THE
ADEN FORECAST
MONEY • METALS • MARKETS

OCTOBER 2012 *our 31st year*

THE FED & ECB INJECTED MARKETS... STAY THE COURSE

It was another very volatile month. That goes for the markets, as well as what's been happening on the world stage.

UNDERSTANDING, UNREST & UNCERTAINTY

Think about it for a moment…

Just over the past month, the Fed launched a massive QE3 program that's going to last indefinitely. The ECB has a similar plan in the works, buying bonds of the weaker Eurozone countries and doing all it can to save the euro. Riots and violence swept the Middle East. Protests also continue to engulf many of the worn out European countries. And the U.S. election has been full of surprises as it nears the final stretch.

We all know the economy is struggling and this too was reinforced several times in recent weeks. The first signs of inflation also popped up but they basically went unnoticed. Concerns about the global economy and the election intensified too.

INSIDE

These factors and more moved the markets. For the most part, they were biding their time, but that isn't the case any longer. The markets are moving with uncertainty.

ANOTHER HISTORICAL ROUND OF LIQUIDITY

Even though QE3 is now old news, we want to touch on it because the actions and implications will be long lasting, affecting all of us.

Most important, QE3 is unlimited. In other words, the Fed will do whatever it wants for as long as it wants until it decides when enough is enough and it's satisfied. They've already suggested this will likely take years.

The Fed will buy bonds, mortgage backed items and whatever else they decide on. The upside is literally open ended.

As we've often discussed, this unprecedented "printing" policy will fuel inflation. The money supply has already tripled in recent years thanks to the Fed, but it's going to surge a lot more and that is indeed inflationary.

Nevertheless, the Fed has vowed it'll keep QE3 going until the unemployment situation is better. With the exception of the latest surprising report that unemployment fell to 7.8%, it has stayed above 8% for the past 3½ years. That's the longest 8% stretch in over 60 years. But can the Fed really help?

Most interesting, Bernanke himself admitted, he "doesn't think it (QE) will solve the problem." He's worried about the fiscal cliff and the inaction of Congress and the President to do something about it.

INFLATION ON THE HORIZON

Inflation is another story. It will rise as a result of the Fed's actions and it's already picking up. This month, for example, consumer prices rose the most in over three years. And producer prices have surged to double digit annualized levels for the last two months.

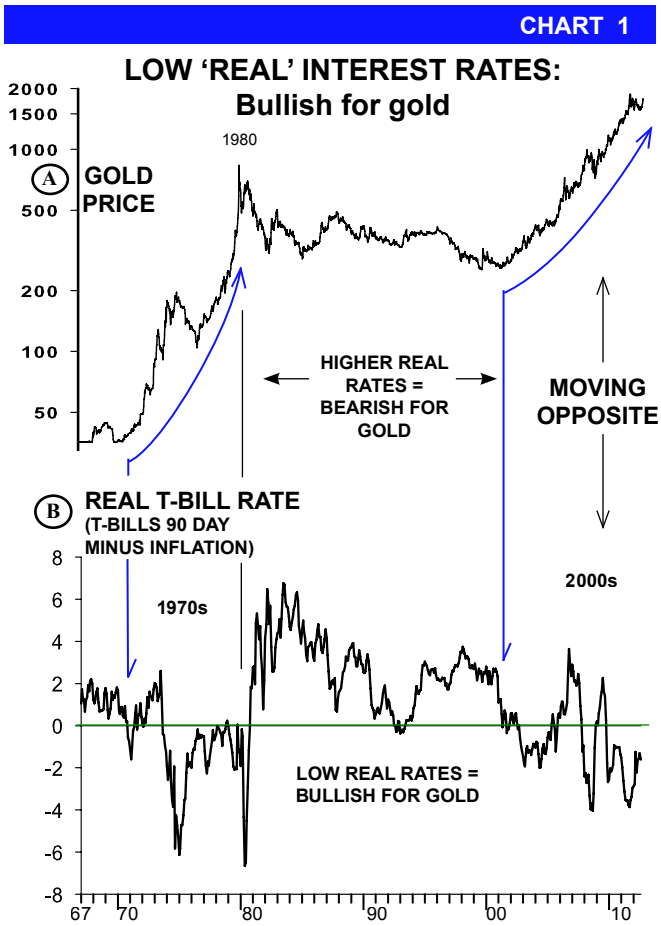
As for interest rates, the Fed also vowed to keep short-term rates near zero for about three more years. This alone is going to be very bullish for gold.

GOLD LOVES NEGATIVE REAL RATES

To refresh your memory, let's take a look at **Chart 1**. Here you'll see the gold price above and the "real" T-Bill rate below. In other words, interest rates adjusted for inflation.

As you can clearly see, gold rises strongly when real interest rates are negative (below zero). That is, when rates are lower than the rate of inflation.

That was certainly the case in the 1970s. Interest rates and inflation were both soaring... but inflation was higher than the high rates. Real interest rates were negative and this provided the platform for



gold to literally soar at that time over 2,000%.

The main reason why was because it wasn't worth collecting interest. If you did, you were going into the hole and this made gold even more attractive.

Since gold pays no interest, there was no competition. On the contrary, it helped fuel gold's appeal and the same thing has been happening in recent years…

POSITIVES FOR GOLD

Note that with a couple of exceptions, real interest rates have been negative since the early 2000s. And here again, this has helped fuel a strong rise in gold since then.

This time the opposite of the 1970s has been happening… low rates and low inflation, but the bottom line has been the same.

In fact, we're even more certain now that real rates will stay negative. That's because it's essentially been confirmed.

This alone makes gold even more bullish.

The Fed's latest actions guaranty the conditions for gold will stay bullish in the years ahead. The Fed's going to keep interest rates super low and inflation will pick up. It's already happening and this alone will keep real interest rates negative, making gold more attractive than anything we've seen so far.

KEEP THE SAME PATH

For now, our strategy is essentially the same. Keep the positions you have… and continue buying gold. Hold on to your stock and currency positions. See our recommendations on page 12 for the latest.

Costa Rica is popular

This cartoon says a lot about feelings in the U.S. We've been hearing this for several years now, and many of you continue asking about living in Costa Rica and the lifestyle here.

It has become even more popular than it was. People are coming here

on vacation or to live part time or full time. They're enjoying the same things we've been enjoying for well over 30 years now. And you know what… we never tire of the natural beauty here.

Plus, San Jose has all you need to live a healthy and good life. The beach areas and mountains also have the beauty and the conveniences to live well, and with many other expats too.

In fact, we met an interesting man here from the U.S. who is buying a beach house. And his comment was, "thanks to the rising gold and silver prices is why I can buy this beautiful beach house!". This, of course, warmed our hearts.

Our dear Harry Schultz believes we're walking into hyperstagflation -a new animal. He goes on to say he is reminded of a Mark Twain quip: "If voting made any difference, they wouldn't let us do it." -- In Europe (his backyard): the sovereign debt crisis & the bank crisis remains untouched, except by a hot air front… -- Knukles says: "Eventually all conspiracy theories are proved correct." --Note: "Once the truth is revealed, U are never the same." - anon

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U.S. & WORLD STOCK MARKETS

A cautious bull market

There's an old saying in stock market circles, which is... "Don't fight the Fed".

FED INDUCED RISE

That is, when the Fed is stimulating, the stock market will usually head higher. That's because as the Fed provides more liquidity, stocks float up too.

That has indeed been the story since late 2008 when the Fed started its first QE1 program (see **Chart 2**). As you can see, the Dow Industrials then moved higher from the depths of an extremely steep drop during the financial crisis in 2007-08.

It was the same story following QE2 in 2010. The Dow and the stock market headed higher. This coincided with the Fed buying $2.3 trillion of debt from 2008-2011 in the QE1 and QE2 stimulus programs.

And now with QE3 underway, it's coincided with the Dow and several of the other stock indices hitting five year highs in early October. So for now, the stock market is pausing but it remains bullish.

BULLISH BACKDROP

In fact, the Fed's latest actions are actually extremely bullish for stocks. Steve Sjuggerud is a friend and analyst we respect and he believes stocks could soar to unimaginable levels. The reasons why are very valid...

As we've often mentioned, the stock market loves low interest. Stocks thrive in a low interest rate environment. And with the Fed saying it's going to keep rates low until 2015, it'll provide an ideal backdrop for a long lasting stock rise.

The Fed's latest actions are clearly the most extreme yet, which brings up our next point...

Easy money policies produced bubbles in the past, like the real estate bubble. Policies are now going to be easier than what we've previously seen and a bubble will likely result. Stocks are a good candidate and so is gold, which makes sense...

With interest rates paying nothing for years to come, investors are going to be looking at alternatives. And many signs point to stocks as a popular choice as below zero interest rates make stocks increasingly attractive.

Just like we showed you last month, stocks are cheap versus bonds and they're poised to outperform them.

There are also some warning signs, but as long as the stock indices stay bullish, we recommend keeping the stocks you have and staying with this market. Don't buy new positions at this time.

CAUTION FLAG WAVING

The big damper to this bullish outlook is still the Dow Jones Transportation index, which is also shown on **Chart 2**.

It's been sluggish, it failed to surpass its 2011 highs, like the Industrials did, and it continues to drift while holding above this year's June lows.

As our dear friend Richard Russell has often pointed out, the refusal of the Dow Transportations to move up in conjunction with the Dow Industrials is a bad sign, and it triggered a Dow Theory bear market signal. In fact, he recently said he's seldom witnessed a more obvious series of warnings.

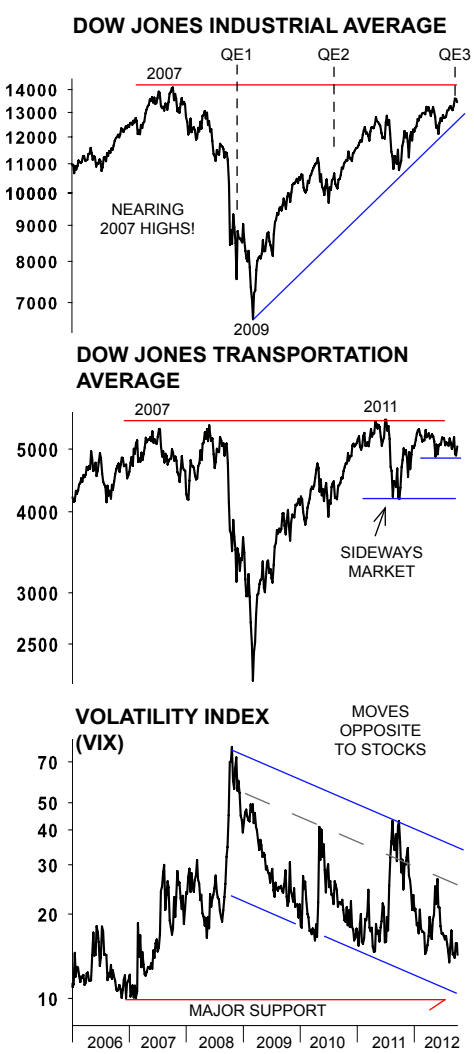
The Dow Transportations could be leading the other stock indices. And with the Nasdaq also looking toppy, declining to a six week low, this means we must watch the market closely.

If the Dow Transportations breaks to new lows for the year below 4850, it would reinforce a negative outlook. If Nasdaq closes and stays below 3025, it too would be flashing a warning.

On the other hand, if the Transports stay above 4990, it'll be a good sign for all of the U.S. market. A sustained rise above 5200 would be very bullish, not only for the Transports but all around.

Meanwhile, the volatility index (see below on **Chart 2**) is low and

CHART 2



it's fine. It's holding near a level that has coincided with ongoing upmoves in the Dow Industrials.

The VIX tends to spike up when the market's in trouble, so as long as it stays calm and/or declines further to the bottom side of its downtrend and major support, it would give a short-term bullish reading.

S&P 500: Nearing target

The S&P500 is looking good too (see **Chart 3**). It's getting closer to our major target level, the 2007 highs near the 1550 level.

Our bullish objective would be met at that level, but if it's clearly surpassed, the S&P would be extremely strong and it would be a very bullish sign for all of the markets.

The leading indicator is rebounding and that too is bullish. If it keeps rising, it'll be pointing the way up for the S&P, and it'll also be signaling that there's a good chance it'll surpass the strong 1550 resistance.

So it's important to watch the 1550 level on the S&P500 this month because it'll tell us a lot. Will our original bullish objective be met, will it be surpassed or is the market ready to turn down?

If a bear market really started in 2007 because it failed to clearly rise above the 2000 peak, then the S&P is unlikely to surpass 1550.

Meanwhile, the market will remain strong by staying above 13200 Dow Industrials, 1410 S&P 500 and 3025 Nasdaq.

CHART 3

WORLD MARKETS NORMALLY MOVE IN TANDEM

As we've often discussed, stock markets generally move together, either up or down. And if one of the indices is out of whack with the others, it's worth keeping an eye on.

We've been seeing this same type of action in many of the international stock markets.

With the exception of a few markets like Mexico and Thailand, which have been among the strongest global markets and leaders in their regions, other world markets haven't joined in (see **Chart 4**).

As you can see, the markets are very diverse. In Asia and Latin America, for example, many markets are moving in opposite directions and this is happening all over the world. Some markets are very weak while others are doing well.

It's a mixed picture across the board but, unlike the U.S., there are more sluggish and weaker markets on the world stage.

This is reflected in the world index, while up, it's similar to the Transportations, as it's failed to surpass its 2011 highs.

Overall, despite the pros and cons, we're staying with the flow. It's still bullish and as long as that's the case we're keeping our recommended stocks.

Of our open positions, WMT and EWW reached new highs this month. While others like AEP, IYZ, PSPFX, IOO, XLE and DIA are holding up well. Keep your positions, but don't buy new ones.

CHART 4

U.S. INTEREST RATES AND BONDS

Bullish bonds... but upside still limited

Interest rates have been bouncing up from the lows since July reaching a four month high in September. But overall, rates remain at low levels.

The Fed's pledge to keep interest rates low in the years ahead initially put downward pressure on all rates. Tensions in the Middle East and Europe also drove investors to the safety of U.S. treasuries.

As you know, the U.S. is considered a safe haven during uncertain times. And with so many countries in trouble, the U.S. is the best option, despite its own problems. This is one reason why the recent $21 billion 10 year note sale had stronger than average demand.

BONDS ARE BULLISH

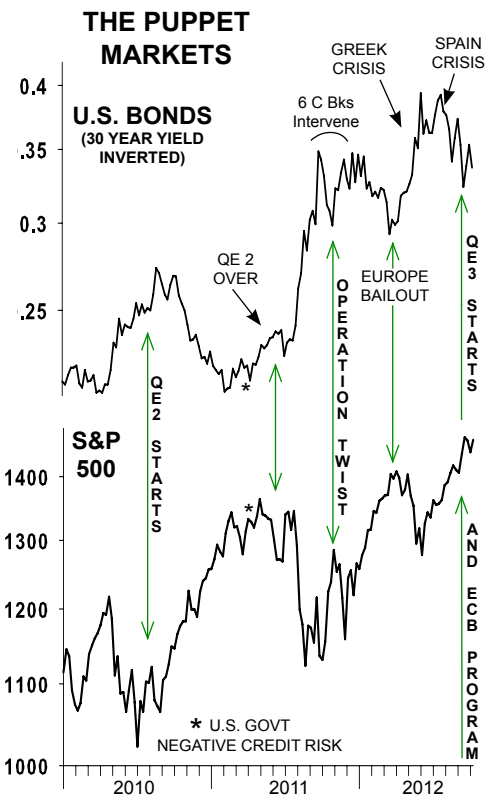
Looking at **Chart 5**, you'll see that bond prices have surged over the past couple of years. The slow global economy, safe haven attraction and the ongoing crisis in Europe have been key reasons why.

The monetary policies of the Fed and other central banks have been the major influence for both bonds and stocks. Sometimes these two markets reacted differently, but overall they've risen together.

This continuity, however, won't last forever. As you know, **the Fed can control short-term interest rates, but it can't control long-term rates.** They're driven by the free market and if the massive free market changes its mind due to a shift in sentiment, or for whatever reason, long-term interest rates will rise further, whether the Fed likes it or not.

For now, interest rates are essentially still bottoming, which means we have to be open to any possibility. That's especially true considering the U.S. economy is not doing well.

CHART 5



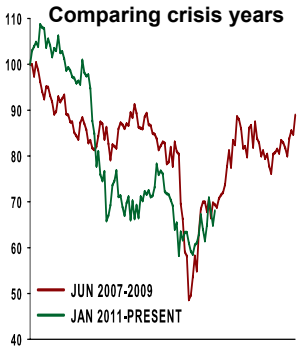
CHUGGING ECONOMY

The economy is barely creeping along. Third quarter GDP, for instance, was barely above 1%. That was lower than the already weak recent average.

As you know, unemployment is stuck at very high levels. It's surged 60% over the past four years.

Many experts provide valid studies showing why this is unlikely to change significantly over the long haul. In fact, most economic stats are reinforcing the weakness in the overall economy, despite the recent surprise drop in unemployment below 8% to nearly a four year low.

CHART 6



THE GOOD NEWS

The good news, however, is that consumers have turned more upbeat, driving sentiment to a seven month high, and that's most important. They're looking forward to better times ahead and sentiment alone can turn things around, at least for the time being.

Also important, the Fed has again stepped up to the plate. They'll be stimulating the economy until the jobs situation gets better even after the economy improves... for as long as it takes.

Whether you agree with this strategy or not, due to the dozens of repercussions, it will likely help boost the economy.

KEEP YOUR BONDS FOR NOW

Currently, we'll keep the bonds we have. The major trend remains up for bond prices, and as long as that's the case we'll hold on to them. Bond prices could continue to bounce up further from their mid-September lows while long-term interest rates move lower, for the time being.

Overall, however, the yields are set to trend upwards while they continue bottoming.

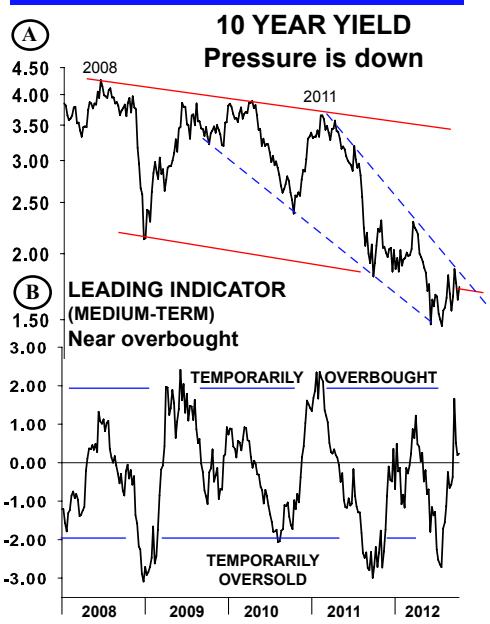
Chart 6 provides a good example of what we mean. It compares the action in the long-term 30 year interest rate during the financial crisis of 2007-09, and over the past couple of years.

As you can see, the similarities are impressive. In both cases, the action in interest rates are nearly the same. And if these similarities continue, interest rates are due for more ups and downs as they form a bottom. **Then they'll likely head much higher, probably in reaction to growing inflation pressures in the months ahead.**

WHAT TO LOOK FOR

Taking a look at the 10 year yield, you can see that it's formed

CHART 7



a steeper downtrend since last year (see **Chart 7**).

This trend is currently near 1.95% and it's important. If the 10 year yield rises and stays above that level, it'll be a strong sign interest rates are going to rise further in the immediate future.

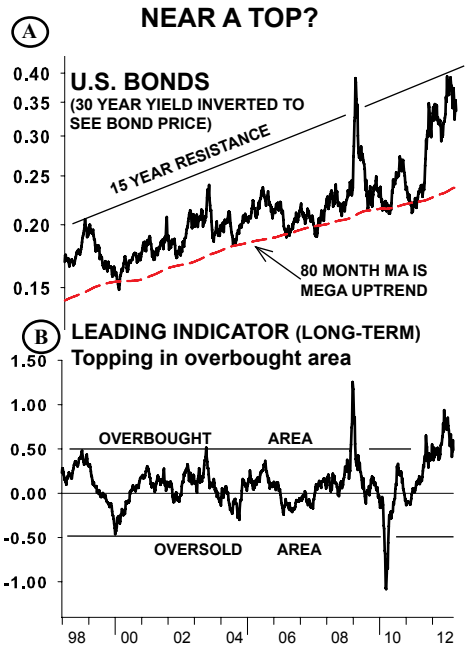
The leading indicator, however, is near the overbought zone but it's moving down. If rates decline some first in the upcoming weeks, it would be part of the bottoming process.

Next let's take a look at the bigger picture for bond prices (see **Chart 8**). You can see that bond prices are stalling near a 15 year resistance area. Plus, the leading (long-term) indicator is clearly overbought.

This chart is important and it's telling us that bond prices are going to decline further, probably in the months ahead and into next year. **That is, long-term interest rates are going to rise.**

So despite the ups and downs in the weeks ahead, the big picture is saying the upside is limited for bond prices. For now, we believe we're in store for lots of volatility in the coming weeks as uncertainty and sentiment swing back and forth.

CHART 8



That's essentially why we don't recommend buying new bond positions at this time. But again, keep the bonds you have.

CURRENCIES

U.S. dollar stabilizing... for now

The U.S. dollar has been under pressure since late July while the currencies bounced up. But the dollar has found stability in this uncertain world, and it coincided with the Fed's QE3 announcement.

STABLE DOLLAR

As you know, the dollar was strong in the first half of this year. It thrived as many currencies felt the heat of turmoil and worsening economic situations at home, and a host of other issues.

The U.S. dollar became the safe haven. As global concerns and uncertainty gripped the markets, the dollar rose to the top. It was the currency everyone wanted.

The dollar index rose to a two year high in July and while it's been coming down since then, it's stabilizing.

The ECB has made it clear it'll do whatever it takes to save the euro, and while it's also stabilized, the ECB has more work to do before the euro is back on track and in the clear (see **Chart 10**).

The dollar is the lesser evil for now. It got a boost from the QE3 announcement and the ECB bond plan. Plus, the decline in unemployment also gave a positive nod to the dollar. It's become the safe haven of choice... for now.

The dollar could rise more in the short term but it's still poised to continue its downward path looking ahead. The U.S. like most countries wants a cheaper currency in order to export their goods at the best price.

This is called, in other words, **competitive devaluations because it's in the interest of all governments to weaken their currencies to keep their exports competitive.**

Japan was the latest good example. The yen has been strong as investors have been turning to the

CHART 10

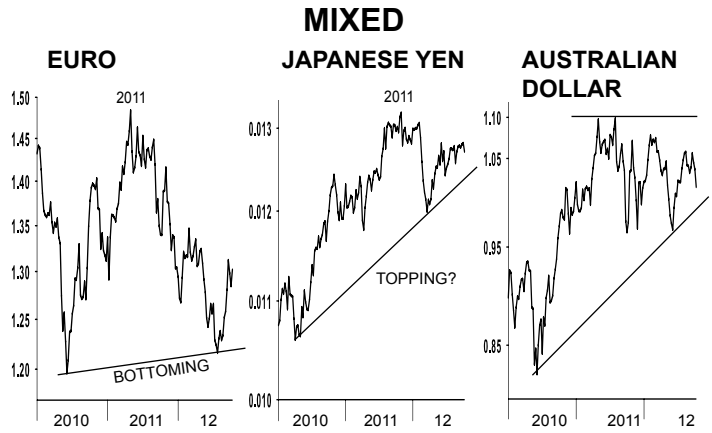


CHART 9

yen as a safe haven.

Prime Minister Yoshihiko Noda recently stated that the yen's strength is a serious problem and it's out of step with Japan's economy, and his government will act against any disorderly gains in the yen.

The U.S. dollar is in a similar situation. Its recent bounce up was mainly due to safe haven reasons. Ideally, the U.S. would like an orderly weakness. A weakness they'll get, eventually.

DOLLAR: Upside limited

Chart 9 shows that the Dollar index is essentially resisting at its key mega moving average. And as long as it now stays below its July highs at 84, it'll stay under downward pressure in the big picture.

The dollar's leading indicator is reinforcing this too. It's declining from a major overbought area. This tells us the dollar's rise is limited.

That is, the currencies are headed higher (see **Chart 10**). The Canadian dollar has been one of the stronger currencies. The euro is also showing a good bottoming formation following its steep drop over the past year. So what could turn sentiment bearish for the U.S. dollar going forward?

DEBT DILEMMA

Despite problems in other countries, the U.S. debt crisis continues to worsen and this will weaken the dollar further.

Just over the past five years, for example, U.S. debt has soared from $9 trillion to $16 trillion. Plus, it's growing at over $1 trillion a year. The debt is so massive it can't be paid off. Instead, the U.S. dollar will be devalued, which is what's been happening over the past 40 years. It's been a slow, gradual devaluation and it will continue.

Could the election results change this outlook? Unfortunately, no. The numbers are too massive and the fiscal cliff is coming up in the months ahead. Moody's has warned that Congress must reach an agreement to lower the debt or it will cut the U.S.'s credit rating.

So far, the lower U.S. rating last year didn't affect the dollar much. But this time it probably will.

DOLLAR MOVES WITH YIELDS

Another bearish factor for the dollar is interest rates (see **Chart 11**). As you can see looking at the bigger picture, the dollar and the 30 year yield have been declining together since 2000.

The Fed tells us rates will stay low until mid-2015. That's another three more years of low rates and therefore a low dollar is also likely.

But even if long-term rates eventually rise, they'll unlikely rise enough to affect the dollar in a positive way. If the 30 year yield,

CHART 11

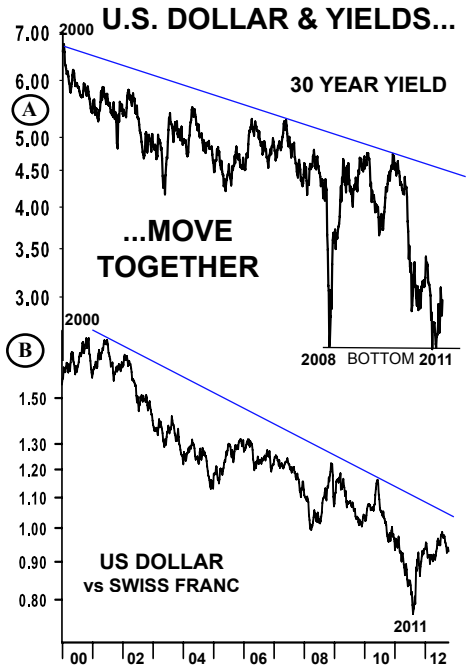
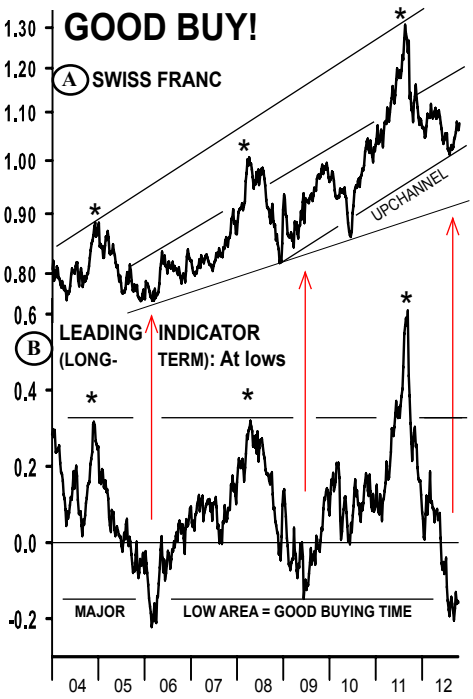


CHART 12

CHART 13



for instance, rises to the 4½% level, the downtrend will stay in force. This also indirectly says the dollar would bounce up too, but it's also unlikely to change the major downtrend.

Meanwhile, it's important to keep in mind the dollar will most likely back and fill as it's currently doing. This is normal in any market.

This means the currencies could continue to soften but as you'll see on the next two charts, they're poised to rise further…

CURRENCIES: Look good

Looking at the Canadian dollar, you can see that it's holding firm (see **Chart 12**). It's reflecting the improvement in the Canadian economy and the firm oil price, and it'll likely rise further.

The leading indicator is reinforcing this because it has room to rise further before it's overbought.

The Australian dollar has been correcting down, but it's still okay to hold. These two commodity currencies will get another boost from stronger oil and resources.

One currency that may surprise on the upside is the **Swiss franc** (see **Chart 13**). It too is holding firm while its leading indicator is bombed out at a major low area.

This means the Swiss franc is poised to rise, perhaps similar to the rises in 2006-07 or 2009-11 (see arrows).

If we see a change in potential strength in the currencies, we'll adjust our recommendations. For now, we continue to recommend holding a cash position divided between the U.S., Canadian and Aussie dollars.

METALS, NATURAL RESOURCES & ENERGY

A strong resilient market

Gold and silver are up nicely since the Summer lows… Silver and gold shares are up well over 30%. Gold is up about 16%, nearing the $1800 level, while hitting another record high in euro terms in recent weeks (see **Chart 14**).

An intermediate rise is clearly underway, and there are telltale signs that this rise could turn into a whopping surge.

BULLISH ENVIRONMENT

We showed you the key to the gold and interest rate correlation on the first pages. It's not high inflation alone that's the driving force, like we saw in the 1970s, it's the level of interest rates after taking out inflation that influences gold.

When interest rates are lower than inflation, regardless of how high or low they are, this is a positive environment for a rising gold price.

That is, negative real interest rates are bullish for gold.

And even with gold's bull market close to completing 12 consecutive years up, as long as it closes above $1566.80 at year end, we'll continue to be surrounded by a bullish environment for gold.

It really doesn't matter that gold's bull market is 12 years or 20, or that it's been the longest one since at least 1920, if the environment is bullish, gold will stay bullish.

We know some investors feel the best is behind us and that it's too late to buy new positions.

We don't agree.

As great as this bull market has been, it's still relatively unknown by the average investor. Demand has been growing, however, especially by central banks.

GLD, for example, was the best performing ETF among the 10 largest ones in the U.S. over the past five years. But even with this growing profitable trend, it's far from the frenzy level of major bull market rises.

BIG PICTURE: Solid bull market

Just take a look at gold's big picture since 1967 (see **Chart 15**). Here you can see the steady solid rise since 2001, as it moves within a mega upchannel. This whole movement alone is very bullish.

But the leading indicator (**B**) tells the interesting story. Note how it has stayed mostly in positive territory over the last 10 years, but it's also stayed within the normal high area. **This is saying, the bubble phase has yet to come. It's far from the blow off highs of the 1970s.**

The next **Chart 16** is saying… hey, be ready because it could come at any time now! Notice the current bull market compared to the frenzy bulls of the past, all indexed to 100 when each bull market began. Note that gold's rise since the Summer is now matching the similar time period in prior bulls when the surging rises really began!

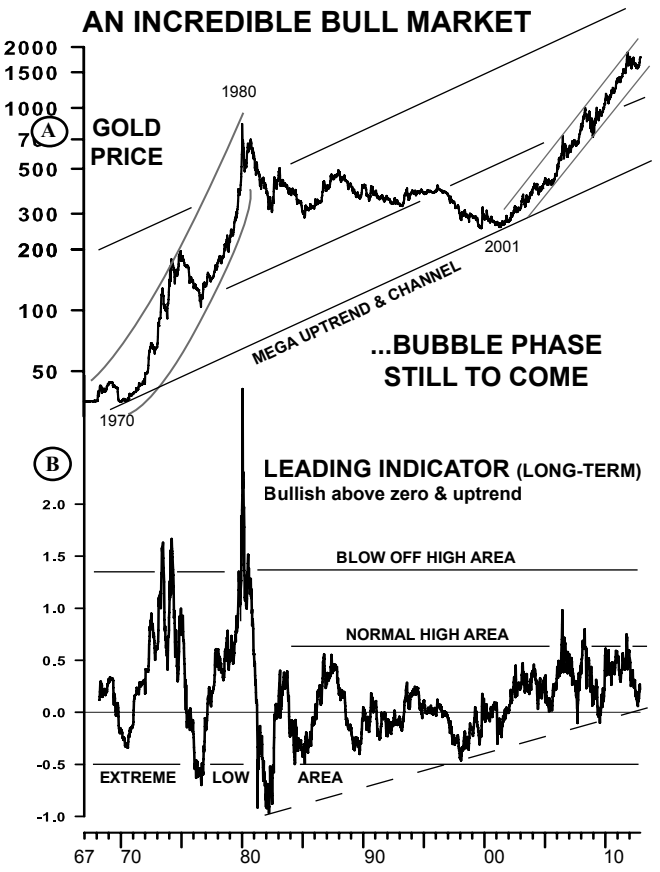
When you consider that the current bull market has risen 660% compared to the 1970s bull of 2300%, you could see what we mean. The frenzy has yet to begin.

HOW HIGH?

The next question is of course… how high can gold go? How is the value of gold calculated?

The bottom line is, the upside is wide open because it's not the gold price that rises and falls, it's the purchasing power of national currencies that rises and falls. So anything is possible. As James Turk says, it's

CHART 15



like standing in a boat and looking at the shore... it is the boat (currencies) and not the land (gold) that is bobbing up and down. The upside is essentially wide open.

You see this clearly this month with the euro.

Gold is money, it's the ultimate currency and that's what we're seeing first hand in today's world. It's more important now than ever in our lifetimes to be conscious of this and invest accordingly. We are truly living in historical times.

INTERMEDIATE RISES: Tell a lot

Going back to the latest run up, you're probably wondering if this current intermediate rise is the rise that will take gold to another fabulous bull market leg upward. Here's what we're watching...

Ever since the 1970s when we first started studying the gold price we've been fascinated by it. It's a cyclical market and its moves tell us a lot about the world and other markets.

Chart 17 shows our favorite indicator that helps guide us in the intermediate rises, and it also helps tell us the overall health of the bull market. The fact that gold is flirting with the $1800 level shows a strong market.

We've been showing you that it's still to be seen if this two month intermediate rise is an A rise or a C rise.

So far, it's been a great A rise, but it has yet to prove if it will turn into a strong C rise. Like we mentioned last month, the difference will be if gold declines in a moderate decline first before moving up to clearly surpass the $1800 level, and then the record high.

Note that the mega 23 month moving average is now at $1605. This is a super solid support level. The 65-week moving average is also a key support level now at $1680. **As long as these two levels hold during a possible B decline, the market is amazing.**

CHART 16

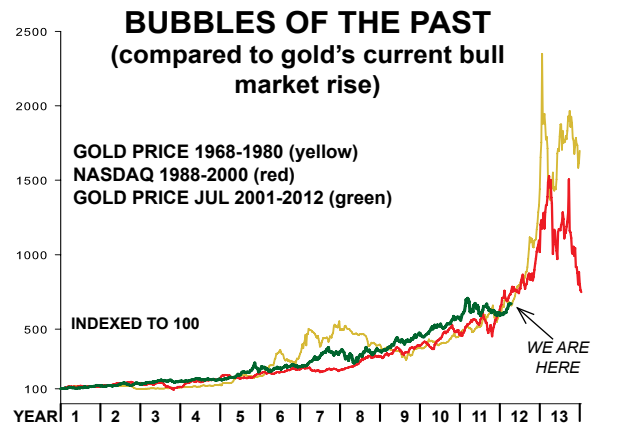
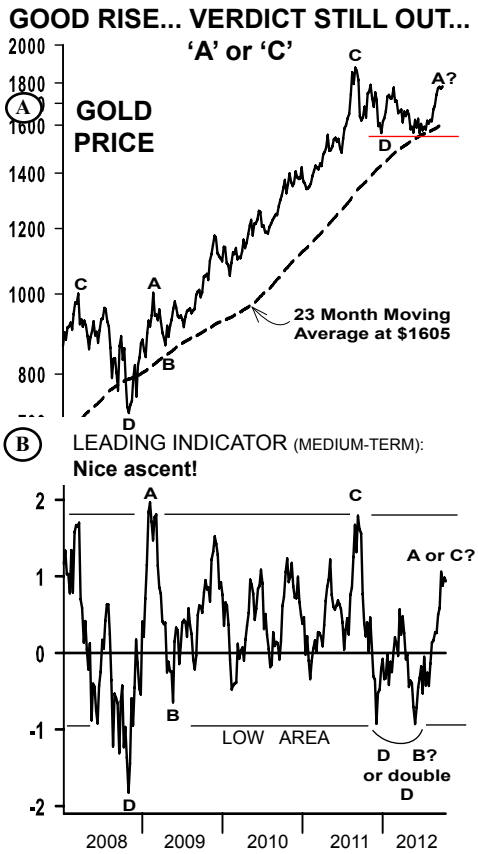


CHART 17



Meanwhile, gold will remain very strong by staying above $1730. If $1800 is clearly surpassed, it's more than likely that gold is in a C rise. If this happens, it could shoot up to the record high level above $1900.

And if the bull market is as strong as it seems, gold could reach new record highs above $2000-$2400 and then continue in a strong leg upward.

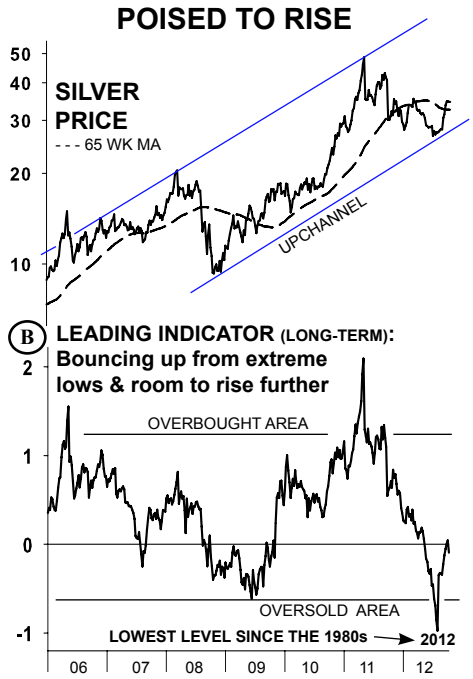
There are many wild cards brewing in the world today and any one of them could trigger a strong leg up! Be ready.

This is why we've been strongly recommending to buy, accumulate, especially during weakness, and just hold your positions.

SILVER: Better than gold

Silver has been on the bargain table, especially during the weak Summer months. It's now quickly jumped up, but as you can see, silver has much further to go. **Chart 18** shows that in spite of its 33% rise in recent months, it's still just coming out of an extreme low area (see **B**).

CHART 18



This was a low area last seen in the 1980s and this long-term indicator is saying silver has a lot more upside potential, in spite of any short-term weakness.

Silver is very strong above $32 and once it closes clearly above $37, it will have the potential to shoot upward and test the highs.

Silver is also looking better than gold. Chart 19 shows silver compared to gold since 1985. Note the ratio (**A**) has seen clear lows, in 1990 and 2008. Both of these lows marked silver lows compared to gold.

Silver reached an extreme low area versus gold during the 2008 meltdown. Silver has been stronger than gold since then as the ratio has risen from the lows. And even during the past year's weakness, the leading indicator (**B**) was screaming to buy silver during the weak Summer months.

Commodity hedge funds are the most bullish on silver in months and investors' holdings are expanding toward a record! Silver is poised to continue to outperform gold in the months and years ahead.

We recommend keeping both metals.

The Fed is on a mission to do what is has to do to keep the economy going. The ECB is on the same mission. With two of the most powerful central banks ready to continue on their "whatever it takes" plan, we have to go with it.

We'll happily stay with our metals positions for as long as the bull market is underway. Looking at the other precious metals and gold shares you have to say the same (see **Chart 20**).

Gold shares up from the dead

Gold shares came alive, bouncing up 36% from the lows. They're overdone short-term, but their rise is just getting started. Their indicators are telling us the upside is open to much higher prices.

The HUI index has now risen back above its 65-week moving average for the first time this year and it's strong above 502 (see **Chart 20**). The bottom line is... **gold and silver shares are still a good buy.**

CHART 19

Our positions have done very well... most are near the highs or holding up well. Use weakness to buy more.

Plus, when comparing gold shares to gold you can clearly see the upside potential.

Chart 21 shows that gold shares have been weaker than gold since 2006. This is understandable considering it was the peak period of the boom times...

Gold shares were much weaker than gold during the 2008 financial crisis, as well as during the past year's debt crisis and scare. Gold is a

CHART 20

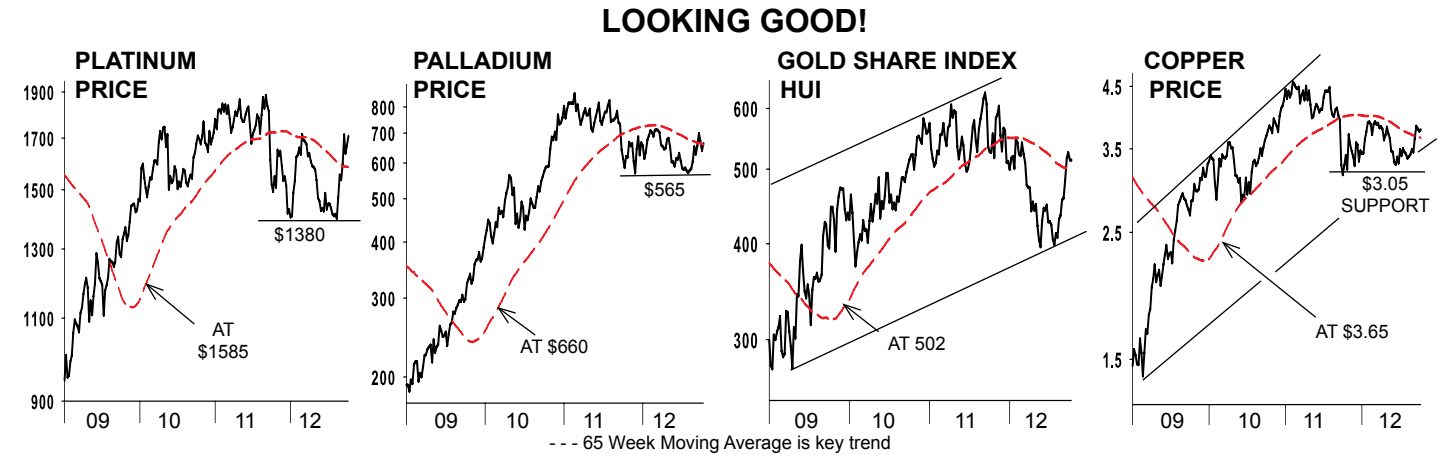


CHART 21

GOLD SHARES POISED TO RISE MORE THAN GOLD

much better investment during times of uncertainty and unrest.

Even though we don't see the light at the end of the tunnel, we do see the potential for gold shares to have a further decent bounce up, even if the ratio only rises back up to the 2006, or even to the 2004 downtrends. We'll keep our gold and silver shares as long as they're bullish. The highs in the stock market is also a positive for gold shares.

RESOURCE & ENERGY: Chugging with world economy

The World Bank cut it's growth forecast for China. Europe is dealing with its overwhelming debt crisis while the U.S. fights its high unemployment and all the other issues just ahead of the election.

The IMF recently added more pressure with their stern warnings for global growth. They said fighting a worldwide downturn would be much more complex than it was in 2009.

All these somber comments added pressure to the resource sector this month.

The earnings season has started with resources at the top of the weak list. Alcoa said China's slowing growth will cut global demand for aluminum, while Chevron said profits fell "substantially" from the prior quarter.

Crude has gained with the growing tensions in the Middle East, which has been overriding slower demand concerns. And as you can see on **Chart 22**, crude remains in a solid 14 year bull market rise.

Crude has basically been in a holding pattern over the past year, but its indicator is near a low area, and it has room to rise much further.

This means if oil now stays above $88, it could easily rise to $94. But it would look great back up near the $99 level. Above this area would signal a break out rise could take oil to the 2008 highs near $110.

Crude oil and natural gas tend to move together (see **Chart 23**). The chart shows how they moved similarly from 1994 to the 2008 peak. The ratio (**C**) shows that oil had the upper hand during the 2000 to 2008 rise.

CHART 23

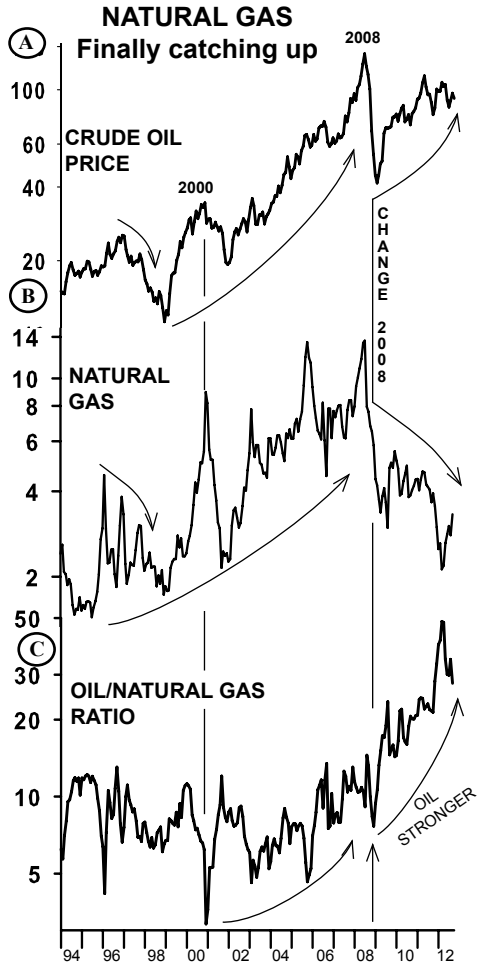
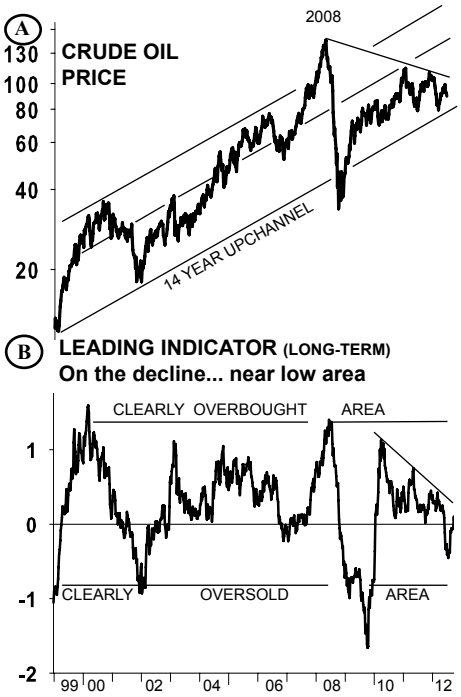


CHART 22

IN SOLID BULL MARKET



But something clearly happened after the financial crisis in 2008. Oil rebounded like many commodities did, but natural gas went completely opposite, declining and reaching a 13 year low last April.

It's now bouncing up from the lows, closing at a new high for the year this past month. Is this the beginning of a change? Will natural gas now finally follow oil up in a bull market run?... We'll soon see, but it looks like it will.

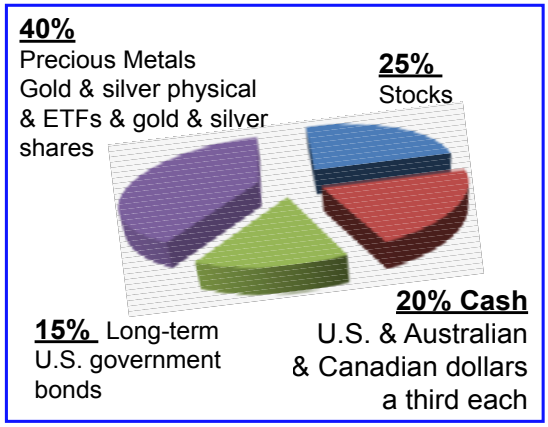
Copper is the good example for the resource sector and we recommend buying it on weakness. Chart 20 shows it's been bottoming firmly above its 2011 lows at $3.05. It rose back above its 65-week moving average in September, reaching a five month high, and it's now looking good above $3.65 for the first time since April.

The weak global economy put pressure on this sector, but the way they're moving and positioned, it looks like some relief is setting in.

Platinum and palladium are similar, as the chart shows. Both held near their 2011 lows, they're bouncing up and looking much better.

OVERALL PORTFOLIO RECOMMENDATION

Another historic and volatile month. From open ended stimulus to growing tension in the Middle East, to the ongoing crisis in Europe, to a close upcoming election, to a firm gold price, a divided stock market, a limited rise in the dollar and bonds, the markets and sentiment are uncertain and uneasy. Downward pressure is taking over for now, and we advise using weakness in gold and silver to buy new positions. Keep your stock and bond positions, but don't buy new positions. Also buy some copper on weakness.



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

Gold continued rising further to a ten month high, while silver reached its February highs. Gold shares also carried on. An intermediate rise is underway as gold jumped up to the $1800 level and, while currently resisting, it's strong above the $1680 level. There are some telltale signs that this rise could turn into whopping surge. Therefore, use weakness to buy new positions, and keep the positions you have. We recommend having more of your metals positions in coins or bars. We also recommend ETFs which are an easy way to buy gold and silver...GLD, IAU, and SLV.

We have some energy and resource stocks and we now recommend buying copper's ETF, but on weakness, symbol JJC.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The stock markets remained strong this month, but it's clearly a selective bull market that is flashing warning flags. We'll stay invested with a 25% position in the market as long as the trend is in our favor, but don't buy new ones at this time. The Dow Transportations is clearly diverging from the market and the Nasdaq fell from its highs. Wal-Mart and Mexico were our clear winners this past month, but the others are holding up well, especially AEP. They're listed in order of strength.

Our energy and resource positions are correcting but doing fine... and we'd like to add copper to the list. We recommend buying the copper ETF, iPath DJ-UBS Copper (JJC), but wait for more weakness before buying, ideally near the 46-47 level.

INTEREST RATE & BOND RECOMMENDATION

The bond market's major trend remains up but it looks like the upside is limited and a top is in the process of forming. This means we'll keep our smaller bond position as long as the trend remains up. Interest rates appear to be bottoming but they could continue to bottom for a while longer. The Fed pledged to keep rates low but they still have room to rise within a general low area. Don't buy new positions as the market is volatile and choppy.

CURRENCIES RECOMMENDATION

The U.S. Dollar, like bonds, bounced up in recent weeks, and safe haven buying has been the main reason why. But also like bonds, the upside looks limited. We continue to recommend buying and keeping the Canadian and Australian dollars. The Canadian dollar held up better this past month, but the Aussie is doing fine, and both benefit from any strength in the resource and energy sector. Keep two-thirds of our cash position in these currencies and one-third in U.S. Dollars. You can buy or sell these currencies at Everbank, Chris.Gaffney@everbank.com, or buy the ETFs: FXC and FXA.

The Swiss Franc looks good and we may be buying it soon. We'll watch from the sidelines for a while.

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

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

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

STOCKS AND ETFs

Wal-Mart	WMT-NYSE
Mexico iShares	EWW-NYSE
American Elec Power	AEP-NYSE
iPath DJ-UBS Copper *	JJC-NYSE
DJ US Telecom	IYZ-NYSE
US Global Res	PSPFX-NYSE
iShares S&P Glbl 100	IOO-NYSE
Dow Diamonds	DIA-NYSE
Energy Select SPDR	XLE-NYSE
Proter & Gamble	PG-NYSE
Power Shares Nasdaq	QQQ-Nasdaq

CURRENCIES AND ETFs

Canadian dollar	FXC-NYSE
Australian dollar	FXA-NYSE

* NEW POSITION