THE
ADEN FORECAST
MONEY • METALS • MARKETS

DECEMBER 2010 *our 29th year*

ENDING AN INCREDIBLE YEAR

It's been another one for the record books. Most of the markets did well this year but the world remained divided on many fronts, fueling lots of uncertainty.

This in turn resulted in more volatility, caused by the "risk is on, then it's off "sentiment that generally dominated the markets. But in the end, the major trends prevailed. They are good and clearly the place to be.

PRECIOUS METALS: Winners!

The precious metals were this year's winners by a long shot, strongly outperforming all of the other markets. They surged along with gold and silver stocks, the base metals and the commodity markets. This has actually been going on for the past 10 years. Gold's been the best investment (see **Chart 1**).

As the year was drawing to a close, gold hit an all time record high and silver reached a 30 year high. It was super bullish action, exciting to watch and to be part of, and it's not over yet.

The stock markets around the world were strong too, especially some of the emerging markets, surging to new bull market highs. This was thanks to growing global growth. And since growth was stronger in the developing countries, their stock markets benefitted most, strongly outperforming the U.S. and European stock markets. Mexico was up 15.7% for example, compared to 8.40% for the Dow Industrials. This is set to continue as well.

Interest rates were down for most of the year and that kept downward pressure on the U.S. dollar. It hit a new all time record low against several currencies, providing a boost for most of the world's currencies. Rising commodity prices also fueled some of the rises. Currently, however, interest rates are surging and the U.S. dollar is rebounding.

Eventually, the markets will take a breather. As you know, this is normal following sustained rises and it's coinciding with the dollar's rebound.

Don't be surprised if this happens as the new year unfolds. If it does, it will not mean that the major, primary trends are over. It'll just mean that they're pausing, which will provide better buying opportunities before they resume their major uptrends.

ENDING WITH A BANG AND UNCERTAINTY

Whatever happens, the year is ending with a bang. There have been ups and downs, confusion, uncertainty and some optimism. The emerging nations are experiencing good growth but the developed world still has its share of big problems. It's no wonder that many markets have been volatile.

But in the end, the markets had the final world, like they always do. They led the way, hinting at what's coming. We just tried to interpret their message. All things considered, we're pleased with the results and we hope you are too. It's been a good year investmentwise and we look forward to another one, which is just around the corner.

We'll continue to do our best to keep you on the right side of the trends and profiting as events evolve in what's sure to be another exciting year.

As older subscribers know, a couple of years ago we had to reluctantly make the decision to no longer answer personal e-mails. They were simply taking up too much time, and it was time we needed to keep up with the markets and what was happening in the world to provide you with our best service.

But we read every one of your emails and we try to address your questions and concerns in our issues. So in closing this year, here are some of your frequently asked questions, which we hope will help…

We'll start with the questions we've been asked the most…

Q. How does a new subscriber know what to buy? Which positions should I add to?

A. Each month on page 12 of our issues we list our recommended stocks in each category. These are Gold and Silver and Shares, Resource and Energy Shares, U.S. and Global Stocks, Currencies and Interest Rates. The strongest

INSIDE

stocks are always listed at the top of each category. These are the best performing stocks new investors should buy, as well as subscribers who have new funds available to buy additional positions.

Q. I sold all of my investments. Should I reenter the metals market now or wait for a pullback?

A. That's a tough one. The metals are obviously in a major bull market. But they've also risen far and fast. At some point, they will correct the excess. That will provide a good reentry point. Sometimes, however, strong bull markets don't correct too much, as we've seen with gold over the last two years. So your best bet is to average in. That is, buy new positions gradually over the coming months. Most important, you don't want to get left behind waiting for a, "best time to buy" that never comes. The gradual approach will help avoid this. As long as the major trend is in your favor, we recommend keeping a core position… don't sell all of your positions.

Q. What proportion of gold bullion versus gold stocks do you currently recommend?

A. That's a personal question and each subscriber has to decide what they're most comfortable with. Gold stocks have been stronger than gold and that's usually the case during part of major bull markets. In other words, their percentage gains have been greater, but the stocks are also more volatile than gold itself. Gold stocks may rise more but they also decline further during downward corrections. If this doesn't bother you and you're willing to take the extra risk, then invest more in gold stocks. On the other hand, if you'd rather play it safer, then stick with gold bullion and/or keep a smaller portion in the gold stocks.

Q. What about the age appropriateness of your percentage breakdowns? Shouldn't this change as you age?

A. Again, do what makes you comfortable. We try to provide a general guideline for everyone. But if you're younger, you may want to take more risk versus someone who is retired and more cautious.

Q. Does the heavy promotion of gold on the radio to mass consumers concern you?

A. No. For the reasons we've often discussed we feel gold's bull market still has a lot further to go.

Q. What makes you sell a certain stock rather than buying more of it during times of weakness?

A. Usually this means that the stock is underperforming or turning weak and there are better opportunities elsewhere. We try to remain objective with our recommendations. If we see a change, we'll almost always go with it, unless there are good reasons to assume the change is just temporary.

Q. What are any implications of Zoellick's comments? Could a change occur? Could the Fed want a higher gold price to make their gold holdings rise to balance out their monetary policy?

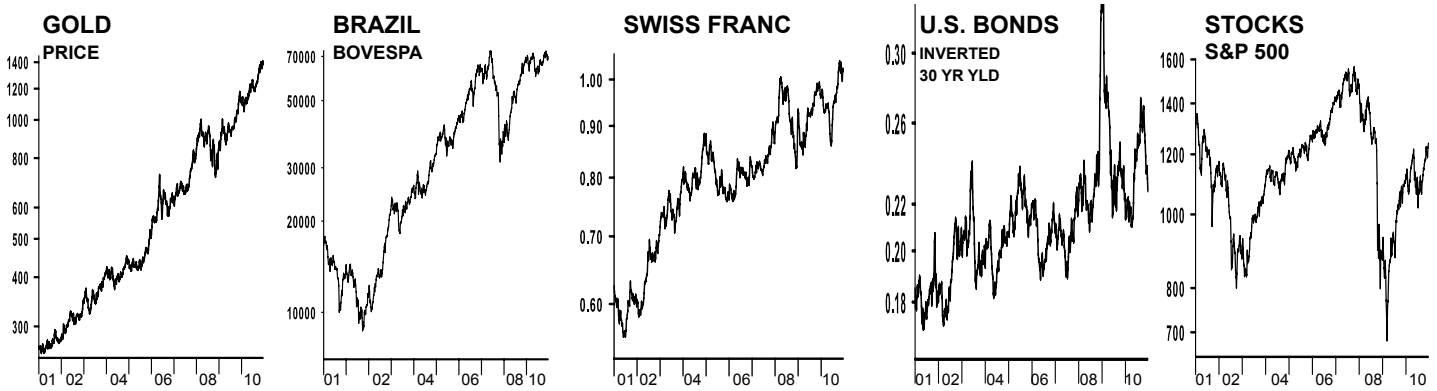
A. Although no one knows for sure, we're fairly certain the Fed does not want to see higher gold prices. Why? Because it's a reflection of their faulty and inflationary monetary policies, which include a weaker U.S. dollar. Rising gold only calls attention to this.

Zoellick's comments that a new reserve system is needed using a basket of currencies and gold was important. Most countries are already moving in that direction, Zoellick just openly discussed it, which was a first for a World Bank president. Eventually it'll happen, but when and how remains to be seen.

As you know, big changes usually take longer than you'd expect. Remember, gold is still generally considered a relic of the past by Wall Street and academics. It's also considered speculative, volatile or risky. This is beginning to change, but we think it'll be a long time before gold is recognized and accepted as money.

CHART 1

THE LAST 10 YEARS...



Editors:
Mary Anne Aden
Pamela Aden

www.adenforecast.com

info@adenforecast.com

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

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

U.S. & WORLD STOCK MARKETS
A good year with good gains

The stock market is looking good. It surged this month and it remains strong and bullish. Yet many people can't understand this. They don't trust the rise and they're skeptical.

After all, how in the world can the stock market rise when the debt is growing by leaps and bounds? How can it rise when so many people are out of work and the economy is struggling? How can stocks move higher when the dividend yield is so low?

These are valid questions and, along with many others, they illustrate the shaky foundation and negative fundamentals underlying the stock market. This in turn leads many to believe that it's a fake rise or a bear trap and so on.

AN IMPRESSIVE RISE

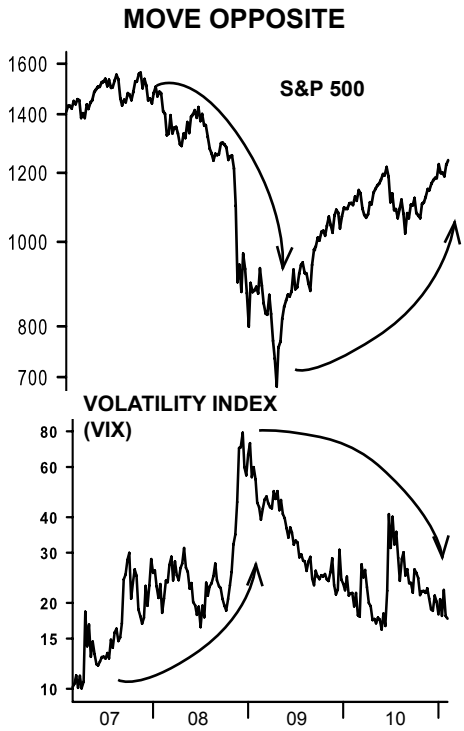
But it's not. Stocks have been rising for nearly two years and that's not an illusion. As you can see on **Chart 2**, it's very real. And while we may not fully understand why and the backdrop isn't perfect, we have to trust what's happening and not what should be happening.

The facts are… the Dow Industrials has risen about 78% in 1¾ years, since its lows in March, 2009. Some sectors have done even better. The Dow Transports, for instance, has gained 134% since then and the Nasdaq is up 107%.

Many of the emerging markets have done better, strongly outperforming the U.S. market. Mexico, for example, has surged 180% since its 2009 low. Malaysia has risen 115% and it's been the same story in many countries around the world. Even though the emerging stock markets have generally had the upper hand, the markets have been bullish pretty much across the board… and this continues.

In recent months, Mexico, Russia, Indonesia, Germany and many others hit new bull market highs. In the U.S., the Dow Industrials, Dow Transports, S&P500 and the Nasdaq all reached new bull market highs. This is positive action and that's the reality.

CHART 3



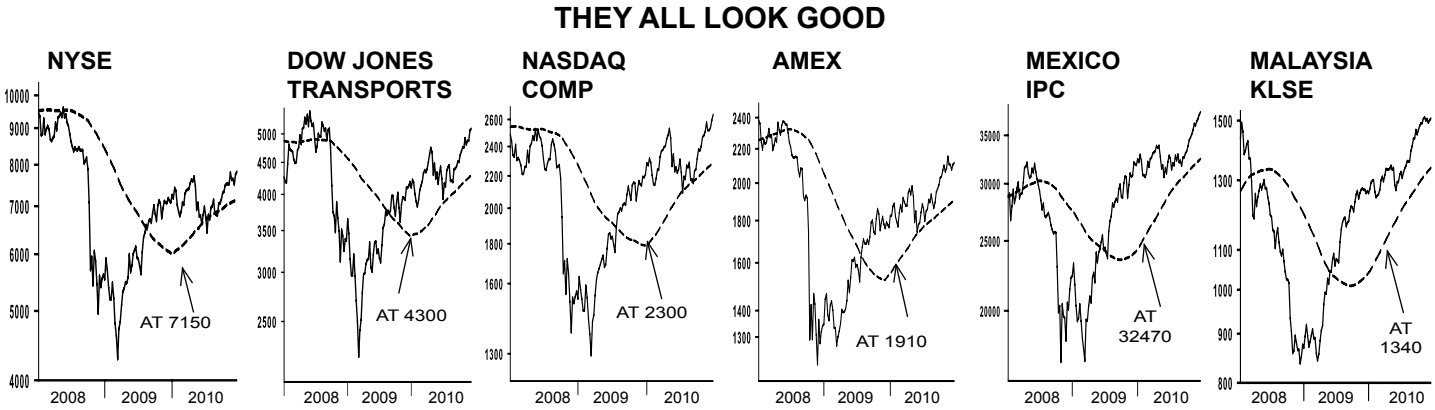
HOLIDAY NOTE AND BEST WISHES

As you know, we recently returned from a Forbes cruise for investors and it was great meeting some of you there. It was also educational and fun, seeing and meeting old and new friends, and a wonderful way to end what's personally been a difficult year. Our work kept us focused and for that we are sincerely grateful to all of you. We also appreciate your notes and support, which all helped to make it much better.

Thank you all. We wish you a very Happy Holiday season and the best of everything in the new year ahead.

Warmest regards,
Mary Anne, Pam
and the team at Aden Research

CHART 2



- - - 65 Week Moving Average is major uptrend and major trends are up above these levels

BETTER TIMES COMING?

Is the stock market simply riding high on a wave of liquidity? Probably, and so are many of the other markets. But there's obviously a lot more going on…

As we've pointed out many times before, the stock market looks ahead and for many reasons, it likes what it sees. In other words, the stock market is forecasting better times ahead. This may not be obvious yet and that's okay. Since the stock market leads, some of these factors will become more apparent as time passes. Here's an example of what we mean…

RISING FROM GLOOM

Back in early 2009, the gloom and doom was about as thick as it could be. The recession was in full swing and the financial system was teetering on a cliff. The Fed had become the lender of last resort and it was trying to bail out banks in the U.S. and abroad, as well as big corporations.

It wasn't clear if these tactics would work and there was a lot of criticism, nervousness and downright fear in the air. Yet, in the midst of all that, a big bull market in stocks began. Why?

The markets were looking ahead. They recognized that the worst was behind us and the financial system wasn't going to fall apart. They knew the recession would end in June, 2009 and things were going to get better, and that's what happened. It wasn't at all obvious then, but it became clearer in time.

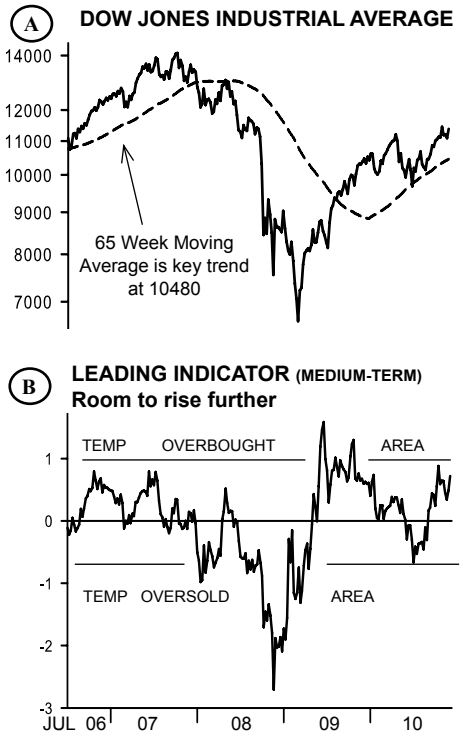
MARKETS LIKE QE2

So here we are at the end of 2010 and the stock market is still sending the same message. For now, here are some of the items the market seems to be focusing on…

Whether you agree or not, the stock market likes QE2. In Europe, stocks like the efforts being made to end their debt crisis. The same is true for markets worldwide. That's because it reinforces the likelihood of a stronger global recovery going forward, and that's good for stocks.

CHART 4

CLEAN RISE



For the same reason, the stock markets also liked the extension of the Bush tax cuts. Again, the **market's focus is on the economy and anything that's seen as positive gives the stock market the green light to move higher.**

That was especially true of many the economic numbers released this month. The positives far outweighed the negatives and stock markets around the world liked what they saw.

Retail sales, for example, has been rising strongly. Consumer confidence hit a five month high, spending and borrowing has been moving up and so has manufacturing. Pending sales of existing homes surged to a monthly record and jobless claims declined to the fewest since 2008. The index of leading economic indicators rose for the fourth consecutive month, which signals that the economy will continue to do well in the months ahead.

Plus, investors are bullish and they've increased their buying, driving up prices. **On a seasonal basis, the next five months also tend to be good for stocks.**

In addition, the volatility index is down, which is bullish for stocks (see **Chart 3** and note that it moves opposite to the S&P500). That is, when volatility increases, stocks tend to go down, but that's not the case now.

Also bullish is the Dow Industrials' leading indicator (see **Chart 4**). It has room to rise further before it's temporarily overbought. This means stocks are likely headed higher.

Other markets are also reinforcing a positive outlook. Aside from stocks, copper is rising strongly and it's a great global economic barometer (see **Chart 5**). In Hong Kong's case, it's telling us that China will continue to grow and since China has been the mover and shaker of global economic growth, that's yet another good sign.

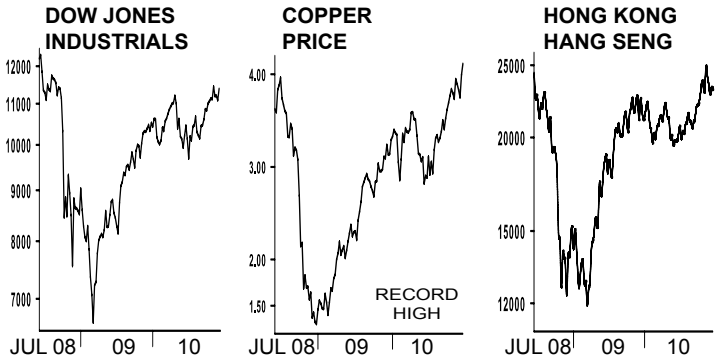
GO WITH THE TREND

So all things considered, we like stocks for the time being. And until we see signs that indicate otherwise, we recommend that you continue to hold your current stock positions.

For new buyers, or those who want to add to their positions, we'd buy Nasdaq (QQQQ), Prshrs Finan (PFI), iShares S&P Glbl Tech (IXN), Prshrs Dynamic Soft (PSJ) and Dow (DIA). These should continue to do well for as long as this bull market lasts.

CHART 5

RISE IN GOOD GLOBAL ECONOMY



U.S. INTEREST RATES AND BONDS YIELDS: Rising from the dead

Interest rates have spoken, making their big move this month and it happened very fast. In fact, the recent action could mark the beginning of the end of the mega bond rise that's been in force for nearly 30 years.

In just a few weeks, the 10 year yield soared from 2.75% to 3.52%. That's a huge rise, especially considering that interest rates have been so low for a long time.

The 30 year yield was equally dramatic (see **Chart 6**). It surged to 4.60% from 4.25%. Both rates experienced their largest rises in over two years.

THE TRIGGER POINT

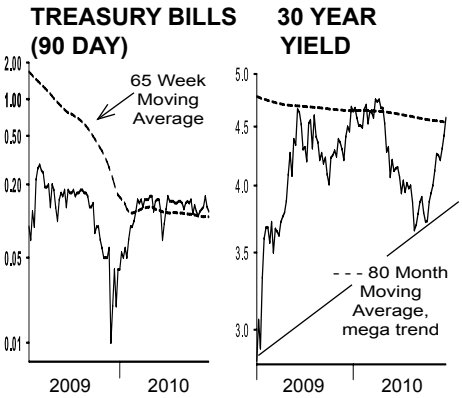
So what happened? We call it the trigger point. It was finally reached, and signs of a stronger economy and the extension of the Bush tax cuts were important in reaching that point. The real trigger, however, were several comments made by Fed Chairman Bernanke.

Most important, he said the Fed may increase their bond purchases. In other words, QE3 could be coming, which would be in addition to QE2's $600 billion that's currently underway. Justifying this, he pointed out that the economy is still close to the border and they want to inflate.

Since long-term unemployment remains a big problem, the Fed has made it clear that it's taking the inflation route rather than risk another recession. Despite an onslaught of criticism, both at home and abroad, **the Fed has stated where it stands and the bond market doesn't like it.**

CHART 6

RISING SINCE END OF CRISIS



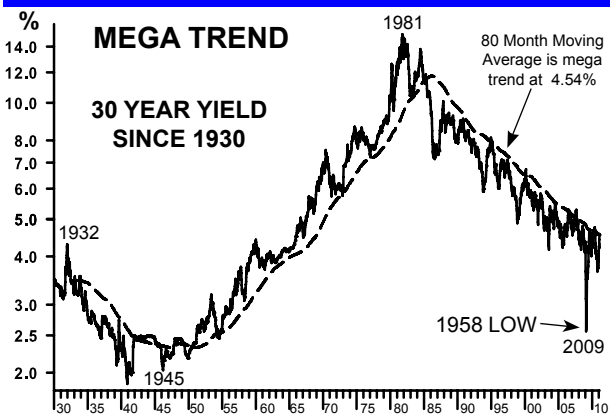
BOND MARKET IS FREE MARKET

As we've often discussed, the bond market is huge and it does its own thing. Bond investors tend to be more sophisticated and they look ahead. They know the Fed's monetary policies will result in inflation. So demand for bonds has been low, which has driven long-term interest rates higher due to the growing risk of holding bonds.

Remember, **the bond market hates inflation** and it's very sensitive to any inflationary signs. Why? Simply because inflation eats away at their value. Bonds do well when inflation is low. And even though U.S. inflation is still low, that's unlikely to be the case for long.

Aside from the Fed's measures, bond investors have seen world food prices climbing for the past five months to a two year high. And they seem to be losing faith in the Fed, spurring a change in sentiment. This will be confirmed if the 30 year yield now stays above 4.54%, its 80 month moving average. Currently, it's just above this level and we're watching it closely, see **Chart 6**, right.

CHART 7



MOMENT OF TRUTH AT HAND

It's going to be extremely important to see what happens next because it will tell us a lot about what lies ahead and if we should reposition some of our investments.

As most of you remember, this average indentifies the mega trend of the 30 year yield (see **Chart 7**, which goes back to 1930). As you can see, the mega trend doesn't change often. But once it does, the new interest rate trend lasts for a long time.

In the 1950s through the 1970s, for instance, the mega trend was strongly up and this coincided with the last big inflation. The trend has been down since the early 1980s, coinciding with a period of low inflation. If this changes, it'll be a huge deal.

It would mean that interest rates are going much higher in the years ahead. This probably won't be obvious in the early stages (like the 1950s). A good example of what we mean can be seen on **Chart 8**.

BETTER HOUSING TO COME?

Contrary to what many believe,

CHART 8

ARE YIELDS LEADING HOUSING?

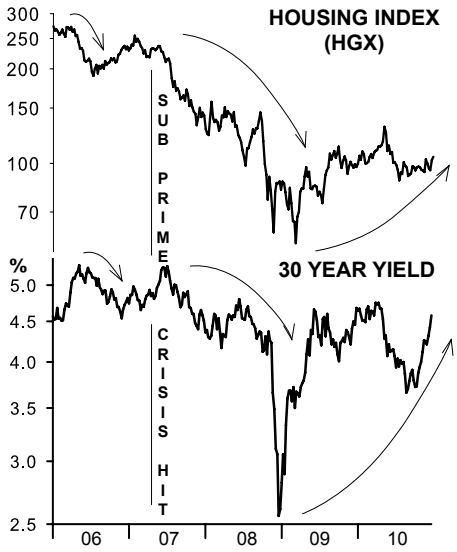
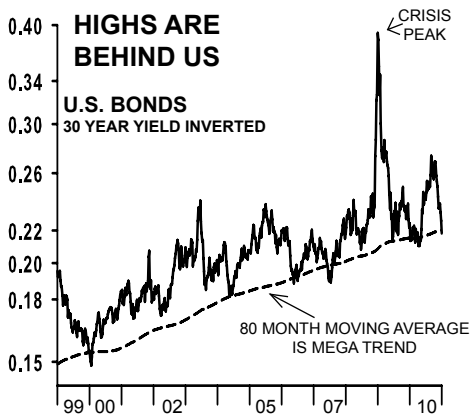


CHART 9



note that the 30 year yield and housing generally move together. As crazy as it seems, if interest rates go up it'll provide a boost for housing, at least initially. That's probably because rising rates will be viewed as another sign the economy is recovering, which will further enhance consumer sentiment.

At some point though, rising interest rates will not be good for the economy, stocks, and certainly not bonds. Since bond prices decline as interest rates rise, bonds will turn bearish (see **Chart 9**).

And again, if a mega trend change is indeed on the horizon, bond prices will eventually plunge and you wouldn't want to be holding bonds.

Plus, since all bond markets generally move together, this would also apply to municipal bonds. As we've recently seen, they too have been hit along with the Treasuries and this will likely carry into the future, especially considering the sad state of affairs in many States.

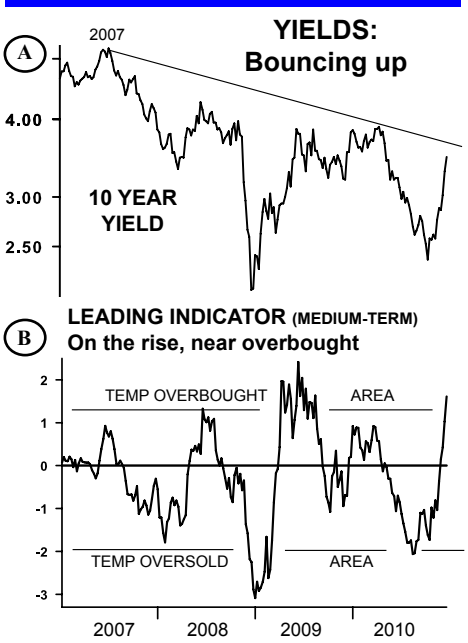
RATES ROSE FAST

Currently, interest rates are headed higher but they're now near overbought (see **Chart 10**). That being the case, we recommend you continue holding the interest rate related investments we previously recommended, if you have them.

Interest rates will probably take a breather at some point before they head higher. So, we may want to sell in the month or so ahead, lighten up, or keep them depending on how things unfold.

If you haven't bought these investments, we'd hold off for now. Wait for a better opportunity, possibly during the breather time period,

CHART 10



to either buy these and/or to short the bond ETFs.

This may take some time. As you know, the mega trend must clearly confirm itself. The key is a *sustained* rise in the 30 year yield above 4.54%, and ideally above 5% to be even more certain that it's the real deal.

CURRENCIES

Stabilizing U.S. dollar

In the world of currencies, it was all about Europe this month. Currency traders watched like hawks, making the markets more volatile than usual.

EUROPE: CENTER STAGE

Would they or wouldn't they bail out Ireland? After it happened, was it enough? Would the debt crisis spread? Yes, then it was okay, then it wasn't. Would Portugal and Spain be next? It went on and on, and the currencies moved accordingly, depending on the sentiment of the day.

Through the ups and downs though, some important insight surfaced…

Germany is the locomotive for the Eurozone. They're much stronger than the other countries and having been through a massive hyperinflation in the 1920s, they're fiscally conservative. It's no secret they have little tolerance for countries who aren't disciplined and they're strict in their views.

We understand this coming from a German father who gave us plenty of German culture. This was balanced out by our Costa Rican mother, so hopefully we've received the benefits of both worlds. As a result, we can easily relate to the fact that little is black or white. On the contrary, there's usually a great deal of gray.

CHART 11

It was interesting, therefore, to see Germany's Chancellor, Angela Merkel, finally blurt out her true feelings. After Greece and Ireland, rumors were growing that Portugal and Spain could be next and the debt crisis would persist. Considering the Eurozone has already provided $1 trillion to cover bailouts, Ms. Merkel put her foot down.

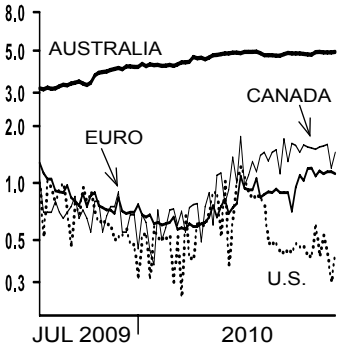
After many warnings, she bluntly said that Germany could abandon the euro if

she fails in her efforts to get the euro guidelines working. This was a first and it drove the euro even lower. But she quickly backpedaled saying that Europe needs the euro.

Nevertheless, this provides a brief illustration of the frustration taking place in the Eurozone and in other parts of the world as well.

CHART 12

3 MONTH INTEREST RATES



CHINA-U.S... AND THE YUAN

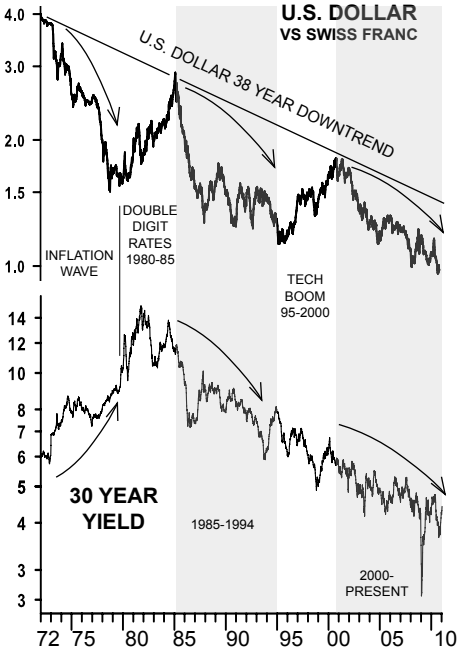
The U.S. and China, for instance, keep going at it. The U.S. insists that China hasn't done enough to strengthen its currency to offset global imbalances. Yet, one look at the Chinese yuan and you can see that it's been rising, which is what the U.S. wants (see **Chart 11**).

China's currency has gained 28% against the dollar over the past five years. So China has been flexible to outside pressures. No matter, the criticism continues.

Meanwhile, China is increasingly doing what's best for China. You'll recall that China's been making agreements with many countries to trade in their own currencies, thereby eliminating the U.S. dollar.

CHART 13

DOLLAR & INTEREST RATES



Well, this month China and Russia signed a similar agreement and the Gulf countries may be next.

It's pretty apparent that China is slowly taking steps to making the yuan the next world's reserve currency. This would not be surprising considering that many countries have become apprehensive of U.S. dollar weakness and low U.S. interest rates (see **Chart 12**).

DOLLAR & RATES:
Move together... at times

As you know, low interest rates are indeed bearish for the dollar. As you can see on **Chart 13**, that was the case in 1985-94 and since 2000 (see shading). The only times this rule did not apply was during 1995-2000 when money was pouring into dollars to buy the booming tech stocks. The other time was during the inflation wave of the 1970s–early 1980s, which provides an interesting lesson.

In those days, interest rates were rising but the dollar kept falling. Inflation fears were taking their toll on the dollar. It actually wasn't until rates soared to double-digit levels that they were able to give the dollar a good sized boost, which lasted for a few years. The dollar's strength ended, however, once interest rates declined back to single digits in the mid-1980s.

The point is that interest rates and the dollar tend to move together unless there is a bigger event overpowering the market. Since rates are historically low, even if a mega trend reversal takes place, it's probably going to be a long time before rates have a significantly positive impact on the U.S. dollar. In other words, interest rates will rise but the dollar's rise is unlikely to be long lasting.

Reinforcing this, you can see that the U.S. dollar index has been rising over the past month (see **Chart 14A**). This has coincided with the recent upmove in interest rates. And since the dollar's leading indicator is now moving up from an oversold zone (**B**), this tells us that the dollar's probably headed higher in the months ahead. If so, there's a chance it could eventually rise to as high as the 89 resistance level in a best case scenario.

CURRENCIES

Aside from higher interest rates the dollar's also been strengthening on Europe's debt woes. This hasn't only taken its toll on the euro but to some degree, on the other currencies too. They've been more volatile (see **Chart 15**).

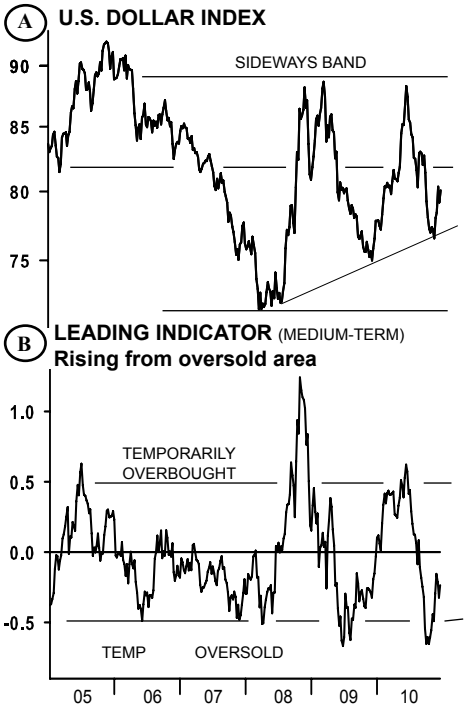
In the Australian and Canadian dollar's case, they've been boosted by rising commodity prices, but they've also been jittery depending on what happens in China.

Regardless of the ups and downs, the currency markets are still bullish and the major trends are up. The euro is the only exception as it has technically turned bearish due to its uncertain set of circumstances.

Looking at the others, however, you can see that they're generally holding firm. They were starting to look somewhat toppy but it now appears as though they could continue to rise further before they experience

CHART 14

POISED TO BOUNCE UP

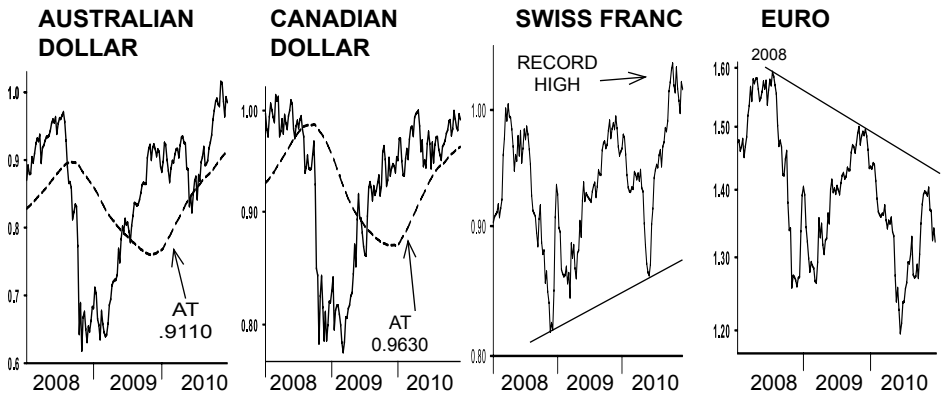


a normal downward correction.

This in turn suggests that the U.S. dollar could bottom for a while before it moves up, or that the dollar's rebound rise won't amount to much. Perhaps the dollar's negative fundamentals will overpower the markets.

We'll see what happens. But for now, we recommend keeping your currency positions. If that changes, you'll be the first to know. We'd hold off buying new positions for the time being. Traders should sell the U.S. bullish ETF (UUP) if you have it.

CHART 15



METALS, NATURAL RESOURCES & ENERGY

Another great year... and more to come

The metals have remained incredibly hot. The gold price reached yet another record high on December 6 while silver, copper, palladium and the CRB commodity index went on to reach new highs this past week (see **Chart 16**). As the year winds down, we've seen whopping 77% and 88% gains in silver and palladium... the best of the group. Yet the others are hardly shabby... gold is up 29% and 26% for copper.

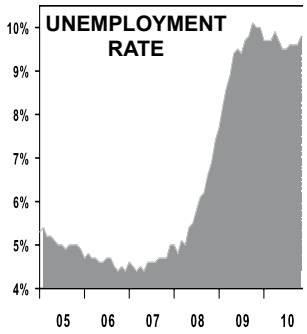
The strength of the last two years has been extremely impressive. Gold, silver, the metals and commodities are set to rise further in the years ahead for basically the same reasons why they've been rising for the past 10 years. A demand based rise will continue to be powerful as the emerging world keeps growing.

BULLISH ENVIRONMENT

Equally important are the **stimulus programs** in the U.S. and Europe. Whatever helps to boost their sagging economies will also continue to give gold and commodities a big boost. Be it QE2, lowering taxes, or more spending in the Eurozone... any similar actions will keep the metals and commodities shining.

Fed Chief Bernanke, for instance, has his eyes on the persistently high unemployment rate and as long as it stays high, the economy will continue to receive ongoing stimulus (see **Chart 17**). This in turn will help the economy and keep upward pressure on the commodities. Europe's on again, off again debt crisis is also adding volatility to the markets.

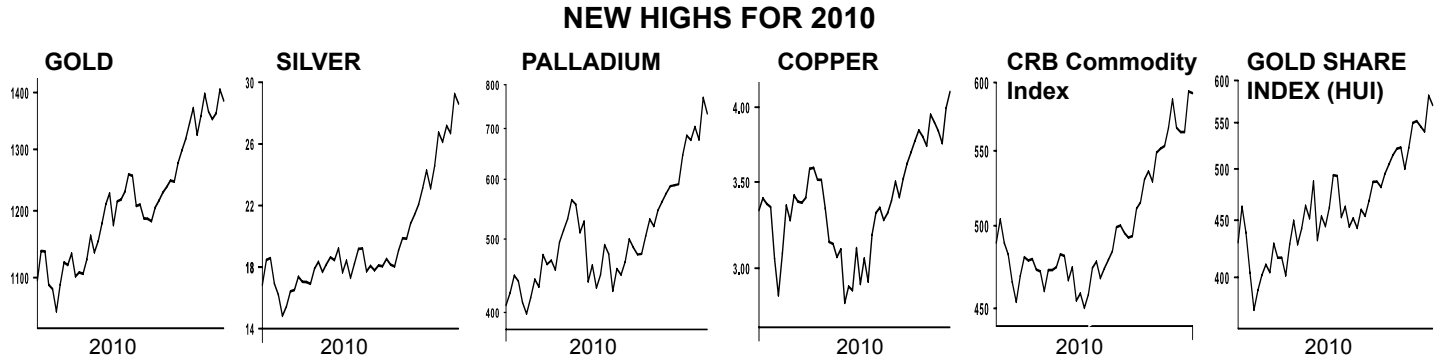
CHART 17



Then we have the **safe haven** draw. Gold and silver rose again this month when the European debt crisis threatened to spread. Plus, tensions between North and South Korea all pushed the yellow metal up. Uncertainty is keeping a strong support under gold.

Competitive devaluations are another big plus for gold. All countries are striving to increase their exports in this stiff competition world. And a good way to do that

CHART 16



is to have a weaker currency so their goods are sold at a lower price.

This is very bullish for gold and **Chart 18** shows a good example of this. Note that gold is at a record high in Swiss franc terms (**A**), which is very impressive because gold is strong in one of the strongest currencies. The Swiss franc reached a record high in U.S. dollar terms in recent months (see **B**). As a result, this clearly shows that all of the currencies are weak compared to gold and gold is actually the best currency… the ultimate currency when times are uncertain.

We also continue to see the gold price outperform the U.S. stock market (see **Chart 19**). Even though stocks are rising and they have room to rise further, they have been forming a 10 year massive top while gold's been rising sharply. Gold and the stock market tend to move opposite on a big picture basis. This time around the difference has been clouded by the strong emerging markets.

Interest rates are becoming a key issue that will play an important role next year. As you can see, in the 1970s through the 1990s, the 30 year yield moved opposite to stocks, and it moved with gold.

This changed in 2000. Gold started its ascent while rates fell. But now with the yields jumping up, we could see rising rates eventually hurt the stock market but not necessarily the gold market.

We are in a new world that started 10 years ago. Here's a twist… QE2 and rising yields will temporarily help the dollar, but in the big picture, this is also very good for higher gold.

CHINA PREPARES

This bullish environment is important to understand in this changing world of ours. China knows this, which is why their gold imports are jumping up. They deregulated their gold market in 2008 and private demand is up sharply. The Shanghai Gold Exchange said its imports rose about fivefold in the first 10 months versus 2009.

We don't see China becoming sellers of gold. On the contrary, they know the international rule to becomimg a superpower… "he who has the gold, makes the rules."

China is accumulating gold. It's a large gold producer, and they're keeping it, while also buying gold outside.

During the G20 meeting this past month, China's leader Jintao said, "they are the masters now" which reinforces the direction China's capitalistic dictators are going. They have patience, time and the means to become the world's superpower and they seem to be on a mission.

Keep in mind, in 1913 before the U.S. dollar became the global currency, it had large gold reserves… nine times more than Britain, which made it a natural replacement for Sterling. Is history repeating? It would seem so.

We also don't think it's a coincidence that China started importing huge volumes of raw materials in 2005, right when gold began rising in all currencies. This is when the full bull market began.

Basically, when China speaks, the commodity markets listen… Concern was growing, for instance, that China would raise interest rates to cool their economy and therefore cool the need for commodities. But their rates were left unchanged, which pushed copper to a record high.

DEMAND GROWING

There's no question that overall demand is growing stronger with each passing year. Even though gold's bull market is 10 years old, the rise is still considered somewhat new. The financial crisis shook the world, which caused many to reevaluate. This fueled a stronger phase of gold's bull market in September 2009 when it jumped up to a record high and never looked back.

Institutions, funds and more central bank buying began to heat up. Innovations for institutions to buy, together with the ETFs that started five years ago helped demand by making it easier to buy gold.

CHART 18

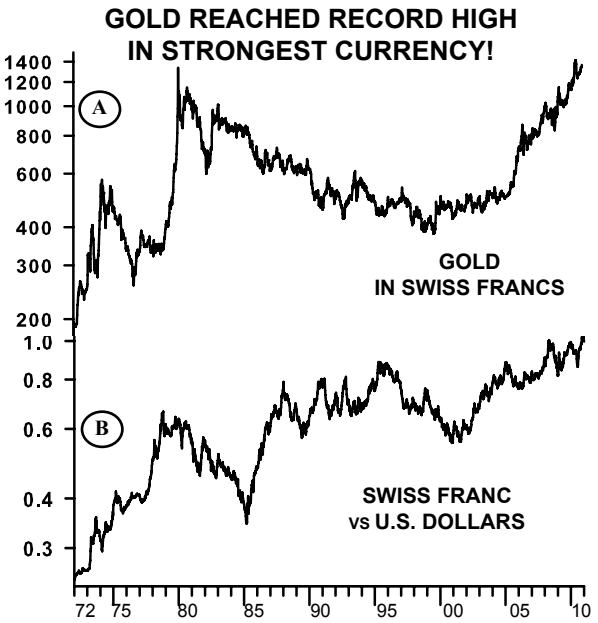


CHART 19

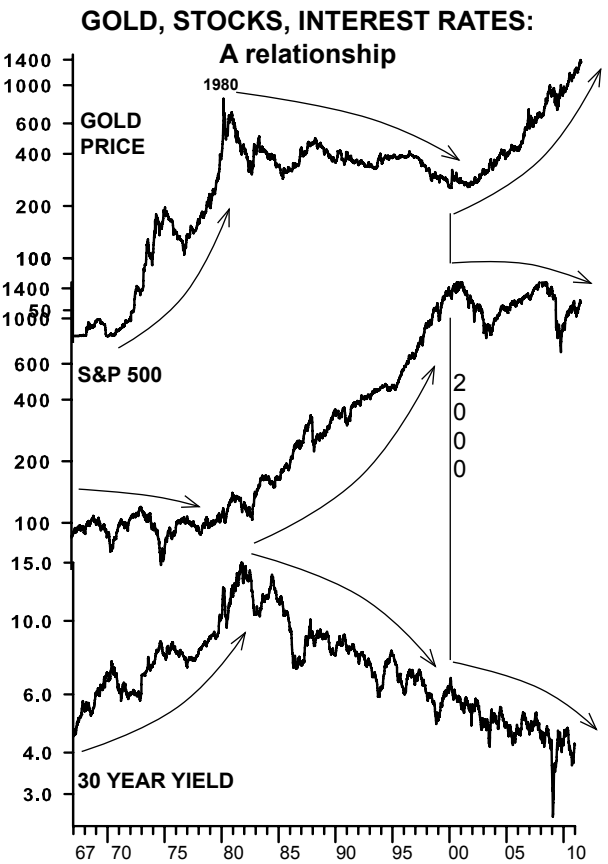
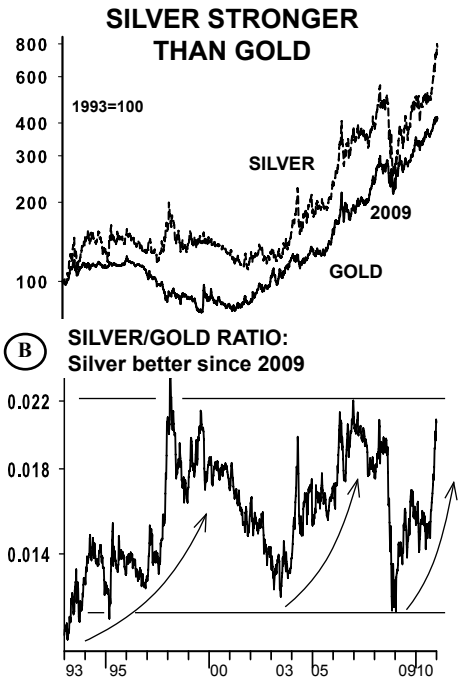


CHART 20



Today GLD is the sixth largest gold holder after the IMF, U.S., Germany, France and Italy.

Demand is up around the world. In India gold jewelry surged 36% in Q3 and gold imports already exceeded the 2009 levels. The Perth Mint is saying silver coin sales are set to climb and the Bullion Vault's online trading in gold and silver is up 29% this year with growing interest in silver. Commodities in general, and even diamonds, are gaining attention as an alternative investment.

Mining takeovers are also a sign of the times. This has been the second best year on record as they shift their buying to the emerging world, mainly Africa and Asia.

SILVER BETTER THAN GOLD

Silver has been stronger than gold. You can see this consistency since 1993 on **Chart 20**. Silver fell much less than gold in the 1990s and it has stayed stronger than gold during the rises. You can see this clearly on the ratio (**B**). Silver outperformed during the 1995-99 time period, the 2003-07 time and in the 2009 to present time. In other words, when both silver and gold are rising together and especially if the resource sector (like copper) are rising, silver outperforms.

Silver tends to decline more than gold during corrections. The two noticeable times were in 2000-03 and during the financial crisis in 2008.

This shows silver's volatility and don't be alarmed by it during corrections. Instead, use weakness to your advantage and buy.

Silver: The star

It's important to restate that neither gold or silver are in a bubble. Granted silver took off like a bandit, jumping up over 50% in three months… hitting a 30 year high. It's been a great ride no doubt, yet the big picture on **Chart 21** shows the major rise has further to go. The latest surge is the start of more to come. Note that silver is now trading on the higher side of the mega upchannel and the upside is wide open in time and price.

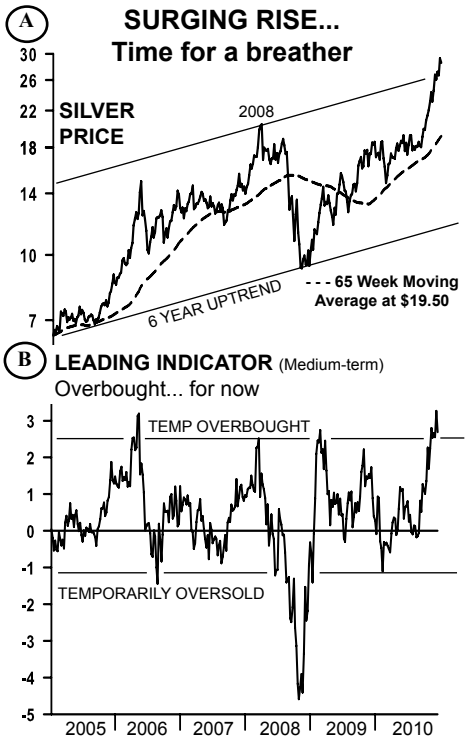
Silver really soared in September when it broke above its 2008 high near $20.90. **Chart 22** shows a closer look since 2005. Here you can see that silver has risen too far, too fast and a breather decline shouldn't come as a surprise. Silver is now at the top of a channel (**A**) while its indicator is overbought, the most since 2006 (see **B**).

CHART 21

Keep an eye on $27.50 as silver (basis March) will remain incredibly strong above this level. But even if it declines to the $25 level it would still be very strong. In other words, any fluctuations above $25 would be normal within a very healthy bull. In fact, we could see some volatility like this before silver resumes its rise.

Times change and this year has not been an exception. Silver's high all year was the $19.60 level until September when silver soared above it. Now this level is the major support as the rising 65-week moving average is nearing this level. What was a high for the year is now major support… that's strength!

CHART 22



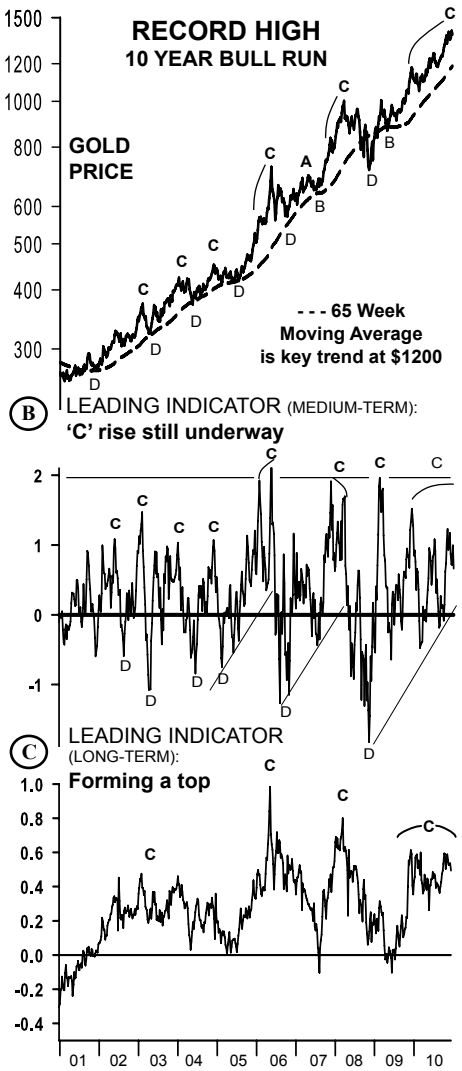
NO BUBBLE IN SIGHT

Silver and gold have plenty of room to rise further. The bull market's most spectacular phase is still to come. These markets are not even close to a mania and far from a big bubble. It's not too late to buy and ideally buy on weakness. During bull markets, it's best to average in because the market many times does not give you an opportune moment to buy.

GOLD: Impressive gains

The same for gold. **Chart 23A** shows it's had a beautiful rise producing consistent gains each year since 2001. It's been impressive as seven of the years produced double-digit gains. While 2007 resulted in the largest yearly gain at 33.60%, 2009 and 2010 had the highest back to back yearly gains, at 24.60% and 29%, respectively. These numbers alone reflect the stronger phase of the bull market.

CHART 23



TIMING THE BULL

As you know, we have developed indicators over the years that help us identify good buying areas in gold, which also applies to gold shares and silver.

For the benefit of our new subscribers, and to review, our favorite timing indicator on **Chart 23B** has worked well since the 1970s in identifying intermediate highs and lows. It tells us the best time to take some profits and when it's time to buy new positions.

In a bull market, the recurring rises we call "C" are the best intermediate upmoves when gold rises to new highs for the bull market. The "D" declines tend to be the worst declines. But in a bull market, the D lows also tend to hold above the prior C peaks. These are the two most important moves.

The As and Bs are generally smaller highs and lows, which become consolidation periods.

These are the general rules, which have served us well. But the current C rise has now been the longest and strongest in this bull market. It started in April 2009 at the B low, and it's risen 63% since then. This surpasses the last two C rises, which had been the strongest at 58% in 2006 and 55% in 2007-08.

In fact, the rise since November 2008, at the financial crisis low, has been the longest lasting rise without a 15% correction. Impressive, yet gold is not overbought (see **B**). In other words, gold still has room to rise further before this indicator reaches the level of the previous C peaks.

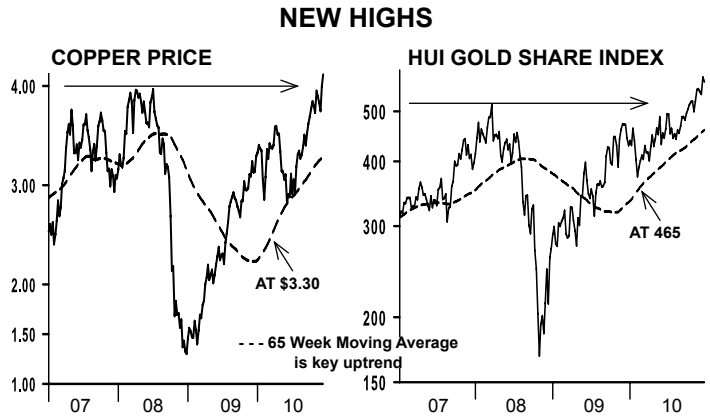
The long-term indicator could be forming a top. This means, keep an eye on the numbers as they'll tell us when a correction gets started.

Watch $1335 (basis February) as the gold price will remain very strong above this level. A close below it would suggest that a correction has begun for the first time since August. A decline similar to last February would take gold down to the $1230 level, which would be near its major support near $1200.

On a big picture basis, any weakness would be a great buying opportunity.

Gold shares have generally been outperforming gold and reaching new highs this month (see **Chart 24**).

CHART 24



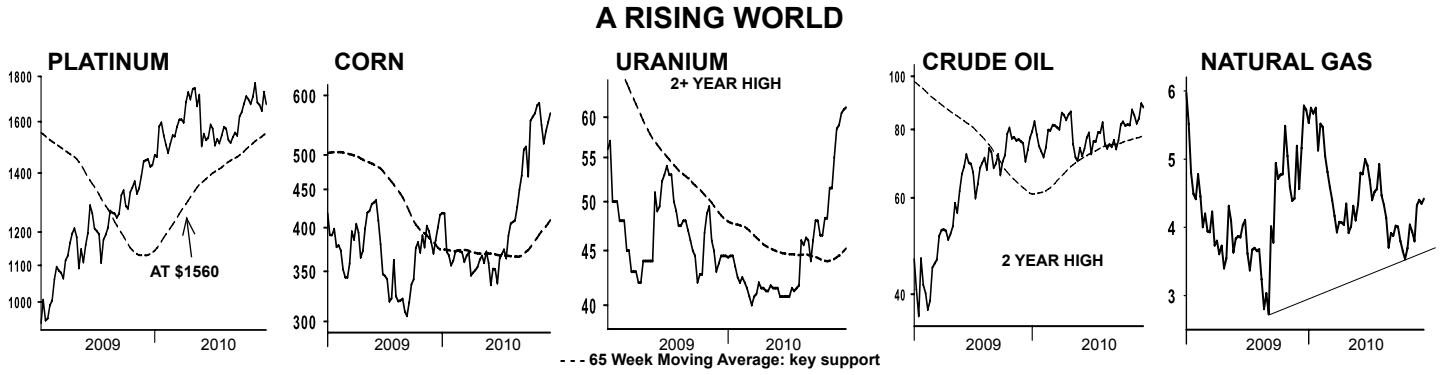
RESOURCES: Going strong

The resource sector is hot too as judged by copper's record high this month (see **Chart 24**). The bottom line for copper is, as long as the global economy continues to grow resources will remain in strong demand.

Be it the base metals, oil, soft commodities, like sugar at a 29 year high, or even companies like Caterpillar that make construction equipment, they're all on the rise. **Chart 25** shows a sampling.

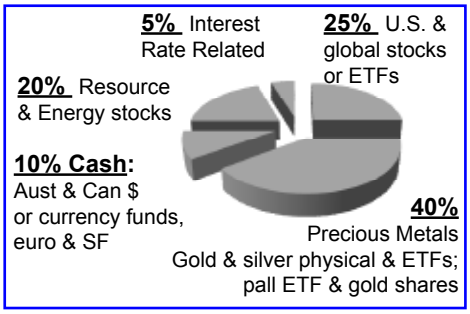
Meanwhile, our resource and energy shares are doing well, along with our metals positions, so stay with them.

CHART 25



OVERALL PORTFOLIO RECOMMENDATION

It's been another good investing year. The precious metals were the winners, strongly outperforming the other markets even though most of the markets were up. The new year ahead is sure to be another exciting one. This month we've made a few adjustments in our recommendations, but for the most part we're keeping what we have.



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

The metals have remained incredibly hot. Gold hit another record high on December 6. Silver, copper, palladium and the CRB Commodity index reached new highs this past week. The gains have been very impressive this year with the metals markets strongly outperforming the other markets. Nevertheless, these markets are poised to rise further in the years ahead and we recommend staying with these bull markets until maturity. The best is yet to come.

Silver and palladium have been strongest but platinum has been lagging. For that reason, we recommended selling PPLT in our weekly update.

As for the other precious metals and the shares, we continue to recommend buying new positions gradually over the coming months. Buy gold and silver, as well as the strongest shares at the top of the list. Keep the positions you have.

The resource and energy stocks are doing well too. Again, keep the positions you have and buy new ones in the strongest, which are Freeport McMoran, Peabody Energy and BHP Billiton. We also like Caterpillar, (CAT) and recommend buying it on weakness.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The stock market continues to surge. Many of the U.S. and global stock markets hit new bull market highs, the major trends are up and they're likely headed higher. Keep your stock positions. For new buyers or those who want to add to their positions, buy Nasdaq (QQQQ), Powershrs Finan (PFI), iShares S&P Glbl Tech (IXN), Prshrs Dynamic Soft (PSJ) and Dow Diamonds (DIA).

CURRENCIES RECOMMENDATION

The U.S. dollar moved higher this month, boosted by rising interest rates, and it may head higher in the months ahead. The currencies have been volatile but for now, they remain bullish and the major trends are up. The euro is the only exception but since all of the currencies are poised to move up, the euro likely will too. Keep your currencies but don't buy new positions. Traders sell the U.S. dollar bullish ETF (UUP), if you have it.

INTEREST RATE & BOND RECOMMENDATION

Interest rates surged in response to the Fed's inflationary actions. The 30 year yield is above 4.54%, and if it now stays above this level, it'll mean a mega trend change is underway, signaling much higher interest rates in the years ahead. Continue to hold your interest rate related investments. Since interest rates are approaching overbought levels, don't buy new positions for now.

Note: All of the shares, funds and ETFs are listed in order of strength in each section. Keep the ones you have on the list. Buy new positions in the strongest ones.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

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

RESOURCE & ENERGY SHARES

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

U.S. & GLOBAL STOCKS

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

CURRENCY ETFs & FUNDS

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

INTEREST RATES

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

*** New Position**