THE
ADEN FORECAST
MONEY • METALS • MARKETS

NOVEMBER 2014 *our 33rd year*

TIMES ARE A-CHANGIN'

It's been over 30 years that we've been writing this letter. And we sincerely appreciate that many of you have been with us for a very long time. You have allowed us to do what we love.

During this time we've seen good times and bad times, bull markets and bear markets, global crises, big expansions, recessions, bubbles, wars, politics, and much more.

BEING GRATEFUL

We are honored to have you as subscribers, regardless of the time you've been with us.

We're thankful for your letters, support, questions and comments. And we always strive to do our best to give you an objective view of what's happening in the world, and how it'll affect you and your investments.

You are a big part of our lives and we truly think of you as family.

We're grateful for being part of your life and thank you for being one of our readers, through good times and difficult ones.

Like family, we want you to be happy. So when things don't go as well as we'd hoped, it pains us. It really bothers us, probably more than you realize.

GOLD BROKE DOWN

That was the case this month.

Even though the U.S. dollar was headed higher, gold was holding up pretty well.

Yes, we knew it could break down, but since gold had been building a base for 16 months, we thought it would hold. That's why we kept 20% of our recommended portfolio in metals related investments.

But several of the markets were at a crossroads and, like we've always said, the markets will tell the story, which they did and we had to go with it.

Gold broke down and stocks have been soaring.

Now you could argue this doesn't make sense, but very often things don't make sense. That is, the reasons why will usually become obvious in time.

TREND IS YOUR FRIEND, UNTIL IT'S OVER

For now, the markets are telling us to lighten up on our metals position and keep a larger cash position. And unfortunately, even though this means taking some losses, that's what we advised doing in our special alert on November 4.

Since stocks and bonds remain bullish, we also advised keeping our positions and they're doing well.

We all know, the ideal strategy is to buy low and sell high. And while gold may be near the lows and at a good value, as you'll see in this month's Metals section, it could go lower.

The same goes for stocks. They've been rising for years and they could be near a top, but stocks are signaling higher prices ahead.

So the bottom line is, we'll go with this until it changes, but that's not the case just yet.

DEMAND FOR MONEY DOWN...

Meanwhile, we've reviewed a lot of research to help define what's really happening. And even though it's a little thick, here's what we think is most important...

Chart 1 is probably the most valuable chart in the economic world today.

We've shown it several times before but it warrants taking a look again because it hasn't changed. In fact, it's declined even further, and that's not good.

Here you'll see the velocity of money. It measures the rate at which money circulates, changes hands, or turns over in an economy.

Rising velocity, for instance, means the same quantity of money is used for a greater number of transactions.

In other words, it's related to the demand for money and it measures the number of times one dollar is used to purchase goods and services.

When velocity is rising it tells

INSIDE

us the economy is humming along. Banks are lending, people are spending and the economy is growing.

That was the case following the 1982 recession. From the mid-1980s to the mid-1990s, velocity was on the rise.

On the other hand, when velocity is declining, it coincides with sluggish economic growth. Demand for money is down.

As you can see, it's been declining below the 1960s level since 2011, and it's not turning over at a healthy rate. This is what happened prior to, and during the Great Depression.

... STARTED IN 2000

That's essentially been the case since around 2000, which coincided with the recession following the dot. com bust.

But velocity really dropped strongly during the 2007-08 financial crisis and it still hasn't recovered.

That's primarily because banks remain guy shy following the reckless subprime lending binge, which led to the 2008 recession. In other words, banks would rather hold their money in reserves than lend it out.

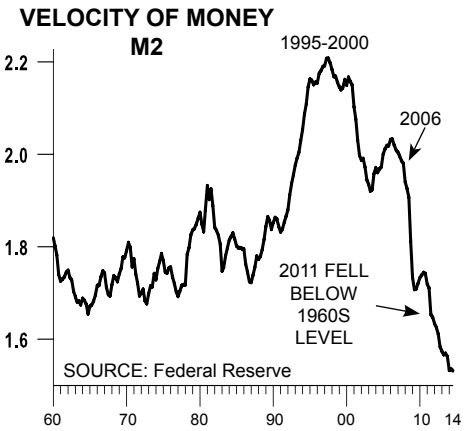
This is contributing to the deflationary pressures, and that'll continue to be the situation until the banks loosen up, and people start borrowing and spending like they did before.

In the meantime, it's like the economy is constipated. Despite the positive economic signs, it's not naturally humming along.

On the contrary, **the better signs have basically been artificially fabricated and at some point there will be a price to pay.**

What do we mean by this?

CHART 1



YOU'LL REMEMBER...

Well, first we have to back up a few years…

You may remember that at one point, the 2008 recession was so bad it was literally teetering on the cliff of another Great Depression. It was truly scary.

Lehman Brothers had collapsed and the banks were freaking out. So in an effort to stop the bleeding, the Fed started its QE program to bail out the banks and try to stimulate the economy.

To do this, the Fed bought Treasury bonds with money created out of thin air. They also lowered interest rates to near zero, enhancing an easy money environment.

The Fed succeeded in pulling the economy back from the cliff. But the economy was never strong enough to stand on its own. It became addicted to QE, which had to continue for six more years until last month when QE ended.

FED RESCUED ECONOMY

And yes, QE did indeed help boost the economy, thanks to the $4 trillion in bonds the Fed ended up adding to its balance sheet, but it resulted in a cockeyed recovery.

Stocks and real estate, for example, benefited greatly, but other sectors of the economy did not.

The end result is that, even though the economy is growing, there's a tremendous drag on it, and that drag is deflation, which is keeping the economy very vulnerable and the money velocity down.

One big concern is that European weakness is so intense, it could trigger another Euro crisis like in 2012.

If so, it would affect the rest of the world.

And with inflation already so low and a slowing global economy, there's also concern the recovery may be nearing an end before it's had a chance to really get going. If so, deflation pressures would intensify.

INFLATION - DEPRESSION?

On the flip side, others feel it's just a matter of time until all the money that's been created fuels hyperinflation.

It certainly hasn't happened yet, and this worries the Fed because inflation can't even reach 2%. But if the economy really expands and velocity kicks in, we could see big inflation.

At the recent New Orleans Investment conference, **Alan Greenspan said he doesn't believe the Fed will be able to exit from its accommodative monetary policy without some turmoil in the financial markets.**

So the verdict is still out. What happens next remains to be seen. But for now, deflation is in the driver's seat and that's we have to go with, along with its effect on the various markets.

> "Be fearful when others are greedy, and greedy when others are fearful."
> *Warren Buffett*

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U.S. & WORLD STOCK MARKETS

Record highs in U.S.

The stock market fooled everyone.

WHIPSAW VOLATILITY

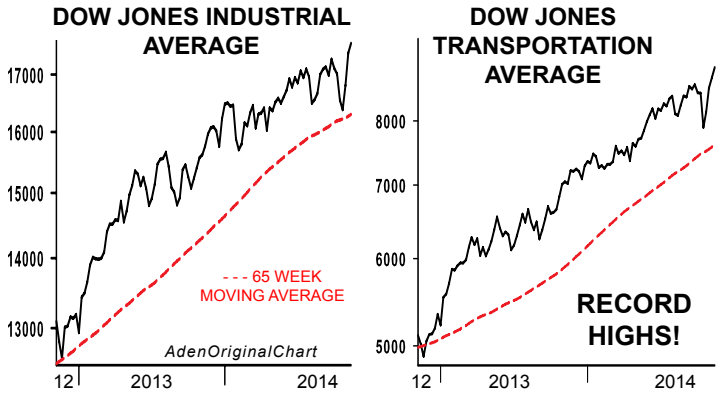
Last month saw a weak and sluggish market. Investors were nervous and the general consensus was that the bull market was near an end.

This was further reinforced by some of the technical indicators, which were vulnerable. We showed you an example of that in our last issue.

As you'll recall, the small caps were breaking down and we were concerned they could be leading the way for the rest of the market.

CHART 3

DOW THEORY BULLISH CONFIRMATION



END QE = UNKNOWN

The biggest sign of caution, however, was the end of QE, and with reason…

The stock market doesn't have a good track record once QE ends. In the two previous cases, for example, stocks fell sharply when QE was terminated.

With the market already showing signs of weakness, everyone figured this time would be the same. But in fact, the opposite happened.

GOING WITH FLOW IS BEST

The stock market started to surge in the two weeks or so prior to the end of QE (see **Chart 2**). In other words, it rose in anticipation that QE was ending.

This was not what anyone expected and it threw many investors for a loop.

This bull market has been like that. It's done a lot of things that haven't "made sense."

That is, it's been climbing a wall of worry all along and this has resulted in many hedge funds going out of business.

GOOD NEWS FOR BULLS

So what happened? Ongoing better economic signs and low interest rates have been the primary factors driving this bull market higher.

The jobs picture, for instance, has been very impressive.

As Matt Kerkhoff pointed out, October marked the 49th straight month of job creation and this has been the longest winning streak in 75 years. But there's more…

Earnings have been great. About 80% of the S&P's 500 companies beat their profit estimates. So when all was said and done, the Fed obviously decided the economy was strong enough to stand on its own.

And then there were the elections. With the Republicans winning across the board, investors generally feel more comfortable. That's because Republicans are viewed as being good for business and, therefore, good for Wall Street.

BULLISH CONFIRMATION

The bottom line is, the market likes what it sees and it's been going North ever since.

The Dow Industrials and the Dow Transportations both hit new bull market record highs (see **Chart 3**).

This triggered yet another Dow

CHART 2

THE LAST 2 YEARS... BULLISH ABOVE MOVING AVERAGES

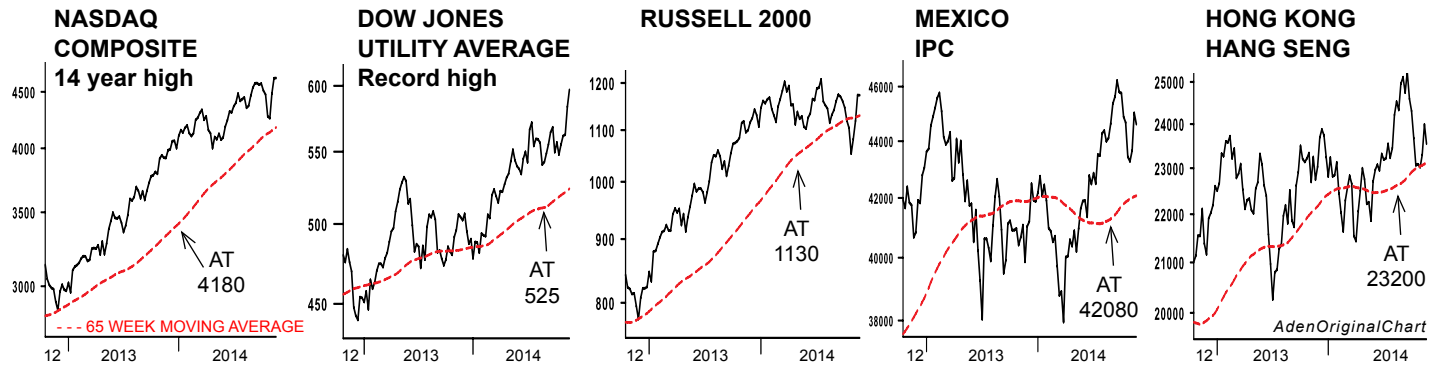
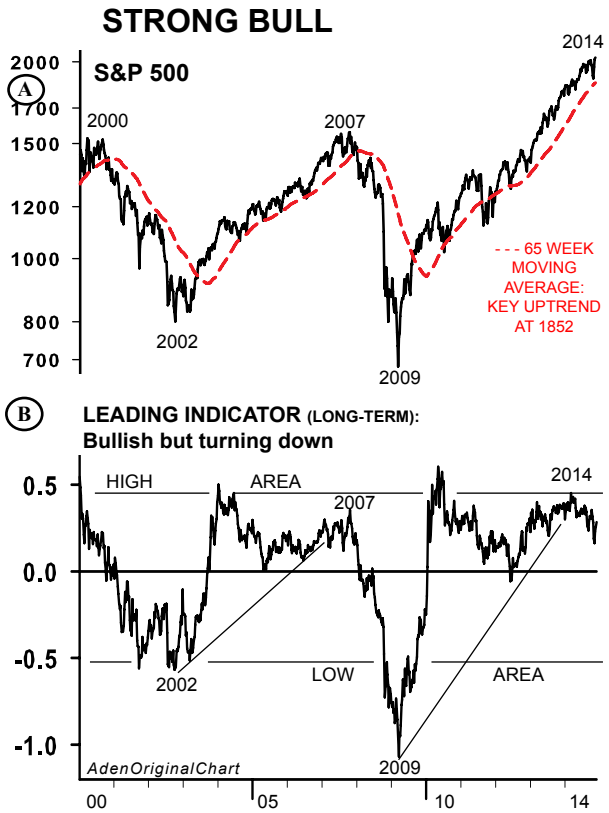


CHART 4



Theory bullish signal, again confirming a strong stock market. The bull market since 2009 remains intact and it's going to rise further.

It also suggests the economy will continue to do well in the months ahead.

This was further reinforced by new record highs in the S&P 500 and the Dow Utilities.

In addition, the Russell 2000 is back above its moving average, signaling it's again bullish, and the Nasdaq also hit another bull market high (see **Chart 2**).

As you know, when all of the stock indexes are going in the same direction, that's a very bullish indication.

CAUTION PERSISTS

Nevertheless, there always seem to be some signs of caution and this month is not an exception.

The leading indicator for the S&P500, for instance, has been stalling below its 2014 high (see **Chart 4B**). And even though it's still bullish, it warrants attention.

Maybe it'll continue going sideways for a while longer while the S&P continues to rise. If so, that would be fine.

But, it could also be warning that this renewed rise may not be long lasting. Time will soon tell, but for now all systems are still go.

Another sign of caution is that the global stock markets have still been sluggish and generally weaker than the U.S. stock market.

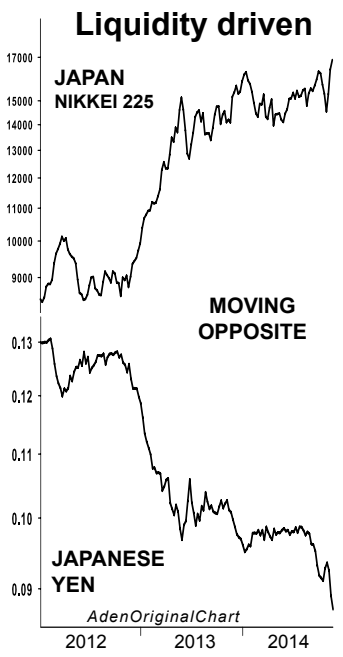
They've been lagging but if a rip roaring rise lies ahead, the international markets should ideally join in.

LIQUIDITY CONTINUES

So far, they're okay. They've been rebounding for the most part, and we'll now have to see if they follow through.

One sign they will is the liquidity that's pouring into the markets...

CHART 5



Using Japan as the example, its growing monetary stimulus is boosting its stock market, but weakening its currency (see **Chart 5**).

The situation is sort of similar in Europe. So while the Fed has stopped QE, other countries are picking up the slack.

But wait, doesn't that mean that no QE will eventually put downward pressure on the U.S. stock market?

The answer is no. As you can see on **Chart 6**, the S&P500 moves with the Fed's balance sheet. So if the Fed's balance sheet stays high, then it'll continue to boost stocks.

And as you'll note on page 5, for now the balance sheet is going to stay high. So this too is another bullish sign for stocks.

KEEP YOUR POSITIONS

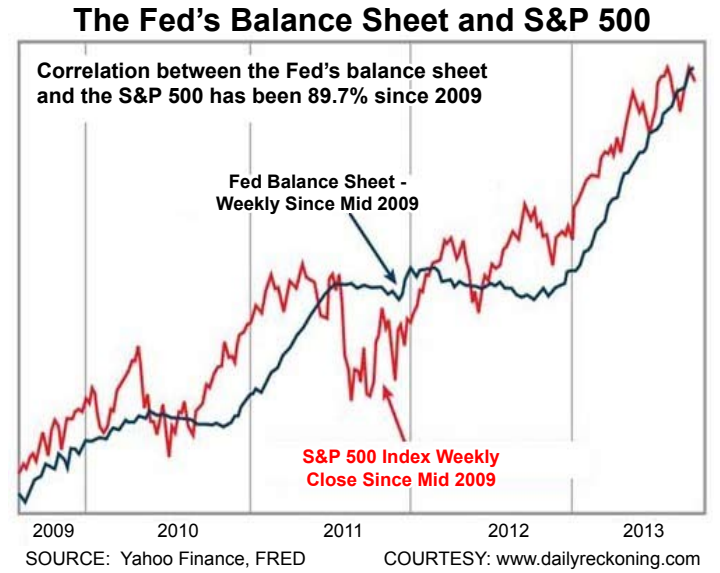
That being the case and all factors considered, we continue to recommend keeping the stocks you have. Our stronger stocks are at or near new highs with gains between 4% and 74%. The weaker ones are down about 6% on average.

Overall, however, they're all rebounding. So we'll stay with them.

For now, we don't advise buying any more new stock positions. Even though this bull market could still rise further, it's getting mature.

This tells us to stay put for the time being and just enjoy the ride for as long as it lasts.

CHART 6



U.S. INTEREST RATES AND BONDS

Bonds: Correcting in a bull market

Bond prices declined this month, taking some time out from their steep rise.

ANOTHER GOOD TIME TO BUY...

Bonds were due for a breather. This is normal action. For now, bonds remain strong and bullish, and they're still poised to rise further once this downward correction ends (see **Chart 7**).

In other words, interest rates are going to stay low for quite some time.

There are several reasons for this. But most important, U.S. bonds do well during deflationary times and they're the safe haven of the world. With economies in most other countries either sluggish, weak or in recession, the U.S. is the shining star.

It has no competition for the time being. That makes U.S. bonds

CHART 7

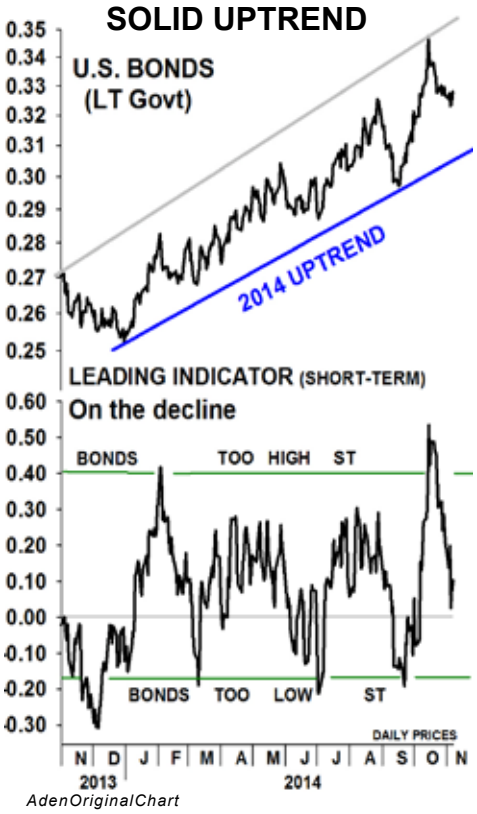
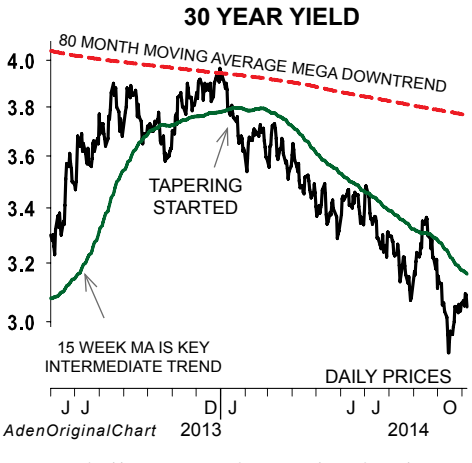


CHART 8



especially attractive. They've been top performers and this demand will keep interest rates low.

...IN SPITE OF BETTER ECONOMY

Currently, however, better economic signs have been putting downward pressure on bond prices. Consumer confidence and spending, for instance, are up.

Plus, the economy rose 3.5% in the third quarter, following a 4.6% boost in the second quarter. Gasoline prices are also down.

This is all good news and it resulted in the Fed feeling confident enough to end its QE program.

That alone was a big deal and it raised questions about the bullish outlook for bond prices and ongoing low interest rates.

THINK GLOBAL

But that's where the bigger global picture comes in. If the rest of the world is struggling, the U.S. is going to be affected. Slow global growth will influence trade and keep the deflationary forces dominant.

This could slow the U.S. expansion and it'll keep U.S. interest rates low. The Fed essentially confirmed this, again saying interest rates will stay low for a "considerable time" (see **Chart 8**).

Another question some of you have asked is... if the Fed has now stopped buying bonds, won't that hurt bond prices because a major buyer has been removed from the market?

Again, the answer is no. The reason why is because the Fed is going to buy new bonds as their existing bonds mature.

In other words, they'll indirectly keep QE3 going and the Fed's balance sheet will stay high in the years ahead. That'll continue to support higher bond prices.

This coincides with what our technical indicators are showing... that bond prices are headed higher and interest rates are going to decline further.

DÉJA VU

We've shown you **Chart 9** before, but we feel it's worth showing again. As you'll see, it's still following the "Déjà vu" script.

Since the 2007-08 recession, note there have been two steep interest rate declines, starting in June 2007 and January 2011.

In both cases, these declines lasted about 1½ years and they bottomed near 2.50% on the 30 year yield. Plus, the overall movements were very similar before and after the bottoms were reached.

Currently, signs are flashing that the 30 year yield is embarking on a

CHART 9

third and similar downmove (see the red decline on the chart).

If so, then rates will probably keep declining for another year or so, as the yield makes it way down to retest the 2.50% level, which was reached in 2008 and 2012.

This too would coincide with the slow growth and deflationary scenario... and safe haven buying.

FIGHTING DEFLATION

Deflationary pressures put a real drag on the economy and that's what the world's central bankers are battling. Japan has gone all out to fight these forces with another aggressive stimulus program. And the Eurozone is basically following Japan's lead.

And if the U.S. economy slows down, there's little doubt the Fed would again step in and do the same. Is QE4 in our future? It could be.

Anything is possible as long as deflation has the upper hand.

This means bonds will likely continue to outperform stocks, like

CHART 10

they have this year. You can see this clearly on **Chart 10A**, which shows the ratio between bonds and stocks.

Since 2008 bonds were weaker than stocks, but that changed this year. The ratio has been rising, meaning the percentage gains have been greater in bonds than in stocks.

Bonds have gained 30% so far this year while the S&P 500 has only gained 11%.

Plus, the leading indicator is on the rise. This tells us bonds will likely continue to produce better gains than stocks in the months ahead.

KEEP YOUR BONDS

We still recommend buying and holding long-term U.S. government bonds, or the bond ETFs, which move with the bond price.

The current downward correction in bond prices is providing a good opportunity to buy at a better price if you haven't bought yet, or want to add to your positions.

Our favorites are still UBT, TLO, TLT and TLH. They're all looking good and they have good upside

CURRENCIES

U.S. dollar: Plowing ahead

At this point, it seems like nothing can stop the dollar as it surges onward and upward. Nearly all of the news favors the dollar, and it's thriving in this environment.

Better economic signs, the end of QE, the lowest budget deficit in seven years, the election results and the weakness in the rest of the world have all cemented the U.S. dollar's position as the world's favorite safe haven currency.

There's no question the U.S. is leading the pack. While other countries are amping up their stimulus programs to offset deflationary pressures and kick start inflation, the U.S. stopped its program.

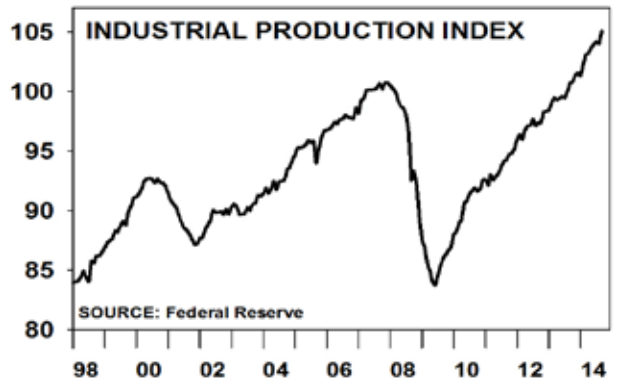
This was a very bullish move and it didn't go unnoticed on the world stage. The same is true of the improving U.S. economy.

U.S.: The shining star...

As global growth slows down, U.S. industrial production hit a new post recession high (see **Chart 11**). And while other economic signs haven't been quite as impressive, others have.

Jobless claims, for example, hit a 14 year low and consumer confidence rose to a seven year high. As David Letterman joked... "gas in under $3, unemployment is under 6% and stocks are at record highs. No wonder Obama is so unpopular."

CHART 11



...BUT NOT ALL ROSEY

But this is where other factors come into play... A recent poll showed that half the country feels the U.S. is on the wrong track. And 64% believe the U.S. is out of

CHART 12

control. This would explain why the Republicans swept the elections.

The wealth gap between the haves and the have-nots continues to grow. The middle class is being chipped away.

And even Janet Yellen weighed in on this inequality, noting the disparities between wealth and incomes were the greatest since the 19th century.

DOLLAR SHRUGGING IT OFF, FOR NOW

Nevertheless, the dollar isn't paying much attention to this. It's only focusing on the good news. And even though there are underlying problems at home, the dollar is still looking a lot better than its competition.

The bottom line is, the problems in the rest of the world are more serious.

Europe is teetering on recession. And Germany, Europe's growth engine, is struggling as industrial output weakens and exports drop to the lowest level in five years. Business confidence also keeps falling.

Japan is in trouble and the world's biggest economy, which is now China, is slowing to the lowest level in five years.

So that makes the U.S. #1 and the U.S. dollar is the primary beneficiary of this bullish sentiment. You can see this clearly on **Chart 12**.

The U.S. dollar index is currently at a four+ year high and it's well on its way up to the 2009-10 peaks near the 89 level. This is a very important resistance area and if the dollar rises and stays above it, it'll be super strong.

The dollar index will likely stall near that level. But since the leading indicator is not yet too high, there's a good chance the 89 resistance could eventually be surpassed and the next target would then be near 91.

This 2004-05 peak area is the final resistance level.

NO COUNTRY WANTS A STRONG CURRENCY

If so, that would actually be bad news for the U.S. because a strong dollar makes U.S. exports more expensive. It also makes imports inexpensive, which helps keep inflation down, fueling deflation.

This is why there's a currency war going on. No one wants a strong currency. Instead, they want a weak currency for export reasons and to help fuel growth.

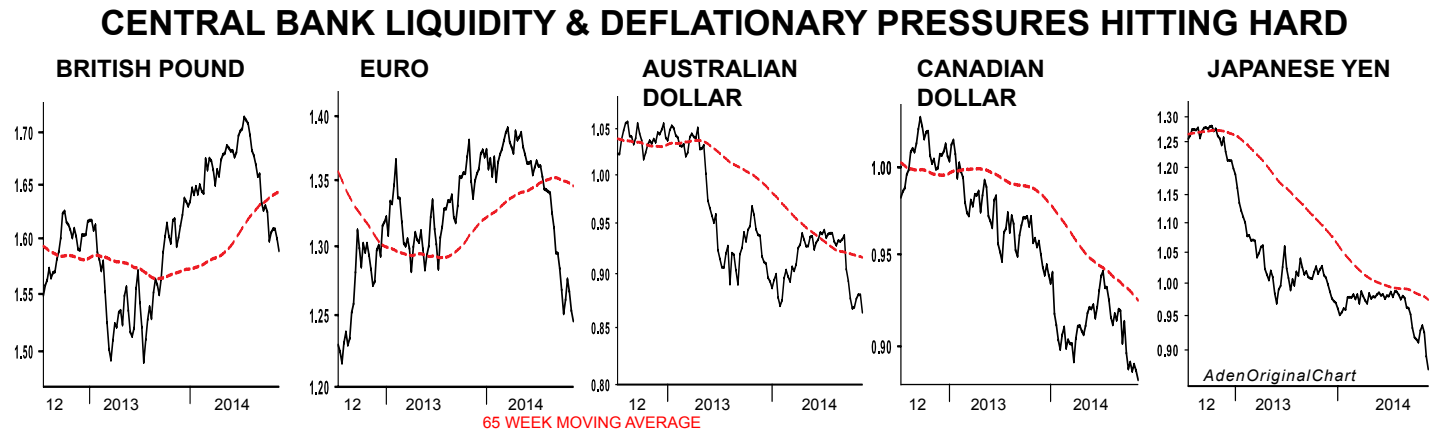
Everyone's also trying to avoid deflation and fuel inflation, which is one reason why interest rates keep falling in many countries (see **Chart 13**).

CHART 13

The main concern for now is that weakness in Europe and Asia will eventually spill over to the U.S. and hurt the U.S. recovery.

Since no country is an island and the world is more interconnected than ever before, what happens to the U.S.'s trading partners is going to affect the U.S. one way or another.

CHART 14



And a strong currency only makes matters worse.

So looking at it on a global scale, the U.S. can't afford to let the U.S. dollar get too strong. In fact, this was one of the Fed members' big concerns.

CURRENCIES: Weak

The major world currencies are nearly all weak and bearish (see **Chart 14**). They've all been affected by a slowing global economy. The weak oil price, for example, has hurt the Canadian dollar.

But in most cases, the governments want their currencies weak and they're doing all they can to keep it that way. **That's especially true of the euro and the Japanese yen as their central banks do whatever it takes to stimulate their economies.**

It's crazy but it's happening and these currencies provide a snapshot view of what's going on worldwide.

Nevertheless, the currencies have declined far and fast, and they're still due for some sort of rebound rise. So if you're holding any of the currencies, that'll provide a good opportunity to sell and move into U.S. dollars.

For now, the U.S. dollar is the king of cash. Currently, we advise keeping 20% of your total portfolio in cash, in U.S. dollars only (having lowered our metals position by 10%). This is your best bet for the time being.

METALS, NATURAL RESOURCES & ENERGY

The Bear Market Roars.... And they all fell down

It was a bad month. Gold fell clearly below its 16 month key support area at $1180, triggering our sell signal.

The 2013 lows did not hold and the second leg down in the bear market has begun.

Gold is probably, at most, 20% from the low area. This is why it hurts us to sell, and why we're now keeping a small core position in gold and silver.

We personally are keeping our physical gold and silver.

Meanwhile, the bear market is alive and well. It's now going to take time for gold and this sector to stabilize and adjust. That is, after the current washout is finished.

WHAT HAPPENED?

Gold first fell on October 6 to new lows for the year. It then recouped when the IMF lowered global growth for 2015. So it didn't last long.

But gold then fell again to clear new lows for Halloween. A ghost of a scare indeed while the stock market soared.

The dollar also soared. But much of its strength has been due to a weak euro and yen, as well as weakness in the resource currencies.

This gave the dollar a free pass as a safe haven. Gold was not an option, at least not for now.

Central bank action, however, was the tipping point for gold.

Gold had been getting a boost from a recessionary world. But when the Fed ended its QE program, followed by better economic news, and an unexpected mass liquidity program by Japan, gold caved in to clear new lows for the bear market.

Gold ended its first back to back monthly decline of 2014 in September and October. (Normally in a bull market this is a seasonally strong time for gold.)

Demand for precious metals as a protection of wealth has been eroded by the outlook for a stronger economy.

Gold's D decline is performing as it normally does in a bear market. And this is not a good sign for the months ahead.

This is why we sold and lowered our metals position to 10% (from 20%). Gold broke clearly below its base building level, which was the last holdout.

But we still believe the low in gold is not that far away, and we could see some decent rebound rises in the metals sector, which would be normal following the steep declines.

INSIGHTS

The highlight for the always

CHART 15

great New Orleans investment conference last month was Allan Greenspan. He was special.

One key moment was when he was asked about gold. He said gold is a good place to put your money these days as its value as a currency sits outside of government policies.

When asked where it will be in 5 years, he said "higher." By how much, he replied "measurably."

This is how major investors need to think about gold investing today. If you are a long term investor, keep your physical holdings. Granted, the ETF market has added more volatility to the gold price since it's easier to buy and sell. Plus, it's easier to manipulate gold.

DEMAND: Physical growing, paper not

ETF holdings in gold fell to a 5 year low just before the washout. In fact, October saw the biggest outflow this year. And as of last Friday, a big outflow from GLD caused its holdings to fall by 5.7 tonnes.

Interestingly, on the other hand, **central banks were big buyers of gold in September**. Just as we saw lower demand earlier this year, China, Russia and India stepped up their gold buying.

• Koos Jensen is the authority on Chinese gold demand. And he has lots to say. It's official... the China Gold Association (CGA) confirmed that gold demand in 2013 reached 2199 tonnes.

He believes there is an insatiable demand in China that continues unabated. This year 45 tonnes were bought ahead of their Golden week holiday.

• Plus in India, gold imports were seen rising more than fourfold in September, in spite of its restriction on imports.

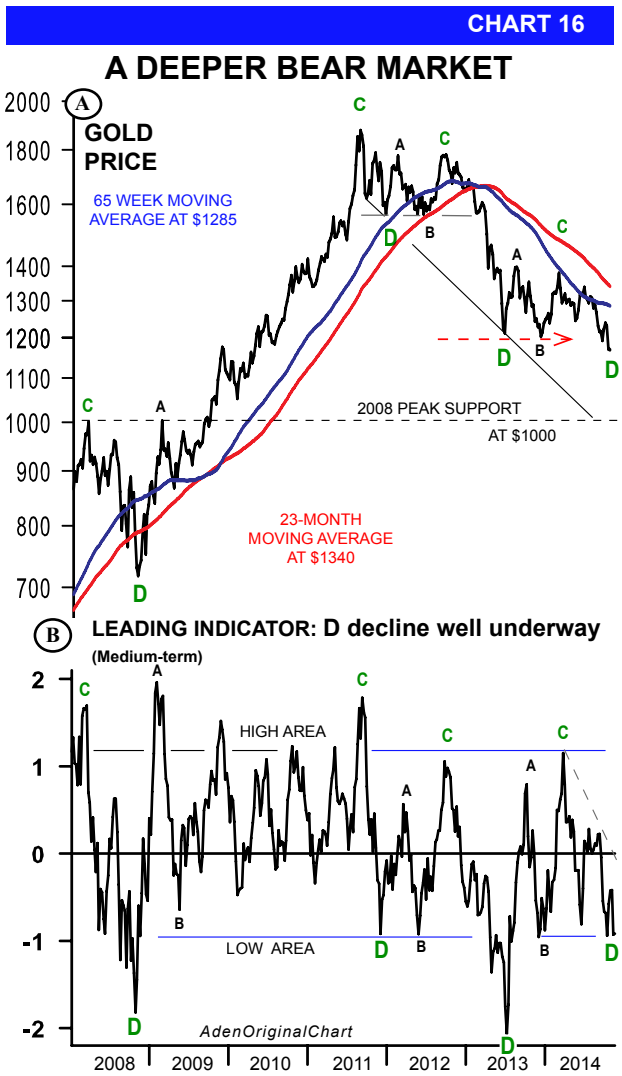
• Russia is similar. It bought the most gold for its reserves since their financial crisis of 1998, driving its bullion holdings to the largest level in at least two decades. Russian reserves overtook those of Switzerland and China this year, by almost tripling since the end of 2005.

As Chuck Butler says, Russia is following China's lead on gold accumulation, so one day they too can back their currency with some gold.

• Then there's the upcoming Swiss Referendum at month's end. If passed, it will require the Swiss National Bank (SNB) to recall their gold and not allow the SNB to sell any gold. Plus, it would raise their gold reserves to 20% of total reserves.

They will have 5 years to complete this buying, but some are speculating they may have to buy a lot more sooner.

We'll see how that affects gold, but one thing is clear, central banks around the world are making it a point to accumulate gold. And we should do the same, just not quite yet.



GOLD: Focus on big picture

We have to say that gold on a big picture basis is saying the same thing Allen Greenspan is suggesting. And it shows why central banks are buying physical gold and wanting to keep it in their home country.

Eventually gold is going higher. And if you ask, what will gold be doing two years from now? We'd say, it's more likely to be on an upward path.

Chart 15 shows gold has phases, and impressively they continue to work. This reinforces that gold is a cyclical market.

Note on the chart that gold has formed a bottom area every 7-8 years since 1969. It's also formed a major high area every 11 years since then.

The 7-8 year low areas are in red. Nov 2008 was the last low time at the 7¾ year mark, which was the 5th time since 1969. We'll now see if this time period going forward identifies the next low for gold.

If so, the next likely time could be as early as this month of November. But taking the more likely average, it could be next Summer and up to November 2015. On the unusually long side, it could happen during the first quarter 2016.

The point is, the cyclically low time period is getting closer. We'll be watching this closely to buy new positions at the opportune time.

More exciting is what happens next. Once the low is clearly established, gold will have a green light to rise in a strong bull market.

This means 2019 will be the next likely time for a major peak. It will be the 11 year mark from the 2008 lows, for the 4th time in 45 years.

With today's world in an unprec-

edented condition, we'll likely see gold at super new record highs, substantially higher, and we want to make sure you are all on board well before the bull market gets rolling.

GOLD TIMING

Gold's timing will help us along in identifying the lows and the steps upward towards a new bull market. **Chart 16** shows our favorite gold timing tool.

As our older subscribers know, a D decline has been underway since last March when gold's 2014 rise petered out. D declines tend to be the worst decline in gold's cycle. And during bear markets, D declines usually take gold to new lows for the bear market.

This is exactly what happened this month. Most impressive, the leading indicator has yet to fall into the extreme low areas that normally coincide with D lows... This means gold could easily go lower before this decline is over.

On the downside, gold will remain weak below $1200, and especially below its $1180 low. And the longer this is the case, the more likely we'll see lower lows soon.

A clear decline below $1150 means $1100 would be a shot away. The chart shows that $1000 could be the final target, which is where the back side of a downchannel and the 2008-09 highs meet.

This would clearly take the indicator down to test the extreme D lows.

Once the D decline is over, an A rise will begin. While an A rise can be interesting, it's normally part of a consolidation period together with the B decline.

Gold could then settle down well above the lows until the next C rise begins. This would then be, once again, the test to see the strength, or lack of strength in the gold market.

Just seeing this process makes us think the Summer months could be a very interesting time for gold.

GOLD SHARES: Fell the most

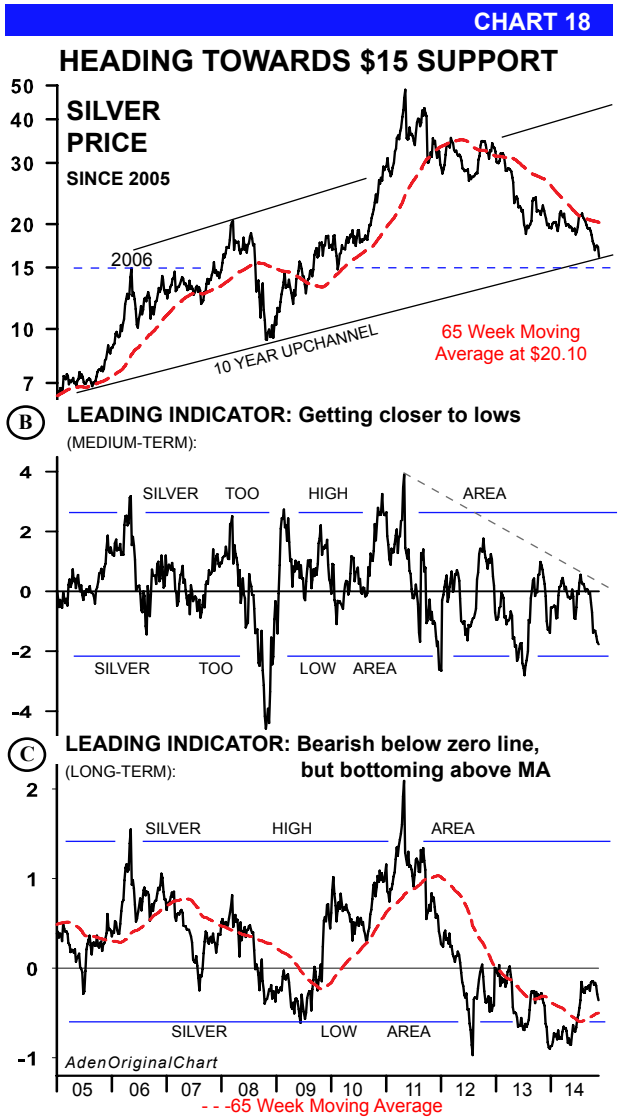
Gold shares took the cake. They continued to plunge much more than gold and silver. And the gold share indexes fell to their 2008 lows. That is, they fell to the lows of the depths of the financial crisis washout (see **Chart 17A)**.

The overall gold share picture showed these lows could be reached. HUI is now starting to consolidate near these lows above 150, and as long as that's the case, we just may see the start of constructive basebuilding.

The indicators are approaching their low areas (**B** & **C**)and while they could stay there a while longer, they too are looking more oversold.

Gold mining shares are weaker than gold, the most they've ever been since the 1960s. And the weaker gold price is making it harder for mines to stay in business.

The miners have set costs of



production and costs vary. But with the gold price at low levels, the cost of production in some of the mines is higher than the price of gold.

This alone could cause a gold shortage if prices stay depressed for a longer period of time.

Gold share weakness is not over yet, but some consolidation is starting to stabilize the price. The 5 week moving average works well in identifying the start of a turn.

So keep an eye on 175 for HUI; once it rises and stays above this level, gold shares will be looking a lot better. From there, the 65 week moving average will be the next test at 223.

Once a turnaround takes place, gold shares will be poised to soar.

SILVER: Another 4+ year low

Silver fell more than gold this month and with the resource sector still on shaky ground, we could see silver decline further.

Silver has been steadily weak since July. It barely took a breather when gold rose in October, and it stayed below its 5 week moving average the whole time. It then fell from the $17 to the $15.50 level in two week's time, and it's heading towards its next support at $15.

Chart 18A shows silver since 2005. You can see it approaching its $15 peak area in 2006, which is now the next support. The medium-term indicator is getting closer to a low area, while the long-term indicator continues to bottom above its moving average, which is a positive sign.

The key here is the 65 week moving average. You can see how well it works in identifying the major trend. Once silver can rise and stay above this moving average, now at $20.10, a major reversal will begin.

Silver is now also approaching a solid support level versus gold. So it'll be interesting to see how it develops. Keep an eye on $15 and $20 for the next trend direction.

RESOURCES & ENERGY: Depressed

The global slowdown has clearly affected the resource sector the most, especially with China's slowdown. Commodities in general are at 5 year lows. Be it food, energy or resources, they're all down.

Copper is the barometer for the global economy, and as you can see on **Chart 20**, it's remained sluggish. And while it could decline further to possibly its final support, the downside doesn't look so bad. Keep an eye on $2.80 and $3.18; a break out of this area will determine the next direction.

Palladium has held up the best. It's been correcting its strong rise in the last few months, but as you can see on **Chart 19**, it has room to rise further. It's in a bull market and strong auto sales are keeping this precious metal up. We'll keep our position.

The falling **crude oil** price is a supply-demand problem. Demand is slowing with slow global growth while the supply is abundant. And it looks like this oversupply could last longer.

OPEC boosted production to a 14 month high while global surplus was already high. They're trying to squeeze out the small shale oil producers in the U.S. and it looks like it's working.

Oil fell sharply this past month as you can see on **Chart 20**. It fell and slipping below the lower side of a 3½ year sideways band. And it looks like this $78 area will hold.

There seems to be an interest in keeping oil within this band and for now this lower oil price is helping the trade deficits in many countries. It's also adding to the low inflation environment.

This fall in oil has, on the other hand, hurt the oil producing countries like Russia, Norway, Canada, Mexico and Brazil. But it looks like we could soon see a bounce up in the oil price to possibly near the $100 level.

We'll be keeping a close watch on the depressed resource and energy stocks for a turnaround.

CHART 19

BULLISH BUT CHUGGING

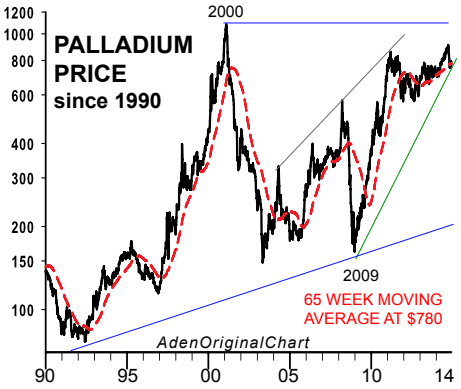
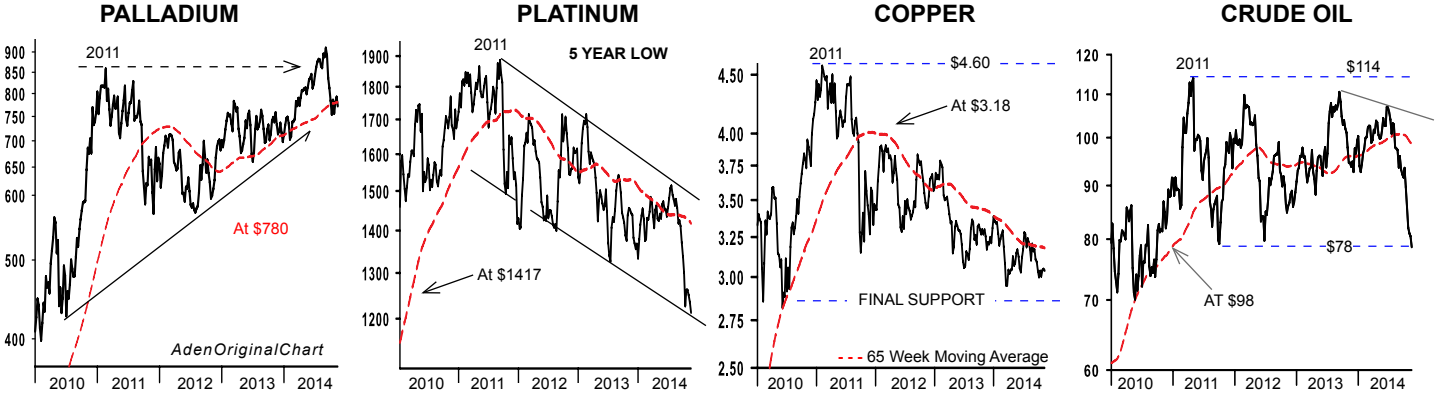


CHART 20

PRESSURE DOWN



OVERALL PORTFOLIO RECOMMENDATION

As you know, we made some changes this month. In our Special alert of November 4, we advised lowering your metals related investments to 10% (down from 20% of your total portfolio). This raised your cash position to 20%. We also recommended keeping your cash position in U.S. dollars. Stocks and bonds remain bullish and they're doing well. We're keeping those positions basically the same. Keep them, but don't buy new positions.

PRECIOUS METALS, ENERGY, RESOURCE

It was a bad month for the metals sector. Gold fell clearly below its $1180 support, triggering our sell signal. This suggests the second leg down in the bear market has begun. That's why we advise selling and lowering your metals position to a core holding of 10% of your total portfolio (down from 20%). If you haven't already taken action, sell SLV, CEF, GTU, NGD, GDXJ, IAU, GLD, AEM and SLW. Keep your physical gold, silver, palladium and RGLD positions. Do not buy new positions yet.

U.S. & GLOBAL STOCK MARKETS

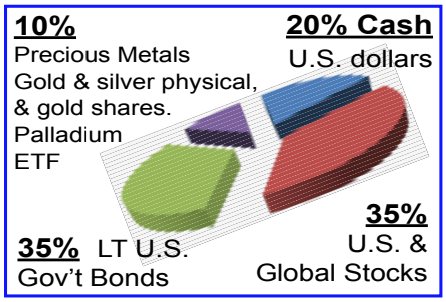
The U.S. stock market is strong and bullish. It's been hitting new record, or new bull market highs and it's likely headed higher. For now, we don't advise buying new stock positions because the rise is getting mature, but continue to keep the stocks you have and enjoy the ride for as long as it lasts.

CURRENCIES

The U.S. dollar keeps surging. It's the world's favorite safe haven currency and it's headed higher. Currently, we advise keeping 20% of your total portfolio in cash, in U.S. dollars only (having lowered our metals position by 10%). The other currencies are weak.

INTEREST RATES & BONDS

Bonds remain strong and bullish, and they're poised to rise further once this downward correction ends. That is, interest rates are headed lower. We continue to recommend buying and holding 35% of your total portfolio in over 10 year U.S. government bonds, or bond ETFs. For new positions buy UBT, TLO, TLT and TLH, which are our favorites.



OUR OPEN POSITIONS in order of strength per section

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Royal Gold	RGLD	Mar-14	66.04	65.66	-0.58	Hold
Palladium	PALL	Jan-13	69.71	75.30	8.02	Hold
Gold (physical)		Oct-01	277.25	1159.10	318.07	Hold
Silver (physical)		Aug-03	4.93	15.62	216.90	Hold

STOCKS & ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Procter & Gamble	PG	Sep-12	68.10	89.48	31.40	Hold
iShares Transports	IYT	Oct-13	118.85	162.88	37.05	Hold
Dow Diamonds	DIA	Jun-14	169.08	176.03	4.11	Hold
iShares US Med Dv	IHI	Oct-13	86.70	109.03	25.76	Hold
Nasdaq Powershares	QQQ	Jun-14	92.82	102.46	10.39	Hold
Microsoft	MSFT	Feb-13	28.01	48.78	74.15	Hold
Utilities Select	XLU	Apr-14	43.11	45.49	5.52	Hold
Johnson & Johnson	JNJ	Feb-13	76.16	108.75	42.79	Hold
S&P Glbl Tech	IXN	May-14	87.75	93.68	6.76	Hold
Nasdaq Biotech	IBB	Nov-14	296.31	296.49	0.06	Hold
Global 100	IOO	Oct-13	72.97	77.70	6.48	Hold
iShares Hong Kong	EWH	Jul-14	21.65	21.67	0.09	Hold
DJ US Telecom	IYZ	Sep-12	25.22	30.54	21.09	Hold
iShares Canada	EWC	Jul-14	32.65	30.25	-7.35	Hold
Energy Select SPDR	XLE	Aug-12	72.37	86.49	19.51	Hold
iShares Singapore	EWS	Jul-14	14.04	13.26	-5.56	Hold
iShares Mexico	EWW	Jul-14	70.93	66.01	-6.94	Hold
BHP Billiton	BHP	Aug-13	67.68	58.18	-14.04	Hold

BONDS

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Ultra 20+ Treasury	UBT	Feb-14	58.00	71.06	22.52	Buy/Hold
SPDR L-T Treasury	TLO	May-14	66.40	68.85	3.69	Buy/Hold
20+ year Try Bond	TLT	Feb-14	107.78	118.61	10.05	Buy/Hold
10-20 Treasury Bond	TLH	Feb-14	125.73	132.06	5.03	Buy/Hold
Intermediate Muni	MUNI	Feb-14	52.69	53.46	1.46	Hold

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

