Fed's inflationary policies could burst this bubble at any time, driving interest rates higher. For now, continue to hold the interest rate investments but don't buy new positions. Our strategy is to sell at a better price during a rebound or perhaps ride the eventual up-wave, depending on what happens.

## PROTECTIVE STOPS ON OVERBOUGHT POSITIONS

Several of our positions have soared producing great profits. Since some have now moved into overbought situations keep protective stops on these and sell if the closing price declines below its stop.

| | | | | | |
|---|---|---|---|---|---|
| Silver Wheaton (SLW) | stop at | 24 | Malaysia (EWM) | stop at | 13.20 |
| Eldorado Gd (EGO) | stop at | 18.10 | Pshrs Dynamic (PSJ) | stop at | 21.50 |
| New Gold (NGD) | stop at | 6.30 | Nasdaq ETF (QQQQ) | stop at | 47 |
| Stillwater (SWC) | stop at | 15 | iShrs S&P Glbl (IXN) | stop at | 53.50 |
| Frprt McMoran (FCX) | stop at | 81 | iShrs S&P Tech (IGM) | stop at | 52.50 |

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

## OUR OPEN POSITIONS

### GOLD & SILVER ETFs AND SHARES

| | |
|---|---|
| **iShares Silver Trust** | **SLV-AMEX** |
| **iShares Comex Gold** | **IAU-AMEX** |
| Silver Wheaton | SLW-NYSE |
| **Physical Palladium** | **PALL-NYSEArca** |
| **SPDR Gold Shares** | **GLD-NYSE** |
| **Physical Platinum** | **PPLT-NYSEArca** |
| Central Fd of Can | CEF-AMEX |
| Central Gold Trust | GTU-NYSE |
| New Gold | NGD-AMEX |
| Stillwater Mining | SWC-Nasdaq |
| Eldorado Gold | EGO-AMEX |

### RESOURCE & ENERGY SHARES

| | |
|---|---|
| Freeport McMoran | FCX-NYSE |
| BHP Billiton | BHP-NYSE |
| RioTinto | RTP-NYSE |
| Peabody Energy | BTU-NYSE |
| **US Oil Fund** | **USO-Nasdaq** |
| iShares Tr Glbl En | IXC-NYSEArca |
| Suncor Energy | SU-NYSE |
| Arcelor Mittal New | MT-NYSE |
| US Steel | X-NYSE |

### U.S. & GLOBAL STOCKS

| | |
|---|---|
| iShares Malaysia | EWM-NYSEArca |
| Templeton Emg Mkts | EMF-NYSE |
| Nasdaq ETF | QQQQ-Nasdaq |
| Dow Diamonds | DIA-NYSEArca |
| SPDR S&P Bio | XBI-NYSEArca |
| iShares S&P Glbl Tech | IXN-NYSEArca |
| iShares BRIC | BKF-NYSEArca |
| SPDR Consumer Dis | XLY-NYSEArca |
| iShares Mexico | EWW-NYSEArca |
| Prshrs Dynamic Soft | PSJ-NYSEArca |
| iShares S&P Tech | IGM-NYSEArca |
| PowerShrs Leisure | PEJ-NYSEArca |
| PowerShrs Finan | PFI-NYSEArca |
| Japan Small Cap | JOF-NYSE |

### CURRENCY ETFs & FUNDS

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

### INTEREST RATES

| | |
|---|---|
| Profunds Rising Rates | RRPIX-NYSE |
| Proshrs Ultra Short20+ | TBT-NYSEArca |