THE
ADEN FORECAST
MONEY • METALS • MARKETS

OCTOBER 2011 *our 30th year*

CRISIS MODE: A HARD SEPTEMBER

Once again, another wild month.

It was filled with fast moving markets, lots of important news every day, emotional up and down reactions, and more wild and volatile times.

STAY FOCUSED ON MAJOR TREND

At times like this, it becomes difficult to keep things in perspective. But when emotions are running high, that's exactly the time when you have to step back and remember to focus on the big picture and the major trends.

There's a lot of scary stuff coming out and the media is feeding on this. We can safely say, they rarely talk about the big picture.

This makes everyone nervous, including investors. Then suddenly, something soothing comes out and everyone settles down. But it's almost always a daily diet of news and commentary that leads to confusion.

Meanwhile, we're just observing like everyone else. We know it's hard sometimes and we've heard all sorts of reactions and comments from friends, family and colleagues… these ranges from those who refuse to listen to the news because it's too upsetting, to those who don't care or think it won't affect them, to those who overreact or reach conclusions for the wrong reasons.

INSIDE

IGNORANCE IS BLISS

In fact, because of this and since we follow it every day, we don't often talk to our friends or neighbors about what's happening in the markets. There're simply other things to talk about.

In many ways, that's good because it gives us some insight. Basically, we see that most people are caught up in their everyday lives, as we all are, and not really paying too much attention to world events.

The other day, for example, we were talking to an old U.S. school friend. After a long conversation we said we had to go to check on what was happening in Greece (which at that point was at a critical make-or-break point, possibly for the world economy). Our friend chucked and said, okay you go check on your Greece thing and we'll talk more later.

GLOBALIZATION AT WORK

In a way, this was a real eye opener… people in general are sheltered. For instance, they have no idea that Greece could directly affect everyone. It was reminiscent of the subprime problem in 2008, which literally brought the world financial system to the verge of collapse, triggering the worst recession since the 1930s, massive job losses, foreclosures, and so on.

At the time, we remember so many asking afterward, what in the world is subprime and why is this such a big deal? And here we are today in a similar situation.

But this time Greece and some of the other Eurozone countries (or the U.S. or China) could be the culprits triggering the storm. It could also be any other number of factors.

For now, we have to keep in mind that the world is totally global. No one is isolated and the world economy is on thin ice. It's vulnerable, anything could happen and we have to stay alert.

WHY GREECE MATTERS

Since we're on the subject, let's use Greece as the latest example…

It's true, unless you live in the Eurozone, most people don't seem to care about what's going on in Greece. It's far away and a small country, so what does it matter?

As you know, however, Greece has been touch and go since last year and it has strongly affected most of the markets, in one way or another.

Currently, Greece has the potential to trigger the next "subprime" type global crisis. The world's leading central banks certainly know this and that's why they've been taking action to plug the dike before it bursts. Why?

They recognize the global domino effect and what the repercussions

would be if Greece were to default on its debt. Since Greece is a member of the Eurozone, not only would it hurt the stronger Euro countries, who've been lending Greece most of the money they've needed, but it would destroy confidence in the entire Euro community.

Vulnerable banks

It would also hurt the big banks in Germany and France who have been Greece's biggest creditors. They've lent billions to Greece, buying 70% of their bonds (see **Chart 1**). They've also lent a great deal of money to several of the other weaker and on-the-fence Euro countries, like Portugal, Ireland, Spain and Italy.

So if Greece defaults on its loans, fears would then spread about the ability of these other countries to repay their debts. And since Italy and Spain are among the largest Euro economies, this would become a huge deal.

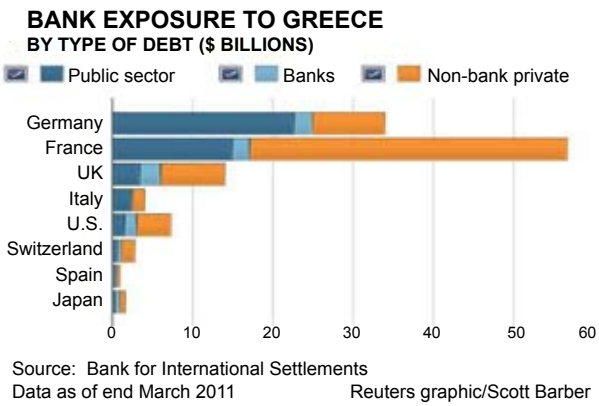
Demonstrations are already underway due to budget cuts and austerity measures. For now, these countries are essentially following Greece in some ways, slowly becoming wild cards, especially with the global economy slowing.

The banks would be facing huge losses, but there's more... Many of these loans are insured by U.S. institutions, so the U.S. would be affected too.

The rest of the world would be close behind... which is why and how the domino effect would play-out.

The markets would obviously panic as investors run for cover, seeking safe havens. This is already happening to some extent, as we saw with the falling global stock markets and raw materials in September. Meanwhile, the yen, U.S. bonds, and the U.S. dollar have emerged as the safe havens of choice (see **Chart 2**).

CHART 1



United efforts

Germany has been on the front lines, calling on Euro members to take action and asking for help. That's why, for the first time since 2008, the U.S., Japan, U.K. and Swiss central banks offered loans to help ease the crisis.

The chances of Greece defaulting had then soared to 98%. But not even two weeks later, German Chancellor Merkel urgently needed more money for their emergency fund to build a firewall around Greece and the weaker Euro countries. And yesterday the ECB added more liquidity to help the banks.

The billions spent so far haven't been enough and now they've boosted that up to far higher levels. Will this work? Will it be enough? At this point, the verdict is still out and uncertainty persists.

TEETERING GLOBAL ECONOMY

Remember, the markets look ahead and there's a fear hanging over them. Aside from Greece, the biggest concern is the weakening global economy.

It has not rebounded following the 2008 crisis, like it did in previous recessions. That's the case in most of the major countries where unemployment remains stubbornly high.

Sure, many of the emerging countries have enjoyed strong growth and booming times, but now they're slowing down too. World stock markets are bearish and overall, things simply aren't looking good.

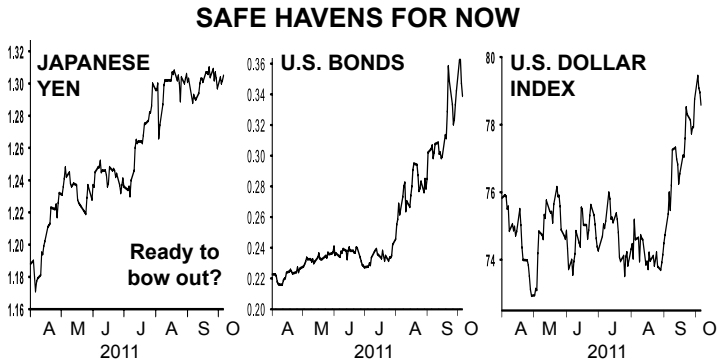
From this vantage point, another panic and financial crisis would hit harder than it did in 2008, and that's what the central bankers are afraid of...

That's why Greece matters, but so does everything else. It's also why the markets have been so volatile.

Again, we're likely at one of those key turning points. Each market is reacting, but they're different.

As you'll see next, we're watching all of the markets closely and pointing out what's important, what to be watching for, and what actions to take...

CHART 2



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U.S. & WORLD STOCK MARKETS

All fell down... further

It was a bad month for stocks. And for anyone who has any doubts about Greece personally affecting them, they need to look no further than the stock market because it was all about Greece.

MARKET HATES UNCERTAINTY

Nearly every move in the market revolved around the way events in Greece were unfolding. If the news was hopeful, stocks rose. But if the news was bad or worrisome, stocks dropped.

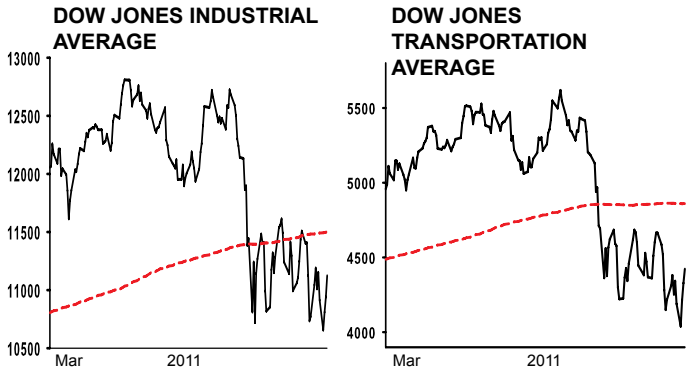
Interestingly, the very day Greece said they would miss their deficit targets for this year, the already bearish U.S. stock market dropped to a 13 month low, hitting new lows for this decline. And it didn't only happen in the U.S., stock markets around the world were also hard hit (see **Chart 3**).

We know that some people say, who cares about the stock market? It only affects rich people... but that's not true. Yes, the rich are affected, but so is the middle class.

Nearly everyone who is working, for instance, has some sort of pension plan, and a good chunk of those pension funds are probably invested in the stock market. So indirectly, Greece is affecting working people, and non-working people too.

CHART 4

NEW LOWS FOR YEAR



- - - 65 WEEK MOVING AVERAGE, KEY LONG TERM TREND

"IT'S THE ECONOMY, STUPID"

Most important, the overall economy affects everyone. Since stocks lead the economy, this bearish turn in the stock market also suggests the economy will likely slow even further in the months ahead.

As you'll see in this month's Metals section, the copper price is indicating the same. (Copper and the stock market have been moving together.)

If so, more people would then lose their jobs, work would be harder to find, pension funds would drop in value, the government would have to take on more debt, civil unrest would probably become more obvious, perhaps adding fuel to the "Wall Street" protests that are now spreading to other cities, and so on.

The stock market is an economic barometer and the fact that it's bearish and hitting new lows is not good news (see **Chart 4**). This too confirms that stocks are going lower.

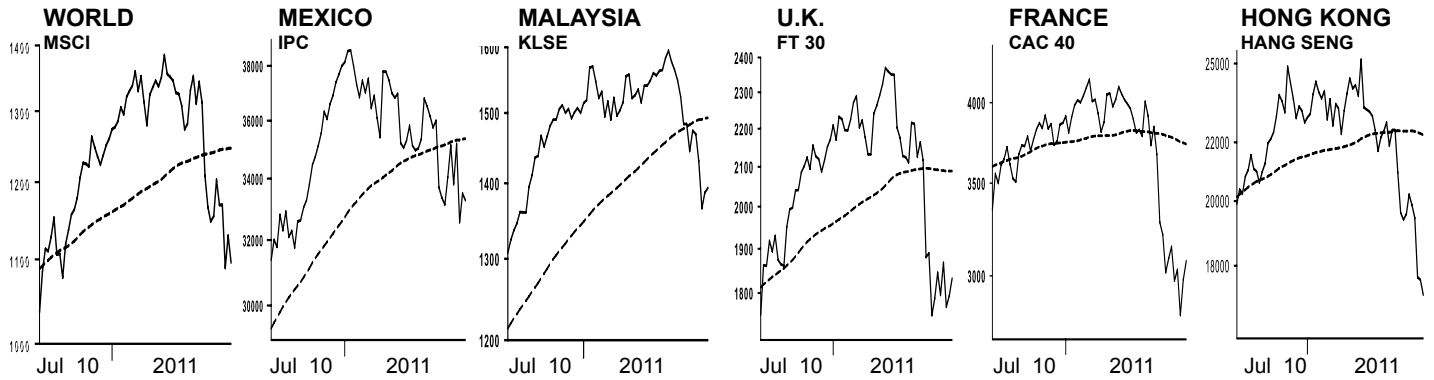
In addition, the economic numbers haven't been good lately. In the U.S., unemployment remains high, consumer confidence declined to the second lowest level on record and homeowner sentiment is down to where it was in 1990. Recession concerns are growing and, despite Obama's latest jobs plan, people didn't buy it and neither did the markets. The overall feeling is that the Fed isn't doing enough and the market wasn't impressed by the Fed's latest efforts.

WORLD MARKETS MOVE TOGETHER

On the world front, global stocks suffered their worst quarter in three years and all of the stock markets are bearish. China and Europe are showing signs of slowing and this too adds momentum to the negative sentiment already out there.

CHART 3

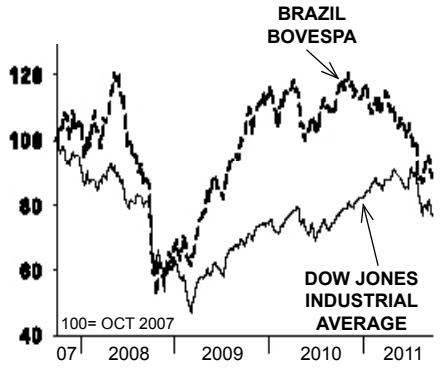
ALL ARE BEARISH



- - - 65 WEEK MOVING AVERAGE IS KEY MAJOR DOWNTREND.

CHART 5

ABOUT THE SAME NOW



It's the same story in other previously fast paced emerging countries. With commodities weakening, along with global demand, it's only normal to see the emerging countries feeling the pinch, and their stock markets are reflecting this.

As you can see on **Chart 5**, Brazil has been a superior market for years. It's been far stronger than the Dow Industrials, and most of the other world stock markets.

Interestingly, the Brazilian stock market declined sharply and it's now come back to meet the Dow Industrials, which is similar to what happened in 2008. In other words, a good part of Brazil's gains since 2009 were wiped away this year. Other markets have done the same, as you saw on **Chart 3**.

THE WORLD IS ONE

There's no question, this is a worldwide situation and all of the markets are nervous about what's coming. For now, they're all reacting to Greece and world economic signs. Those are currently the key factors moving all of the markets.

Also interesting, October is a seasonally bad time for stocks in general. The same was true of September, and last month stocks certainly followed this seasonal pattern. Will October be the same? We'll soon see, but we wouldn't bet against it.

Looking at the S&P500, it's bearish below its moving average and all of the other U.S. stock indices are too (see **Charts 4** & **6A**). The Dow Utilities is the only exception, primarily because it's interest rate sensitive. But like we've often mentioned, when bear markets are in force, like they are now, all stocks will eventually follow the same route.

As for our leading indicators, they both have room to fall further, which means stocks do too. But since the market has fallen far and fast, it would not be unusual to see the recent bounce up rebound further before stocks head lower.

If that's upcoming, then the medium-term indicator will move up, leading the way for the stock rise, or at least some sideways action, while the market takes a breather. This could be a result of better news out of Greece, brighter economic signs, or more aggressive moves by the Fed (and other central banks) to boost the economy.

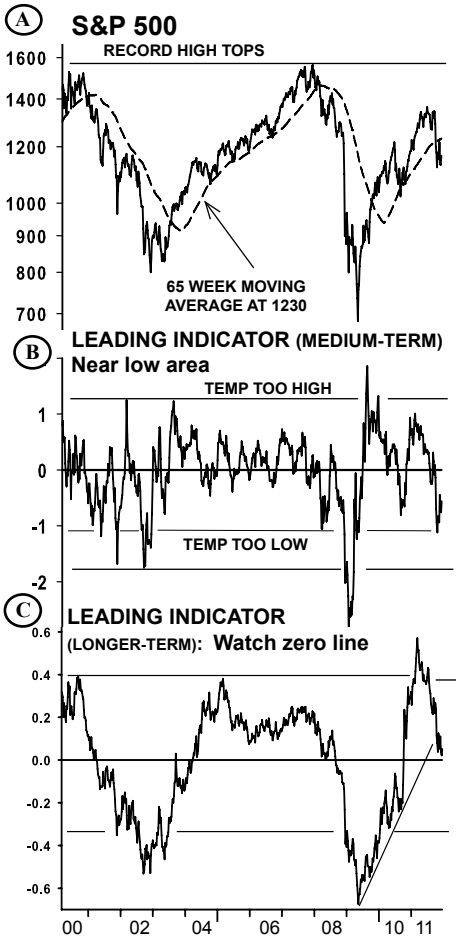
CAN THE FED RESCUE?

Bernanke has been talking about how fragile the economy is and hinting he may soon take stronger measures. If he does, we're fairly certain it would be more of the same. That is, it would probably have a temporary effect since his options are running thin. Unfortunately, Bernanke has generally been following the Japanese experience as they're now entering their third lost decade. The U.S. has had one lost decade and the way things are unfolding, the U.S. is likely entering its second one.

Nevertheless, if the Fed takes action, stocks will probably rise and if they do, we advise selling if you're still in the market. If you sold your stocks as we recommended two months ago, then stay put, safely on the sidelines. Should this change, we'll quickly let you know.

CHART 6

BEARISH BOUNCE UPCOMING?



U.S. INTEREST RATES AND BONDS

10 year yield fell to record low

Once again, interest rates plunged even further. Bond prices soared, rising the most since the 2008 financial crisis (see **Chart 7**).

The 10 year yield dropped below 2%, hitting another record low. And just since our last issue, the 30 year rate fell from 3.24% to 2.71%. Despite these steep declines, interest rates will likely fall to still lower levels (see **Chart 8A**).

The Fed essentially triggered all the commotion this month, and we're fairly sure they're not

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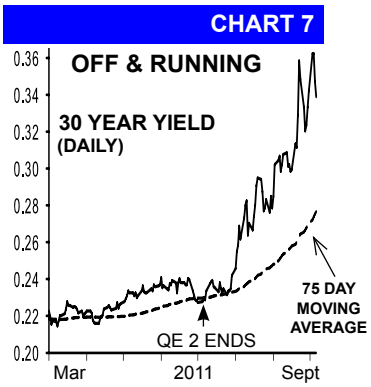
done yet. But worries about the slowing global economy, high unemployment, the future of the Eurozone, risk aversion, and ongoing demand for a safe haven all added fuel to the bond bull market's rise.



In the Fed's case, its latest plan, Operation Twist, was a big hit, at least it was for the bond market. Whether it'll help boost the economy as the Fed hopes, is still to be seen.

Nevertheless, as we've seen dozens of times this year, the markets have been reacting to the latest daily news, which may or may not be valid. And bonds have been no exception.

BONDS: Great investment

The bottom line is, U.S. government bonds have been the best investment over the past three months. Bonds have strongly outperformed stocks around the world (see **Chart 9**).

Here, for instance, you'll see the ratio comparing U.S. bonds to the Dow Industrials. Since the Dow has been much stronger than most of the other world stock markets, this clearly illustrates the superior performance in bonds.

The ratio has been soaring. Plus, it has plenty of room to rise further before bonds become too strong versus stocks. In other words, bonds will likely continue to outperform stocks.

Bonds have also been stronger than all of the currencies and even gold. The percentage gains have been greater and bonds have been the best overall investment. This could continue for a while longer, especially as the Twist gets underway.

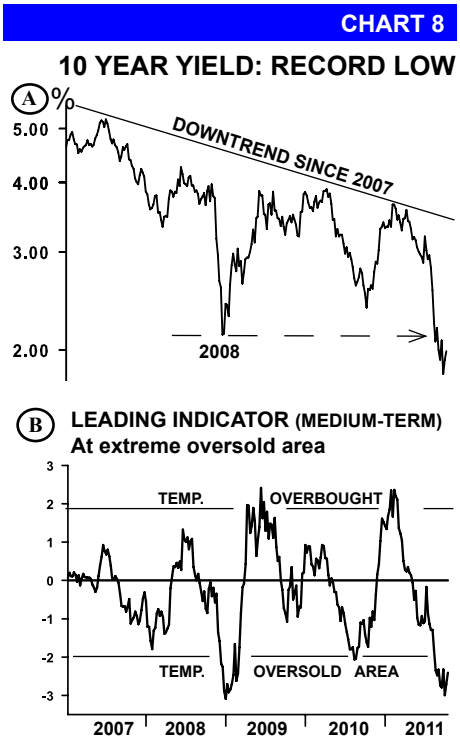
WHAT IS THE TWIST?

In a nutshell, it's the latest effort by the Fed to kick start the debt burdened economy… an economy that is still plagued by massive unemployment and very weak housing, despite an over two year recovery and two rounds of quantitative easing to the tune of $2.3 trillion, which were supposed to do the trick. But they didn't.

Unfortunately, the debt load is weighing heavy on the economy, along with global deflationary pressures. This environment is good for bonds, which is one reason why they're rising. But the likelihood of another recession is making investors nervous and uncertain, and that too has been a boost for bonds as the flight to safety intensifies.

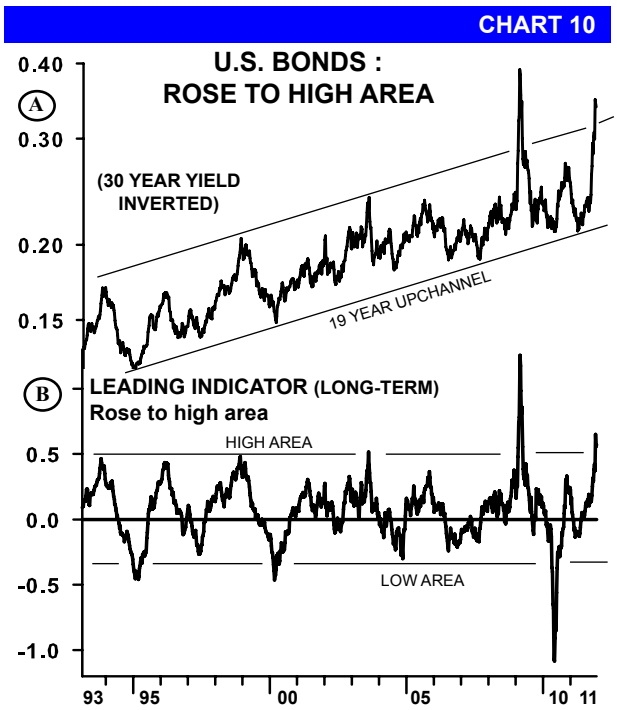
The Fed hasn't helped… They've acknowledged the U.S. economy is facing significant downside risks. And Bernanke himself said long-term unemployment is a national crisis, which has not happened since World War II. So Operation Twist is their latest way of doing their part to help fix the situation.

This basically means the Fed is going to readjust $400 billion of the U.S. bonds and notes it's holding, by selling short-term notes and buying long-term bonds. It will continue this plan going into the first half of 2012, which will keep downward pressure on long-term interest rates, therefore boosting bond prices.



MANIPULATING LONG YIELDS

We've often pointed out that the bond market is huge and it's a free market. It can't be manipulated



like short-term interest rates can. But this provides an example of the Fed's influence.

We know the Fed wants to keep interest rates low for a long time to help the economy. They've said so. And now, Operation Twist is helping push long-term rates down too.

The world economy, however, is still calling the shots. And since it's showing signs of slowing, it also adds to the appeal for U.S. bonds.

BOND RISE IN 2011 SURPRISED MOST

Again, this provides a good example of the importance of letting the markets tell you what's coming. When we bought bonds a couple of months ago, interest rates were already very low. But our indicators told us to buy and they were right. Now, the reasons why are becoming more obvious, and that is usually the case.

It's been a great move but as you can see on **Chart 10**, bonds are reaching a high area. Our gut feel, however, is that we could be headed for a 2008 repeat type situation. If so, bonds will head higher as demand grows and the market will become even more overbought. In the meantime, keep the bonds you have.

The U.S. deficit has already been hitting over $1 trillion for the past three years. This tends to reinforce a 2008 repeat. Plus, the fact that the Eurozone is on thin ice has the same effect. At this point, it seems like any accident could trigger panic. And if it does, bond prices could still surge higher.

Even so, this is just a feel, considering the vulnerable nature of things. So if you're not in the market, we'd wait to buy new positions.

Bond prices are overbought and that means, it's a little late to be buying. Better to hold off for the time being and wait to see what happens.

Bonds could also be forming a top. If so, the downward correction we've been expecting is coming and a good opportunity to buy at a better price may lie ahead.

CURRENCIES

U.S. dollar: Almost 9 month high

The U.S. dollar is on the rise. It moved up strongly this month, hitting an over eight month high and it's simply the best currency to keep your cash in at this time.

Yes, we know this is hard for some of you to accept, especially considering all the problems the U.S. is facing. But like we mentioned last month, it's happening and it's best to go with it.

RUN TO SAFETY

Think of it this way… the dollar has many things going for it that the other currencies don't. That's especially true during these volatile, uncertain times, which also explains why the dollar is likely headed higher.

The U.S. dollar has become a safe haven, even though it's not an ideal candidate. But looking at the positives, the U.S. is still the world's largest economy, and the dollar is the world's reserve currency, accepted and known almost everywhere. That's not the case with many other currencies.

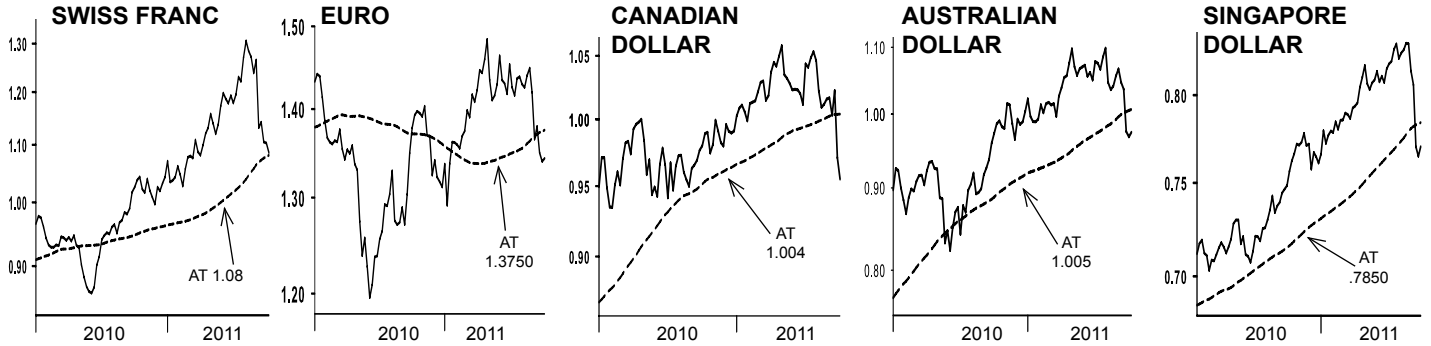
The world economy is slowing and this alone automatically puts downward pressure on several currencies. The commodity currencies, for instance, have been hit because of this (see **Chart 11**).

Plus, with the Eurozone in turmoil as it tries to deal with its wayward members, it has fueled the trend for safety. Investors don't want to take any chances and anything deemed risky has been tossed aside. That would include the higher yielding currencies.

Then there's the fact that many currencies aren't very liquid. In

CHART 11

TURNING BEARISH...



- - - 65 WEEK MOVING AVERAGE IS MAJOR SUPPORT

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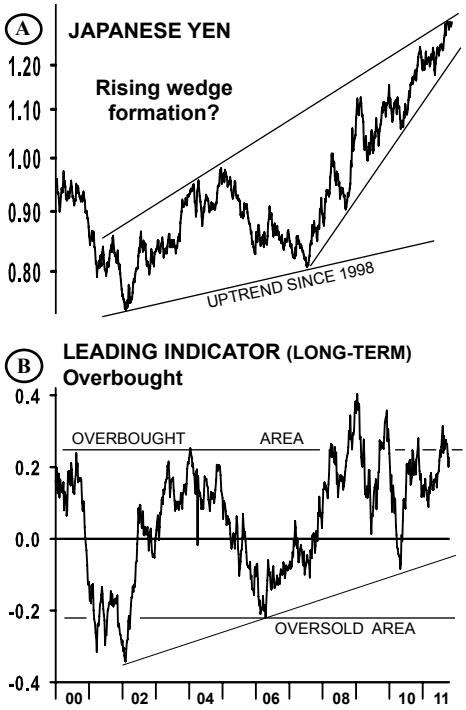
CHART 12

CLOSE TO RECORD HIGHS



other words, they wouldn't be able to handle a huge wave of foreign buying.

Operation Twist was also viewed in a good light, driving the dollar even higher. We know that doesn't make sense, but the marketplace feels otherwise. By their actions, the markets are telling us that the Fed's latest attempt to stimulate the economy has a chance of succeeding.

EURO WOES

For these reasons and others, the U.S. dollar is seen as the best alternative and other currencies are being dumped for different reasons.

The ongoing saga in the Eurozone has probably been most influential and the general feel is that it's going to linger and continue to cause upsets for a long time to come.

This month, Italy's credit rating was downgraded by the S&P. The ratings for Spain, Portugal, Ireland and, of course, Greece were also cut this year, which has increased negative sentiment for the Euro countries.

Italy, however, is the most worrisome. Their debt is massive. It's larger than all of the above mentioned countries combined, so it's no wonder they've been asking the Chinese for help.

The bottom line is, most of the major currencies have now turned bearish by breaking below their long-term moving averages. In other words, the currencies are poised to fall further and it's best to step aside if you're still in these markets (again, see **Chart 11**).

This also provides yet another example of how the markets are so connected. Okay, we can understand why the euro is dropping, but most currencies were affected too.

CURRENCIES: Move together

Nevertheless, and for whatever reason, it's clear that once a big trend kicks in, all of the currencies get sucked out with the tide. Some will fall more than others and for now, the U.S. dollar is king.

The only exception so far has been the Japanese yen (see **Chart 12**). Here too it doesn't make sense, but it's been strong since 2007 and it still is.

The yen is also considered a safe haven, despite Japan's currency intervention and negative economic fundamentals. But we don't think this will be the case for too much longer. The yen is currently overbought, it's been stalling and it may be forming a rising wedge. We'd avoid it.

U.S. DOLLAR BOUNCE

The same is true for the U.S. dollar. As we've often shown you, the dollar's been in a long-term downtrend for the past 40 years. But within that downtrend it's had a couple of periods of good strength. Increasingly, it looks like this current upmove could likely be somewhat similar. If so, this would be a typical case of a market taking a rest, and it happens on the upside and downside.

Note on **Chart 13**, the dollar has rebounded nicely and it could still rise further. The trend has turned up and the dollar is bullish. But the mega trend, which is the most powerful, remains down.

Currently, the U.S. dollar index will stay strong by holding above the 76.50 level. But unless it can rise significantly above 81.50, the mega trend will be signaling the dollar's rise is unlikely to be long lasting.

Based on the poor U.S. economic fundamentals, that's probably the way this rise will evolve. It'll be strong while it lasts, but it's not going to change a 40 year pattern.

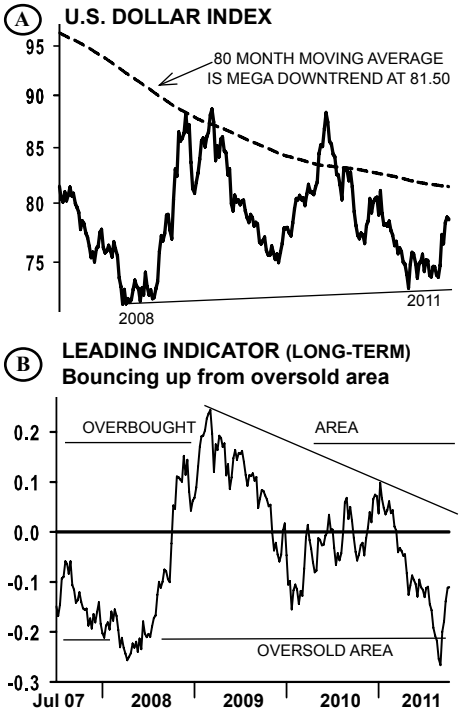
This is also being reinforced by the Chinese, who are the biggest holders of U.S. debt. They're itching to get rid of some of their dollars because they simply have too many. They're letting this be known, but they're also playing it safe. China can't just dump its dollars or it would upset the markets.

It's no secret, however, that China has been diversifying into other countries and currencies. They're buying gold and resources, selling some of their U.S. bonds, and planning to do more of this over the long haul.

This will keep downward pressure on the U.S. dollar for a long time. But for now, keep your dollars.

CHART 13

BOUNCING UP!



METALS, NATURAL RESOURCES & ENERGY

Time to accumulate...

It was a hard September. The metals, resources and energy all fell sharply. So it's no wonder that many investors are nervous.

As you know, gold was poised for some sort of downward correction. But the decline still spooked some investors because it was so fast paced and steep.

This sell-off reflected a lot of pent up pressure because these markets had held up so well, and for such a long time, surging higher and higher without a normal downward correction. The slowing global economy and the panic sell off in other markets added fuel to the fire.

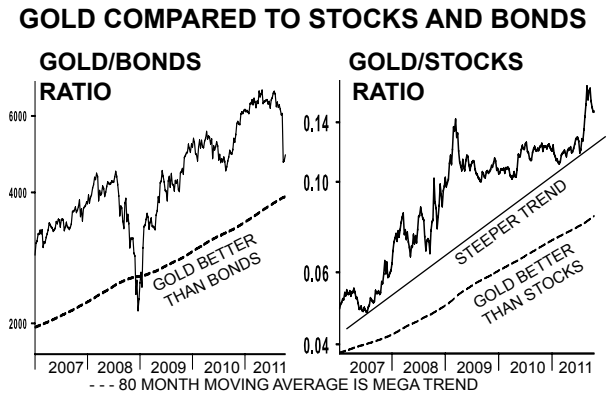
Gold and silver were dumped for cash. Cash has become king, at least for the time being. The pressure was too great and the metals cracked. This is similar to what happened in 2008. Nevertheless, these are still downward corrections within major bull markets.

So far we've seen a 16% decline in gold and 28% in silver. These have been the biggest declines since 2008 when gold lost almost 30%, which was the worst correction in the bull market so far.

For now, Bernanke says he'll take further steps to help the U.S. economy (and also Europe), so we could still see gold decline further in the current correction, while the resource sector bounces up.

This weakness, however, is giving us a great opportunity to buy more gold and silver at a better price. Today we'll measure the downside and what's likely...

CHART 14



MAJOR TREND IS YOUR FRIEND

But before we do, we'd like to emphasize the importance of the major trend. It's truly our friend, and we'll stay invested as long as it remains intact.

We've found over the years, it's most profitable to buy and hold during a major uptrend. This is hard to do, especially when you first buy because the price will probably go lower before it heads higher.

This is part of it. The sweating out process, but with a plan. We've been recommending gold since 2002. It took several years before it was looking better, but we stuck with it, by measuring the major trend and going with it.

Another important factor during the rise has been relative strength. Gold was stronger than stocks and bonds, which was a key sign of strength.

Chart 14 shows gold outperforming stocks and bonds in recent years. Gold has clearly been the strongest, rising within a mega uptrend. The only exception was when bonds were stronger during the crisis in 2008, and now. But as you can see, the mega trend still favors gold.

GOLD'S ALSO THE BEST CURRENCY

The gold price really began to flex its muscles in 2005 when it began to rise clearly in all currencies. It soared ahead and never looked back.

After the financial meltdown in 2008, gold began its ascent once again and as you can see on **Chart 15,** it rose steadily in most currencies. But in mid-2010, the strength changed. While gold continued rising versus all currencies, its rise was much stronger in the weaker currencies at that time.

In recent months, gold shot up when the strong Swiss franc fell sharply. The point is, even though some currencies will benefit when uncertainty prevails, it's temporary compared to the ultimate safety which is gold.

No country wants a strong currency. This was most recently seen in Switzerland when they weakened

CHART 15

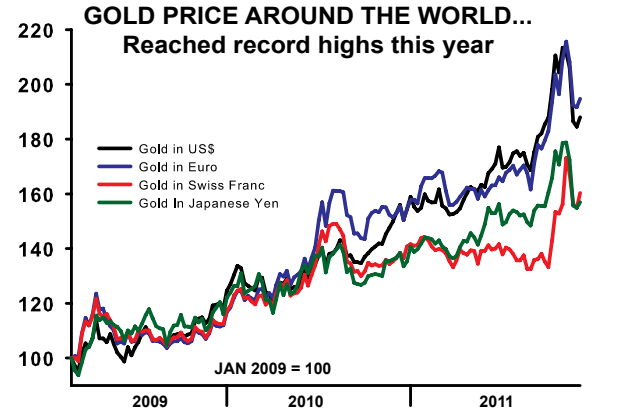


CHART 16

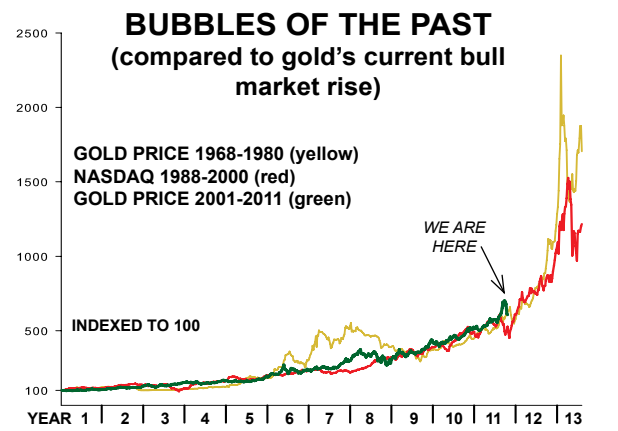


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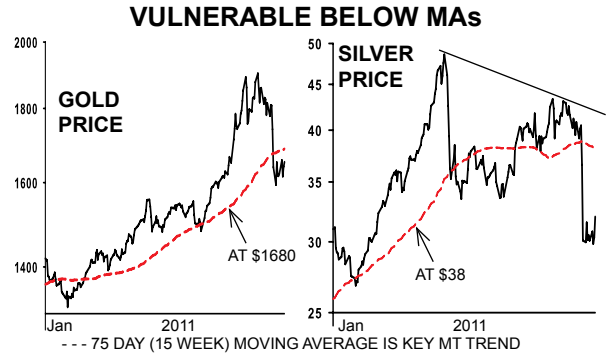
CHART 17



the Swiss franc by putting a ceiling on it. The von Mises quote, as Harry Schultz mentioned, is so true today... "A global system of fiat currencies will eventually end up in a devaluation race." The U.S. dollar is currently the lesser of the fiat evils. But again, this is likely a temporary situation.

BUBBLES... WHERE?

The current bull market in gold will turn 11 years old next February. This incredible run is historic because gold has gained each year since 2001. It even ended 2008 on an up-note. And this year is unlikely to be an exception as its gain is still in the double digits, so far.

Chart 16 provides a good example of this bull market in gold compared to two famous bull markets of the past... the huge gold run in the 1970s and the tech bubble in the 1990s. Here you can see that this current bull market has been modest in comparison, but it's on track to jump up in a frenzied rise in the years just ahead.

Meanwhile, gold looks set to decline further possibly in the upcoming months. But once the current weakness is over, you should be well positioned and ready for the train to take-off. Use weakness to buy the gold and silver you've been wanting to buy, but were waiting for a good opportunity.

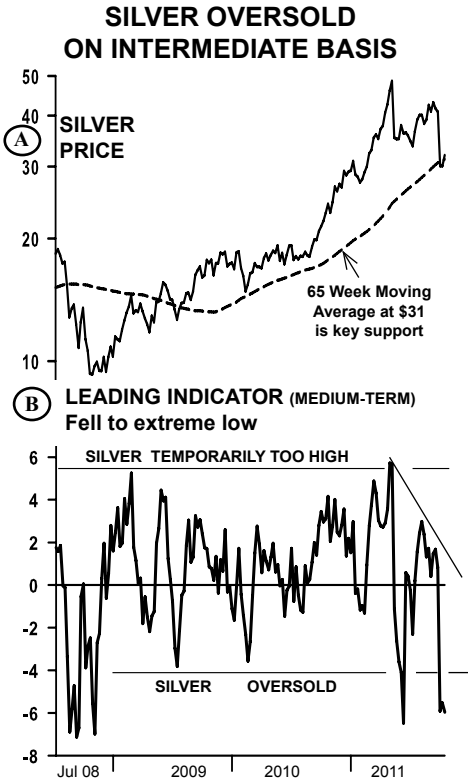
HOW FAR DOWN?

The correction we've been anticipating is here. **Chart 17** shows a closer up look at gold and silver since the stronger rise began last January. Note how much weaker silver has been than gold.

Silver has been affected by the global slowdown, like the resource sector has, while gold has thrived from it. Most of silver's sharp fall came in three days, wiping away most of this year's gains. But at the same time, it fell to a strong support level and it's extremely oversold (see **Chart 18**).

This is saying that silver's downside is limited. It could slip into the mid-twenties, and if it does, it would be at a super sale price. But as we've been saying, if and when silver falls back to the $30 level, just buy more. We still feel this way. It's time to buy more silver now and on further weakness.

CHART 18



Gold, however, is different. It looks like more downside is likely. On a technical basis, this is true, but considering today's uncertain times, anything could happen. For this reason, our bottom line recommendation for new positions is to buy gradually over this month and next in order to average in at a good price.

Many people are worried about this gold decline, but look at it as a healthy thing. It's down 16% so far from its record $1900+ high, which has been a small decline compared to the tremendous rise it's had since 2008.

In perspective, gold has risen almost 170% since its lows in 2008. That's 170% in three years! And gold's steepest decline since then is the current one at 16%; the other one was almost 14% in April 2009.

This was a rise we call a C rise when gold rises in the strongest intermediate leg up in a bull market. In fact, the bull market's strength is reinforced when C rises hit record highs (see **Chart 19A**).

The last C rise, from April 2009 to Sept 2011 was phenomenal. It lasted longer than any other C rise over the last 10 years, and it was much stronger. It gained almost

CHART 19

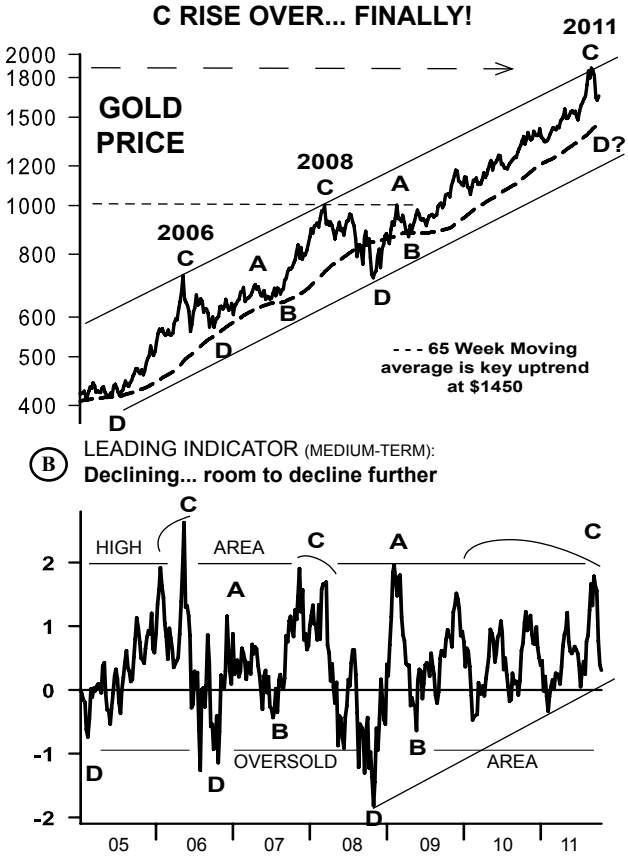
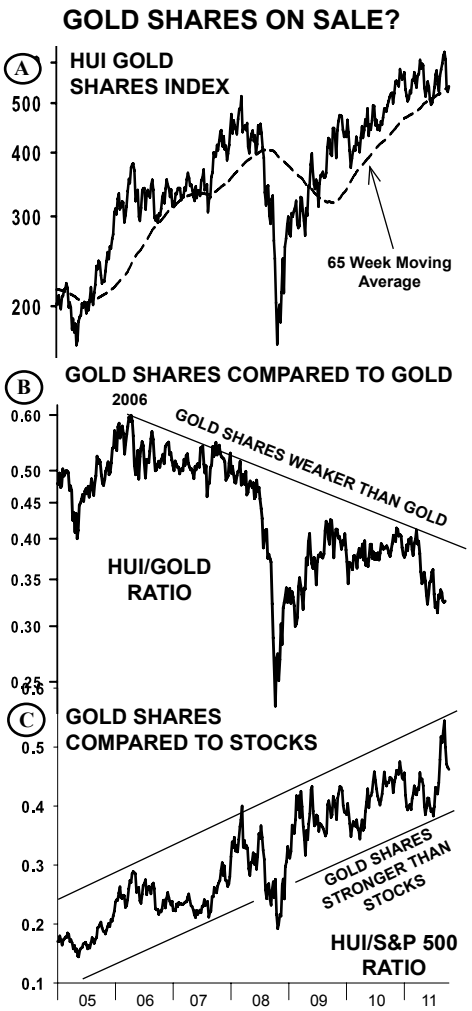


CHART 20



120% in 2½ years without much of a decline to speak of. So you can understand why we say the 16% decline has so far been moderate.

We say so far because, unlike silver, gold's indicator still has room to fall further before it's oversold (see **Chart 19B**). If gold closes below $1594 (the low in late September) and stays there, then we could see gold fall further to its next support near the $1550 level.

When gold soared to $1557 in early May, the bulls were euphoric with this record high. Now sentiment has changed fast, as this level looks far down from today's prices. This is important to keep in mind… if gold falls to this level, it'll still be in a very strong bull market.

But it doesn't stop there. In a worst case decline, we could see gold test its 65-week moving average. This would be a normal occurrence for a D decline, which is what we're calling the decline that is currently underway (see **Chart 19A**).

Interestingly, the Summer lows near the $1480 level will coincide with this rising moving average by November. This means, we could see these lows tested in a steeper decline, but even if they are, the bull market would still be intact, and you should then buy with both hands.

A decline to this level would be a 22% decline, which would tie in with the 2006 decline. That was the second steepest decline in the 10 year old bull market. But this time around, the C rise was double that of the 2006 rise, which shows you how powerful the overall bull market has become.

It's not a coincidence that the most powerful C rise in the entire bull market happened once the stronger phase of the bull market began in September 2009. This tells us, we must watch this correction carefully so we have all of our positions bought before the next leg of an even stronger phase of the bull market begins!

The bull market is far from being

CHART 21

over. This is accumulation time…

GOLD & SILVER SHARES: Down

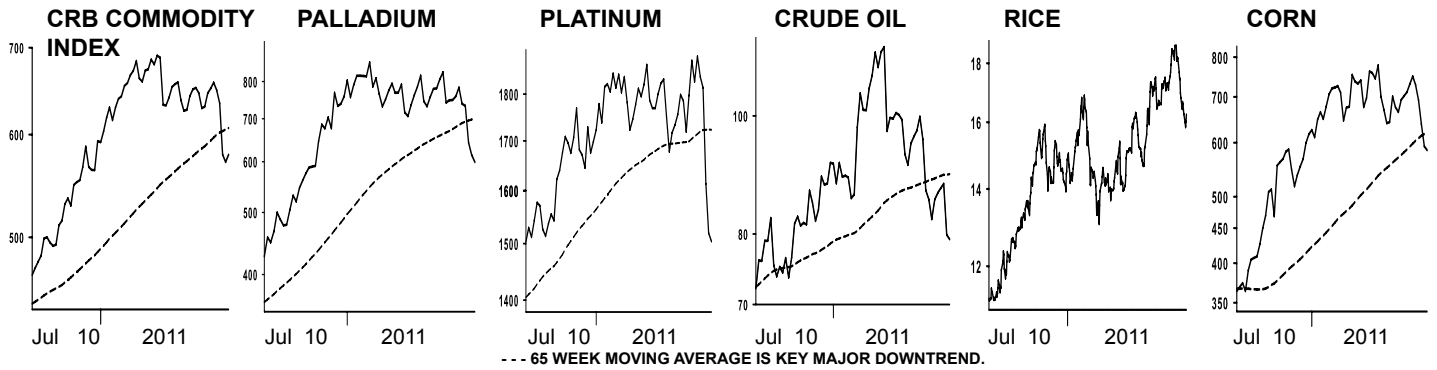
Gold and silver shares fell sharply in September. They've been hit by both a falling gold and silver price, as well as a falling stock market. Some have held up much better than others, but they were all affected.

The shares in general have underperformed gold this year. They're still a good investment and it looks like they may get a boost from the stock market once the bounce kicks in.

Chart 20 shows the HUI gold share index barely holding onto its key 65-week moving average. This average has generally been a key trend for gold shares. For now, so far, so good, and it looks like gold and silver shares are due to stabilize.

It's interesting to see gold shares compared to gold, and compared to the stock market (**Charts 20B** & **C**). Gold shares have been weaker than gold, but much stronger than the S&P500. This shows that overall gold shares are influenced by gold, but a rising stock market also adds

CHART 22



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a boost.

We recommend keeping your gold shares.

RESOURCE & ENERGY: Battered by economy

The resource and energy sectors fell sharply this month. Nothing was spared. This sector had been drifting down since July but the plunge took place in September.

Copper, for example, lost 25% in September alone. This plunge was a mirror of the global economic crisis, with Europe and the U.S. at the forefront.

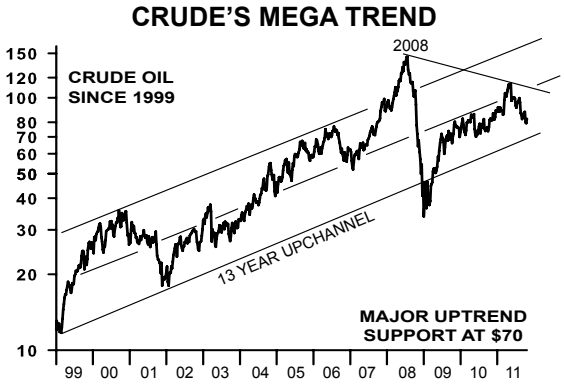
Copper is the clear barometer of the global economy and it pays to listen. So, what's it now saying? First take a look at the copper price on **Chart 21**. It broke clearly below its key 65-week moving average and fell to a 14 month low. This means copper turned bearish this month, and it will now stay bearish below this moving average.

This is bad news for the recovery. But with Bernanke vowing to take steps to boost growth, just as the ECB is doing, we'll likely see a bounce up in the copper price.

If copper now stays above $3 and jumps up to the $4 level, it would be a great rebound, probably coinciding with some good economic news. But unless copper closes and stays back above $4, it'll stay bearish.

The oil price, the other metals and some of the agricultural commodities also took a bath (see **Chart 22**). Crude has been down since May, losing 33% since then. Platinum and palladium also caved in, losing 20% and 28%, respectively, in September alone. Yes, September was a hard month.

CHART 23

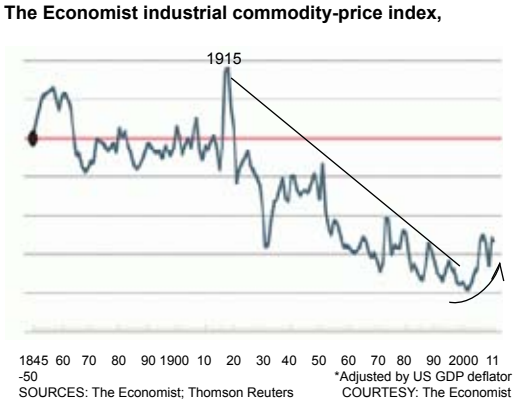


It always pays to look at the big picture when such falls occur. It's the best way to put the fall in perspective.

Take crude, for example... going back to the start of its bull run in 1999, it's been a long road up from the $10 level (see **Chart 23**). You can see that even if oil declines further, to near the $70 level, it would still be in a mega uptrend and channel.

This means the corrections we've seen so far, while sharp, haven't changed the mega trend. This also suggests that copper will eventually rise back above $4 and go much higher.

CHART 24



WHY DO WE FEEL STRONGLY ABOUT THIS?

The world is in a very different situation compared to just 10 years ago, and especially since World War II. The world is using raw materials like never before. The commodities have risen over the last almost 10 years because it's been a demand based market. And a demand based rise is the most powerful type of rise.

In the 1970s, for example, the rise was primarily due to the falling dollar and inflation. It wasn't truly a demand based rise.

We have gone over the many historical changes in the world in past issues that have caused the massive shift in commodity prices. An excellent article on the world economy in the Sept 24 edition of *The Economist* covers what we've been seeing, especially over the past decade.

To briefly refresh your memory, at the start of the century, in 2001, commodities faced the biggest and fastest industrialization in history. This was a powerful situation and it's still going on.

The surging demand for raw materials in the emerging countries for development has been unprecedented in its size, speed and breadth, which of course has been led by China, but it's not the only country.

Today, the emerging markets account for almost half of global GDP, but they have no reserve currency of their own.

Chart 24 is impressive. It shows that industrial material prices are down 80% in real dollar terms from 1845 to 2002, which was the low point. During the 1920s, the downtrend steepened with the Great Depression and it was only broken to the upside in 2003!

This is pretty amazing because we are living a big part of history right now. And the incredible part is to see how low this index still is, in spite of the rises we've already seen.

Chart 25 provides another good example of this demand based rise. It shows China's consumption of the world's raw materials and metals. Iron ore is the largest, but cement (not on the list) is the highest. China imports 53% of the world's cement!

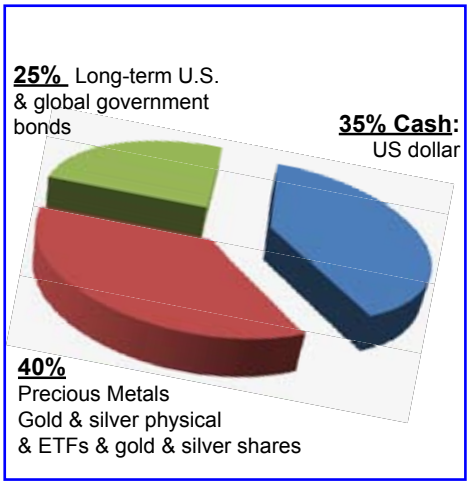
Granted, China is the biggest consumer, but the rest of the world is growing as well and their needs have also been increasing.

This is why we'll take advantage of weakness and buy when the time is right.

CHART 25

OVERALL PORTFOLIO RECOMMENDATION

Another hard month has passed as most asset classes fell sharply. September was filled with the ongoing crisis in Europe, the sluggish U.S. economy , and the drag both are having on the global economy. The world equity markets are bearish, the resource and energy sectors are bearish, the currencies were hit, the 10 year yield fell to record lows, gold and silver are down. The only safe havens left rising are bonds, the U.S. dollar and the yen. But it looks like the waterfall declines are winding down. A glimmer of hope is all that is needed to see more of a bounce up in the markets, but clearly they're still in the woods. Stay safe until the dust settles. Keep your dollars, gold, bonds, silver and some shares.



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

The metals, resources and energy all fell sharply this past month. Gold was poised for a downward correction and the sell-off reflected a lot of pent up pressure that was released. The slowing economy and the panic sell off added fuel to the fire. Cash became king and the dollar was the beneficiary.

Silver plunged to its strong support and it's holding. We recommend keeping your position and buying new silver coins and SLV now, ideally near the $30 level, and on further weakness. We also recommend keeping your gold and silver shares but don't buy new positions yet. Sell AuRico Gold (AUQ-NYSE) as per our Sept 15 update. Gold itself has room to decline further. Keep what you have and use weakness to buy the gold and silver you've been wanting to buy, but were waiting for a good opportunity. Ideally buy gold gradually over this month and next.

We'll wait before buying new positions in the energy and resource sectors. We sold half of our position in June and the rest in early August, and since copper turned bearish this month, we'd rather wait before buying.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The stock market remains bearish, in the U.S. and worldwide. The New York stock indices hit new lows for this decline and they're likely headed lower. But since stocks have fallen far and fast, it would not be unusual to see some sort of rebound rise first, before stocks fall too much further. If so, we advise selling if you're still holding stocks (but not gold and silver shares). If you're out of stocks, then stay safely on the sidelines.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

New Gold	NGD-AMEX	TSX:NGD
Central Gold Trust	GTU-NYSE	
Central Fd of Can	CEF-AMEX	TSX:CEF-A
Royal Gold	RGLD-Nasdaq	TSX:RGL, FSX:RG3
SPDR Gold Shares	GLD-NYSE	HKE:2840
iShares Comex Gold	IAU-AMEX	
iShares Silver Trust	SLV-AMEX	
Silver Wheaton	SLW-NYSE	TSX:SLW

BONDS ETFs & FUNDS

Barclays LT Treasury	TLO
Amer Century Bond	BEGBX

CURRENCIES RECOMMENDATION

The U.S. dollar rose strongly, hitting an almost nine month high. The dollar has become a safe haven and it's the best currency to keep your cash in at this time. The major currencies are bearish and they're poised to fall further. The yen is the only exception. Even though we may see some volatility coming up, keep your U.S. dollars. We also like UUP. This ETF rises with the dollar index but at this point, wait to buy on weakness.

INTEREST RATE & BOND RECOMMENDATION

Bond prices soared this month, rising the most since the 2008 financial crisis, as interest rates plunged. U.S. government bonds have been benefitting as a safe haven and they've been the best overall investment. For now, bonds could still rise further under the current environment, so continue holding the bonds you have, as well as TLO and BEGBX. Bonds, however, are currently overbought, so it's a little late to buy new positions now. A downward correction is likely upcoming, which would provide a good opportunity to buy at a better price. We'll then also likely add TLT to the list.

Note: The shares, funds and ETFs are listed in the box above in order of strength per each section. Keep the ones you have on the list.

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Big Picture

By Uncle Harry Oct 6, 2011 Dear reader, ETF's may be the next bubble. Esp. US based ones. They are derivatives in disguise. Replace the ones U are in or risk a wipe out. •••• Hyper-inflation is not in the immediate future. Nor is a US$ collapse. But **QE's will expand** worldwide to "save the systems" (a fallacy, but fiction sells). Inflation *will build* with QE, step for step. Later, guess what happens to bonds? Then balloon goes up & US$ gets folded into a new reserve currency, or replaced by the Yuan.

Coming to a bank near U: Australians just had the rug pulled out from under them. Bank deposits won't be guaranteed very much, soon. New rules: Deposits held as at 10 Sept will continue to be covered at the current level (up to $1m) until 31 Dec 2012 or maturity (whichever is the earlier); From 1st Feb 2012 a new limit of $250,000 per invest-or per institution will be in place. Between now & 1 Feb 2012 the current limit of $1m applies for new deposits but will reduce on 1 Feb to the new limit. –This idea will likely spread. Plan accordingly (Thanks to pal Don Daisley for the info).

Straws in the wind: Swedish Finance Minister Anders Borg said his govt may force the country's banks to curb their reliance on US$ funding via law changes, as a global liquidity crisis shows signs of reigniting. He said *"Developments in the last few days underline the importance that we actually do something about the liquidity situation. There's a far too big reliance on dollars in the Swedish banking system & we must eventually* ***move away from that****."*

Think we all know why gold had a big tumble, eg, it was overbot, was due for periodic correction of 20% on average, was triggered by margin-rises, then margin calls, & big reason: all Funds fiscal year ending so they had to sell quick to show profits in quarterly reports. •••• Bob Chapman reminded me that Von Mises said *"A global system of fiat currencies will eventually end up in a devaluation race"* & that is exactly what we have. A musical chairs game, but in this one, there' s no winner. ☹

Plez read this with an open mind, not thinking: "It can't apply to MY country." It does. This quote from Hitler's No.2 translated from German: *"Why of course the people don't want war. Why should some poor slob on a farm want to risk his life in a war when the best he can get out of it is to come back to his farm in one piece? Naturally the common people don't want war neither in Russia, nor in England, nor for that matter in our Germany. That is under-stood. But, it is the leaders of a country who decide policy & it is always a simple matter to drag the people along, whether it is a democ-racy, or a fascist dictatorship, a parliament, or a communist dictatorship. Voice or no voice, the people can always be brought to the bidding of the leaders. That is easy. All you have to do is tell them they are* ***being attacked****, & denounce the peacemakers for lack of* ***patriotism*** *& exposing the country to danger. It works the same in any country."* -- Hermann Goering (1893-1946) Commander of the Luftwaffe, Pres. of the Reichstag, Prime Minister of Prussia &, as Hitler's designated successor, the second man in the Third Reich. April 18, 1946. Source: Nuremberg Diary (Farrar, Straus & Co 1947), by Gustave Gilbert (an Allied appointed psychologist), who visited daily with Goering & his cronies in their cells, afterwards making notes & ultimately writing the book about these conversations. http://quotes.liberty-tree.ca/quote_blog/Hermann.Goering.Quote.65D2

•••• Swiss advisor Frank Suess told *DailyBell*: *"Europe doesn't need more centralization & Euro-wide taxing. To the contrary, in the medium to long-term, I would expect a de-centralized, confederate system to work much better for the EU. But, the EU long ago went down the road of centralistic bureaucracy. It's a failed construct --not backed by the people. The EU should copy the Swiss system."* Amen. •••• Copper's fall tells us all we need know. Down. Ditto DJIA

P&F chart. Down. Ditto world wide stock mkt index. Down. Don't be obsessed by the reasons; just follow the charts, ie, the money. •••• Why have bank stocks fallen so much? Answer: because U reap what U sow. ••••

I'm fed up with endless articles on the *'clash of civilizations'*. Baloney. It's just that Muslims /Arabs have had enough of being occupied by Western troops, for centuries. We (in the West) thereby *created* terrorism. •••• "Buy 1 ounce of gold a day, every day." –anon. •••• The motto of central banks***: "Money from Nothing."*** Small wonder the world is in a hopeless condition. •••• I commend Longevinex. Aids eye sight, heart, cancer prevention, treatment. Info@longevinex.com. •••• Publisher A. Huffington says: "*The US went from a country that made things to making things up."* •••• *"Liberty has never come from govt. It has always come from the subjects of govt. The history of liberty is the history of resistance."* -Woodrow Wilson, ex US president. •••• Surprise forecast by publisher Steve Forbes: *"New US president will stop trashing US$ & link $ to gold."* •••• U R looney if U use Facebook. •••• *"US govt wants/sells fear."* –anon. Not a new thing, but don't succumb to it. Put shields up.

In addition to the *AdenForecast* & their *Gold Charts R Us* (which handled gold fall neatly) U also need Deepcaster@Deepcaster.com if pro active in mkts. ••• Lastime I recalled our Apr 2008 forecast that *'all U own will shrink.'* And it came to pass. Typical: Last week the Canadian govt said its GDP **"Shrank"** for first time ever for a qrtr. In 8/31 *FT*, columnist Martin Wolf's headline was: *'Struggling with a great contraction.'* He quoted Harvard's Ken Rogoff & Peterson Institute's Carmen Reinhart label of today as *the 2nd great contraction*, 1930's depression being the first. So my shrink forecast has been sanctified, along with your own shrunken wallet. Wolf's reply to questioners re will high income nations get a double dip recession? His correct reply: no, as the first one didn't end. Note: none of the 6 largest high-end nation's economies had surpassed output levels reached before the 08 crisis hit. And the US jobless rate still double its pre-crisis rates. •••• NEXT: *FT* headline (8/4): The coming crises of govts. "The global crises of financial & housing mkts now being superseded by new crises **of govts**." Fiscal erosion in weaker Eurozone members & in US state govts are pressured by unfunded pension & healthcare liabilities. Harvard prof Robt Barro warns: "Without action, this new crisis of **state competence** could soon become as damaging as its financial predecessor." He fears no US action likely til after election, means greater recession assured. •••• Greece: needs default, devalue, decouple. And Europe needs that to happen. ••• Food & drink companies (among others) are audaciously shrinking (that word again) the **size** of their products, but not reducing the price. It's almost opposite of 2 for the price of 1, rather 1 for the price of 2. Complain! ••••

Potpourri Workaholics' torment. So.Korean firms resorted to locking staff out who want to work during annual 2-wk holiday. I'd be at home in S.Korea. ☺ I'm not alone. 57% of Americans only take half their 2-wks holiday, 7-days a year! Europe is spoiled rotten by 5-wk holidays, means the biz people (eg, bankers) U know are often not there when U need them. Complain! ••• In the new era-of-shrink, *complaining will be the new global norm*. So will attitude-change & shrinking liberal (socialist) rules! Retirement ages to keep extending as holidays contract. ••• A miracle is not the suspension of natural law, but the operation of a higher law. ••• *"A good friend is, as it were, a 2nd self."* –Cicero. •••Chinese signs: on paper shredder: Personal data breaker. Elevator sign: *Press up to go up. Press down to go down.* ••• Ad: Internet addiction can be treated! On line! ☺ ••Maxine says: *Books are a nice change from reading prescription labels.* ☺ Max tells how to prevent sagging: Just eat til the wrinkles fill out. ••• Dr.Carl Parker, an *HSL* subscriber since 1973(!) sent a card saying *"Everyone in the universe wishes U a happy 88th birthday."* Never got so many birthday wishes. Thank U!!! A loving bye-bye from your chaos-defiant Uncle Harry. God willing, I'll be back in Nov, unless I need a health farm.