THE
ADEN FORECAST
MONEY • METALS • MARKETS

DECEMBER 2012 *our 31st year*

THE END OF A VOLATILE & UNCERTAIN YEAR

As the year draws to a close, it's been a challenging one. Volatility, uncertainty, concern and political influences have been par for the course.

This also raises many questions, so this month we're answering the ones most frequently asked. The first question is a combination of several, which is why the answer is so long…

FAQ time

Q. We need to protect ourselves from relatively new factors like the collapse of the dollar, a total meltdown, central bank and/or hedge fund manipulation. What strategies are best against government actions? Can your technical analysis account for the effects of these factors?

A. The main thing to do as an investor is deal with reality and this is actually harder than you think…

We all have opinions and ideas based on what's happening and what's likely coming. Some of us are optimists and others are pessimists. Some feel life is good and others believe doomsday is around the corner. Some of us like certain places, food, music, sports, styles and investments, and others don't. This is normal because we're all individuals with our own tastes.

Flexibility is the first rule of thumb. Try to be as flexible as you can. Your personal view of world events, for example, may be right in the long run, but not for now. Timing is the most important.

Things always take longer than one imagines. So regardless of your personal outlook, recognize that no one is the holder of the torch, which means keeping an open mind. This is not only good in your everyday life but it's essential when it comes to investing, especially considering all these potential factors.

GO WITH THE FLOW

We've often discussed this but now is a good time to reflect and review some of these key points. Yes, the markets have been volatile and that's made investors fickle, nervous and insecure. All of this makes it more confusing and difficult.

It's most important in all cases, to go with the flow. The markets will always point the way and it's usually a mistake to try and outguess them.

Remember, the markets absorb all of the information and opinions that are out there, and they move based on this information.

That includes manipulation, the Fed's actions, long-term effects and all the rest. They'll then establish a trend and our job is to identify and stay with those trends, considering all of the factors involved.

As you know, very often the trends won't make sense. That's because markets tend to lead, but the facts and reasons why will become obvious in time. And that's probably the toughest part… investing in a trend that doesn't make sense to you.

But that's also where flexibility comes in, recognizing the markets know more than we do. They look ahead and they "know" what's coming. They also know when conditions change and that's when a major trend will change too. And so far, with the exception of minor adjustments, these "new" factors have not affected our technical analysis.

Our goal is to invest with the major trends. Also important is to identify when these trends have changed, regardless of whether we think they should or should not be changing. The bottom line is, let the markets be your guide.

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MERRY CHRISTMAS AND HAPPY NEW YEAR!

Wishing you a very Merry Christmas and all the best in the New Year ahead. May your life be filled with love, good health, prosperity, peace and joy.

We also want to thank you for being a subscriber and for your kind notes throughout the year. We truly appreciate your support.

Warmest regards,
Mary Anne, Pamela and the team at The Aden Forecast

So what are the markets telling us?

They're still saying gold is the best investment. It's headed higher. They're also signaling that stocks and bonds are good, but gold is better. In a nutshell, owning some gold is the best strategy to protect yourself against all of these actions and crosscurrents currently taking place.

Q. We know many of you are worried about deflation and/or a 2008 repeat and have asked, what is the biggest deflationary risk?

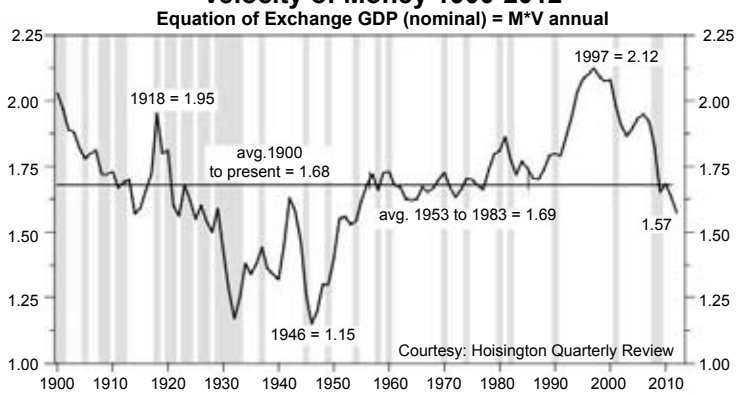
A. As you know, a deflationary drag has been hanging over the markets and the world economy for several years. This has resulted in slow growth, high unemployment and dislocations worldwide.

The world's central banks fear deflation. That's why they've been flooding the globe with money to offset these deflationary forces. Normally, this would've fueled surging inflation but it hasn't happened yet, which brings us to the biggest risk...

The velocity of money is not controlled by the Fed. It measures the rate at which money circulates or changes hands. Higher velocity means the same quantity of money is being used for a greater number of transactions and it coincides with a robust economy and higher inflation. The opposite is true of lower velocity, and that's the problem.

As you can see on **Chart 1**, the velocity of money has been declining for over a decade and it's currently below its average level since 1900. Note that velocity fell sharply during the Great Depression years. Money wasn't moving and that's exactly what the Fed's now trying to avoid with all its QE and other stimulus programs. Other central banks are doing the same.

CHART 1



Sources: Federal Reserve Board; Bureau of Economic Analysis; Bureau of the Census; Monetary Statistics of the United States. Through Q2 2012. Q2 2012; V=GDP/M, GDP=15.6 tril, M2=9.9 tril, V=1.57

They want inflation to pick up. **The Fed's doing all it can to make this happen and turn the velocity around.** In fact, the Fed's again leaning toward more stimulus, so it just might succeed in offsetting the deflationary risk, sooner or later.

And when it does, inflation will let loose and prices will rise sharply. As we mentioned last month, there really is a tug of war going on between inflation and deflation and this brings us to our next question...

CHART 2

Q. What are our investing options regarding the fiscal cliff coming up on Jan 1?

A. With economic growth slow, a recession would probably result if the fiscal cliff is not resolved. This would drive investors into safe havens, pushing U.S. bonds and the U.S. dollar higher (see **Chart 2**). Stocks would fall. Metals and their shares, along with commodities, likely would too.

On the other hand, if a fiscal cliff agreement is reached in time the economy will continue to plug along. Stocks, metals and commodities would rise, but the U.S. dollar and bonds would likely experience downward pressure.

Putting all the political posturing aside, the markets are currently suggesting that an agreement will be reached, as you'll see on page 3.

Q. Are your open positions okay to buy now or should new readers wait for an alternative entry point?

A. They are generally good to buy now, but see page 12 for specifics.

Q. Can you provide personal advise on X strategy or financial plan?

A. We're sorry but we can't provide personal advice. In these pages we try to provide a broad view, focusing on the major market trends and the economy, and then we recommend investments and allocations based on market relative strength and our overall conclusions.

More of your questions will be incorporated and answered in the market sections that follow... And fiscal cliff aside, have a wonderful Christmas and a great new year ahead.

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

Bull market underway

The stock market is looking a lot better. It's been rising this month, gaining momentum and it's poised to rise further.

This followed a steep downward correction last month. The major stock indices essentially tested their key moving averages and they've been moving up since then. So the bull market in stocks continues and as long as it does, the market is signaling higher prices ahead.

BETTER TIMES COMING?

The action in the stock market strongly suggests several important things...

First, it's telling us the economy is going to remain steady and firm. It means the Fed's economic stimulus plans are going to be successful and good for stocks, and a recent global poll reinforced this.

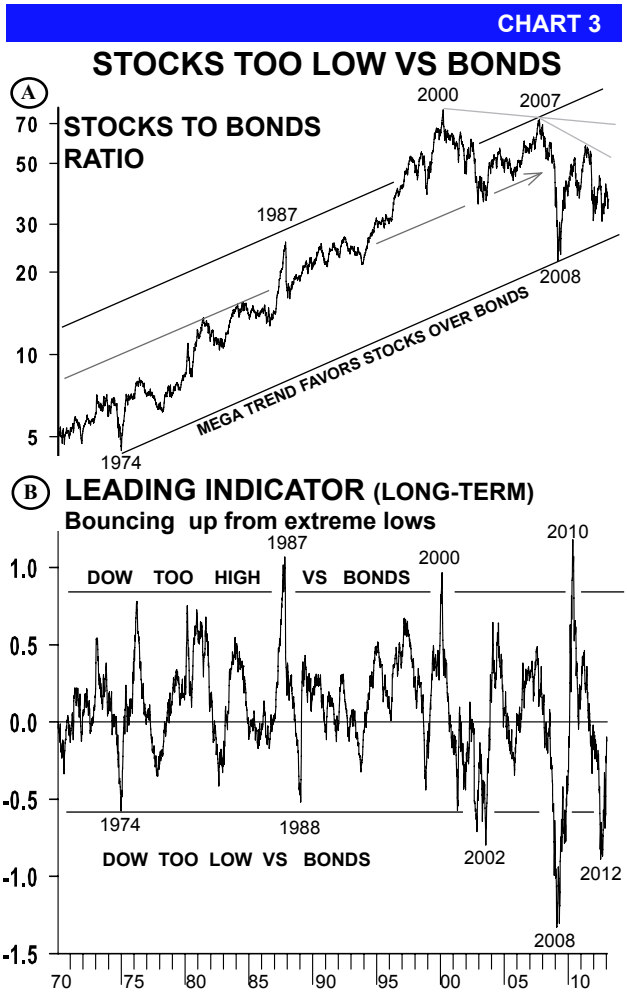
It showed the vast majority believe the global economy is stable or improving. Most important, it reflected optimism that the world economy is the best it's been in 18 months.

CONFIDENCE GROWING

As we've often mentioned, confidence drives the markets and the economy. With stocks now rising worldwide, we're seeing the results of this growing confidence, which is very positive for further upmoves in stocks.

The stronger stock market is also signaling the fiscal cliff will work out, one way or another. Whatever happens, it's not going to hurt the economy. That's why stocks are rising. If the outlook for the fiscal cliff was negative, stocks would be falling big time.

This in turn means that bonds are going to fall out of favor. They won't be needed as a safe haven and **Chart 3** provides a fascinating illustration of this very point.



STOCKS POISED TO OUTPERFORM BONDS

The top chart shows the ratio comparing stocks to bonds. As you can see, the mega trend since the 1970s favors stocks. In other words, over the long haul, stocks have been stronger than bonds and they've been the better investment.

Since 2000, however, the ratio has generally been declining, indicating stocks have been weaker than bonds. That is, despite the volatility, bonds have been better since then... but that's now due to change.

Note the leading indicator (B) is currently rising from an extreme low. This means stocks are out of whack and they're much too low compared to bonds.

The bottom line is... stocks are now poised to rise and outperform bonds. The percentage gains in stocks are going to be greater and they'll outshine the bond market.

This is good news for stocks and the economy, and it's probably going to be bad news for bonds.

Considering the Fed is vowing to keep interest rates low for a few more years, this will provide a bullish environment for assets, including stocks. In fact, stocks could rise to much higher levels than most expect in another leg up within the rise that started in 2009.

Keep in mind, the purpose of QE3 and super low interest rates is to boost the economy and the prices of homes, stocks and other assets. So this is clearly a green light for stocks.

NEAR CROSSROADS

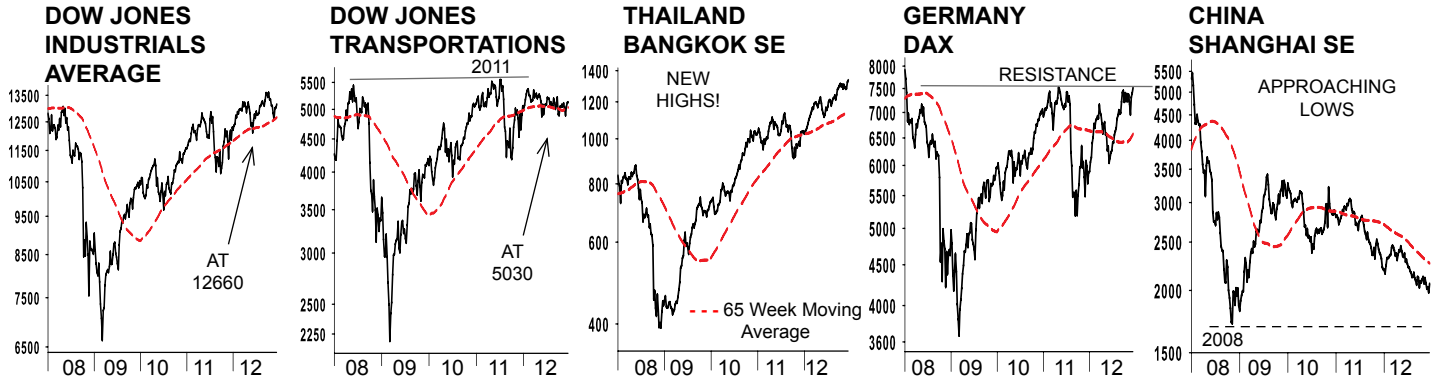
Currently, we're watching the S&P500 closely, along with the other major stock indices (see **Chart 4A**).

The S&P500 has been rising steadily. It remains bullish above 1340 and it's now approaching a very important resistance level at 1550.

As you can see, it's been unable to break above that level since 2000 and if it does it would be extremely bullish for the S&P500 and the stock market in general, signaling a much higher market ahead.

CHART 5

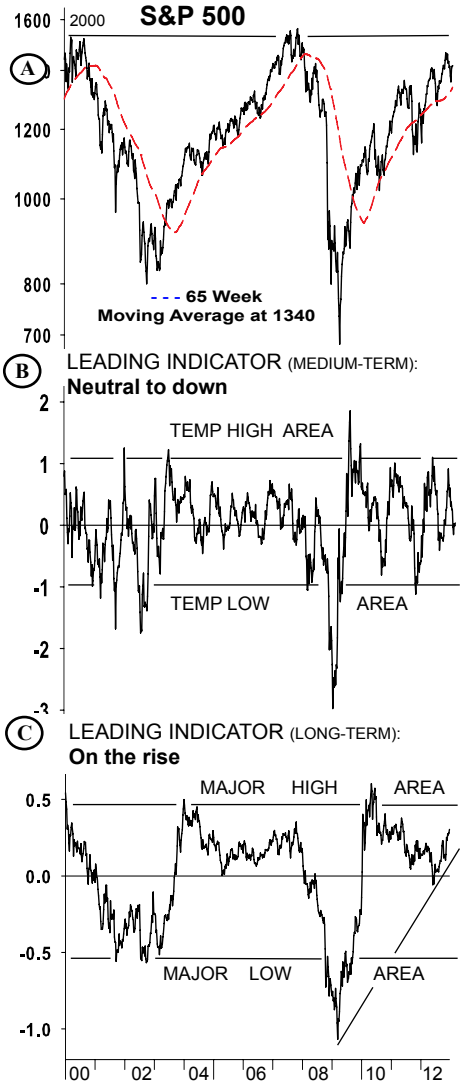
SELECTIVE BULL MARKET



For now, stocks could encounter some downward pressure in the weeks ahead, but that's unlikely to last long. The leading indicator is also reflecting strength in the market (see **Chart 4C**). It's strong and on the rise, which is yet another bullish sign.

CHART 4

NEAR KEY JUNCTURE



As for the Dow Industrials and the Dow Transportations, they're both bullish by staying above 12660 and 5030, respectively (see **Chart 5**). There is also strong support for the Transports at 4890. And if they can now rise and stay above their September highs at 13597 and 5216 they would turn super bullish.

As for Nasdaq, it's bullish above 2870 and it would be extremely strong above 3180.

So these are the numbers we're watching and we urge you to do the same as they will provide good guidelines as to how the stock market unfolds from here.

WORLD MARKETS LOOK GOOD

Another positive sign is that most of the global stock markets are showing real improvement. Some are obviously stronger than others but, like the S&P500, the individual leading indicators are looking good and, overall, the global markets are bullish. This too is very positive for the global economy.

Mexico has been one of the strongest international markets (see **Chart 6**). It's been rising steadily, reaching new highs, and its leading indicator is bullish and it has plenty of room to rise further. This tells us Mexico is headed higher and most of the leading indicators for the other global markets are similar.

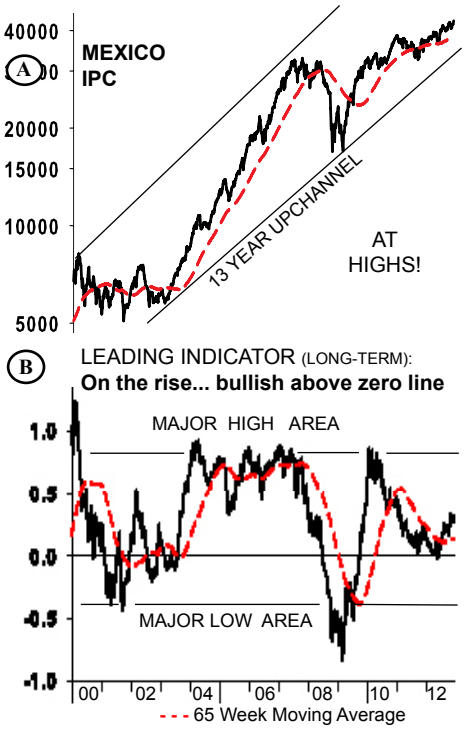
Thailand has also been a consistent top performer. But there are exceptions. Most noteworthy is China.

With their economy showing good signs of improvement it's unusual that their stock market is not moving up along with the other global markets. But like we said earlier, sometimes the markets don't make sense and this is one of those cases.

But China and a couple of others aside, the entire stock outlook is far more positive than it was last month. U.S. stocks remain among the strongest and we advise keeping our recommended stocks listed on page 12, and buy new positions in the strongest ones.

CHART 6

GREAT STRENGTH!!



U.S. INTEREST RATES AND BONDS

Interest rates are bottoming

Bonds are strong and they're likely headed higher in the weeks ahead. They've been benefitting as a safe haven with fiscal cliff concerns weighing overhead.

The possibility of more Fed easing and Middle East tensions also kept upward pressure on bond prices, driving interest rates lower.

BETTER NEWS CONTINUES

You'll remember the U.S. economy started showing impressive improvement last month. Many skeptics wrote this off as "window dressing" prior to the election. But as we noted, there were too many positive signs coming from various sources to write it off as manipulation, and that continues to be the case.

For the most part, the good signs kept on coming this month... Consumer confidence rose yet again, hitting its highest level in nearly five years. This has been happening for several months now and the fact that consumers are more upbeat is extremely important because it's boosting the economy.

The numbers have been improving across the board. Growth in the third quarter was better than expected and it marked the 13th consecutive quarterly gain (see **Chart 7**).

So even though it may not seem like it, and there have been scares along the way, the chart clearly shows the economy has been expanding for more than three years.

CHART 7

We all know this has been fueled by the Fed's inflationary stimulus programs. We also know that despite these massive monetary efforts, the economy has only grown on average 2.2% and it almost slipped into recession a few months ago. But the Fed keeps saving the day and its latest QE3 effort is again doing the trick.

Sure, there are plenty of exceptions. Many people have been hurt by the economy, both in the U.S. and abroad. But still, the economy is plugging along.

HAS HOUSING TURNED THE CORNER?

This has been most obvious in the housing sector. Home prices have been rising for six months and they're well on the road to recovery (see **Chart 8**). They're currently at levels last seen in 2010 and the trend in home prices is clearly up. Housing starts are also at a four year high.

This is not surprising when you consider the extremely low mortgage rates. Mortgage rates tend to track the 10 year yield (see **Chart 9,** left). And since the Fed is keeping all interest rates low, it makes buying a home all the more appealing.

Low prices and low rates... what more could a buyer want, especially now that confidence in the economy is becoming more engrained... it's a wonderful combination.

It's also a good sign for the economy. Many people don't realize that housing tends to lead the economy. In other words, once housing begins moving up, like it is now, other sectors of the economy usually follow and the latest decline in unemployment to a nearly four year low is a sign it's currently happening.

If so, this is good news for the Fed. It reinforces that all its QE efforts were not in vain. On the contrary, they're keeping the economy on track and out of recession.

LOW RATES... BOTTOMING

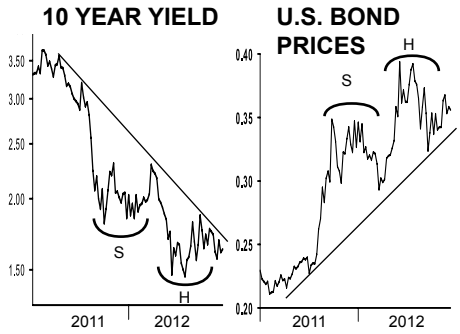
Looking at the 30 year yield on **Chart 10A**, you'll see where interest rates currently stand.

First, note the trend is clearly down and it'll stay that way as long as the 30 year yield trades below 3%. As we've mentioned before, we believe interest rates are bottoming and this has coincided with ongoing volatility at these extremely low levels.

For now, our leading indicators are reinforcing this. Most impressive, the long-term indicator is ris-

CHART 8

CHART 9



ing (**Chart 10C**). This strongly suggests the 30 year yield will probably head higher as we move into 2013. Interestingly, this would coincide with the end of Operation Twist at the end of December.

You'll remember, Operation Twist was the Fed's way of keeping long-term rates down by using short-term debt securities to buy long-term bonds.

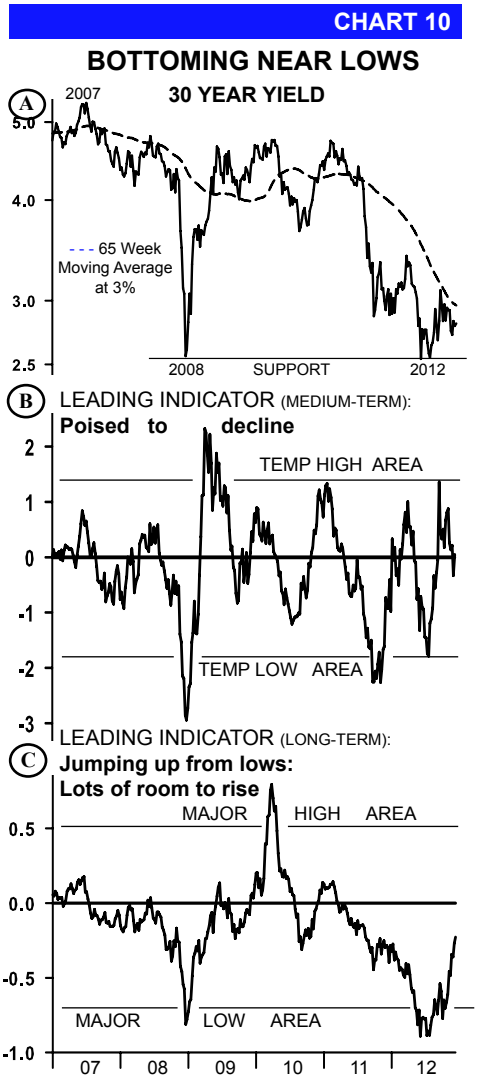
The Twist is unlikely to be extended because the Fed's supply of short-term securities is pretty slim. And if the fiscal cliff is also resolved, the demand for bonds as a safe haven would diminish, pushing rates higher.

A BOND BUBBLE

If that proves to be the case, it would also suggest inflation is coming, which will put upward pressure on interest rates. This would be bearish for bond prices, indicating a limited upside.

In the weeks and months ahead, however, interest rates will likely fall further. That's what the leading medium-term indicator is telling us since it's on the decline (see **Chart 10B**).

In other words, **we'll likely see more volatility and downward pressure on rates before they eventually head higher.** That is, bond prices will stay strong for the time being but at some point the bond bubble is going to pop (see **Chart 9,** right).



INTEREST RATES TELL STORY

This means what happens in the months ahead will be very important. If this scenario unfolds the way the indicators are signaling, then the velocity of money will probably pick up as inflation gains momentum.

This would suggest market forces will prevail, despite the Fed's efforts, and bonds will no longer be in demand as a safe haven.

So that's the way things currently stand, but as you know anything is possible. The months ahead are going to be interesting and we'll soon see how this all unfolds.

Meanwhile, keep your bonds for now. They remain bullish and the major trend is up. Should that change, we'll change too and lighten up or sell all of our bond positions.

We still wouldn't buy new positions at this time. The market is simply too volatile,the upside is limited and it's not worth the risk.

CURRENCIES

U.S. dollar: Pressure is on

The U.S. dollar has been under downward pressure this month. That is, the major currencies have been rising.

One important reason for this is the dollar's safe haven status... it's been diminishing. The main reason why is because the markets are leaning toward a positive fiscal cliff outcome.

If that's the way it goes, then it'll signal better times ahead. Safe havens will fall out of favor and the dollar will decline further (see **Chart 11**).

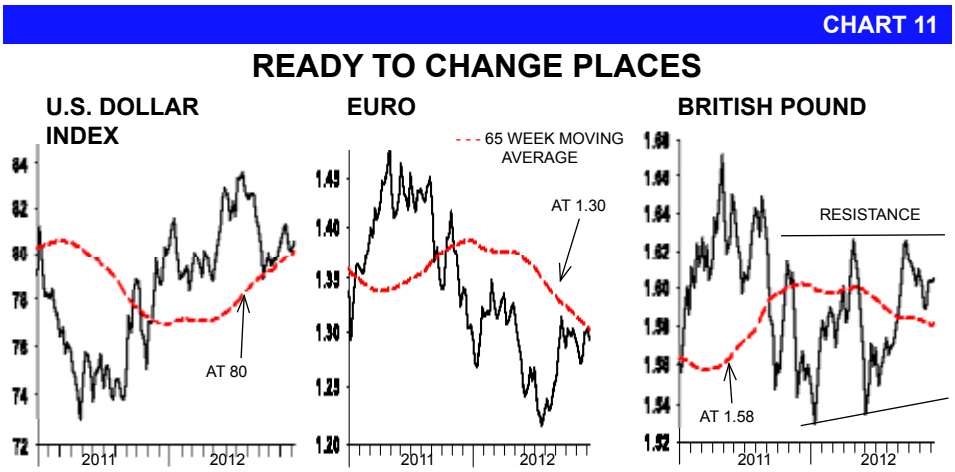
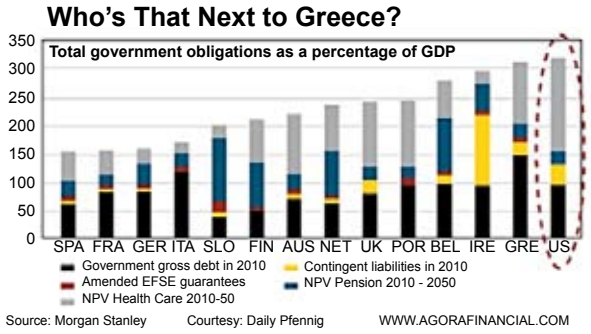


CHART 12



As you can see, the U.S. dollar index is currently on the edge. It's holding near its moving average at 80. For now, it'll be relatively stable by staying above that level. But if it declines and remains below 80, it'll be a strong sign the U.S. dollar is headed much lower and the euro's going higher.

This would not come as a surprise and it would likely coincide with a fiscal cliff resolution. Keep in mind, the Fed wants a weaker dollar and by keeping interest rates near zero it's doing its part in making the dollar less attractive.

As we've often discussed, the U.S. debt is so massive it can't and won't be repaid. So the second best option is to print more money, which weakens the dollar, and then pay the debts owed to foreign creditors with cheaper dollars.

DEBT & DOLLAR

This is nothing new. It's been happening for more than 40 years.

But with the U.S.'s total debt obligations as a percentage of GDP now larger than most other countries, including Greece, foreign creditors are backing off (see **Chart 12**). And you can understand why.

We won't rehash all of the reasons again this month but the bottom line is, the dollar's fundamentals are weak. Foreign creditors keep diversifying out of dollars and this will keep downward pressure on the dollar.

This is also being reinforced by the dollar's technical indicators (see **Chart 13**). Note the dollar's leading indicator is topping in a high overbought area. As you can see, these overbought areas have coincided with highs in the dollar index and preceded steep dollar declines, like in 2006-08 and 2009. And now it's again signaling the same… a steep dollar decline lies ahead.

CHART 13

DOLLAR ↓, EURO ↑

If so, this means the major currencies will rise. In the euro's case, that may seem strange considering the ongoing crisis in the Eurozone (again, see **Chart 11**). But this is a perfect example of what we talked about on page 1 about how trend changes often don't make sense when they're happening and the reasons why will eventually become apparent.

Currently, we know Europe is suffering. Unemployment remains high, the economy is weak, austerity measures have been brutal for many countries and poverty continues affecting more people. But the euro has been rising on optimism over Greece.

Hearing this, you're probably skeptical but if the euro can now rise and stay above 1.30, it'll be turning bullish, indicating the Eurozone's problems are going to be getting better.

Since most of the major currencies move with the euro, the other currencies could head higher too.

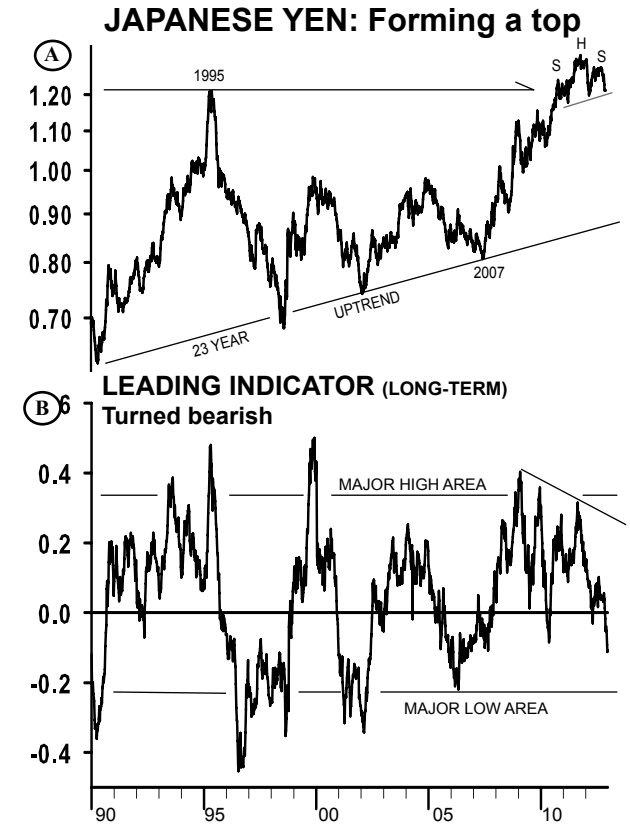
COMMODITY CURRENCIES: GOOD

In fact, the Australian dollar has been getting a boost from the improving news out of Greece (see **Chart 15**). We know that doesn't make sense either but here's the theory…

Greece and Australia don't have much to do with each other, but an improvement in Greece would help the European economy and, therefore, the global economy and that's why it boosted the Aussie dollar.

More important is what's happening in China. Its economy is showing impressive signs of improvement and what's good for China, is good for Australia. That's because China imports a big portion of Australia's goods, primarily raw materials.

CHART 14



Currently, the Australian, Canadian and New Zealand dollars are all holding firm.

These commodity currencies have good fundamentals and they do well when commodities and the global economy are on the rise. And if this continues, which seems to be the case, then these currencies will head higher too.

The big exception, however, looks like it'll be the Japanese yen. You'll remember the yen was considered a safe haven not too long ago, but those days have come to an end. Unlike the U.S. dollar and bonds, the yen is no longer benefitting as a safe haven. Japan has been intervening to stem the yen's rise and it looks like it's working.

The yen appears to be forming a head and shoulders top (see **Chart 14A**). At the same time, its leading indicator has dropped into the bearish zone. This tells us **the yen is now poised for a steep decline.**

Currently, we continue to recommend keeping your cash diversified and divided between the U.S., Canadian and Australian dollars. We also like the New Zealand dollar. Even though the U.S. dollar is under pressure we feel this is a good mix for the time being.

CHART 15

COMMODITY CURRENCIES: Holding strong

METALS, NATURAL RESOURCES & ENERGY

Gold... still going strong after all these years

Gold was volatile this month. It bounced around due to several factors but the fiscal cliff was most influential. The euro debt crisis and tensions in the Middle East also affected the price.

Since the fiscal cliff remains unresolved it's been putting downward pressure on gold. It tested the $1700 level but it then rebounded and gold's major trend remains up.

12 SOLID YEARS UP...

Gold is still looking good, and both the technicals and the fundamentals remain strong and bullish. In fact, if gold (basis Feb) closes above $1567 on December 31, then 2012 will mark the twelfth consecutive up year for gold, and that alone is an impressive record (see **Chart 16A**).

...Gold's hard to beat

Going back to 1971, gold's long-term track record is even more incredible. Gold has outperformed stocks, the oil price, home prices, the Swiss franc, bonds and consumer prices. It's clearly been a superior alternative to paper money and it continues to be the ultimate safe haven.

GOLD & DOLLAR: Still moving opposite

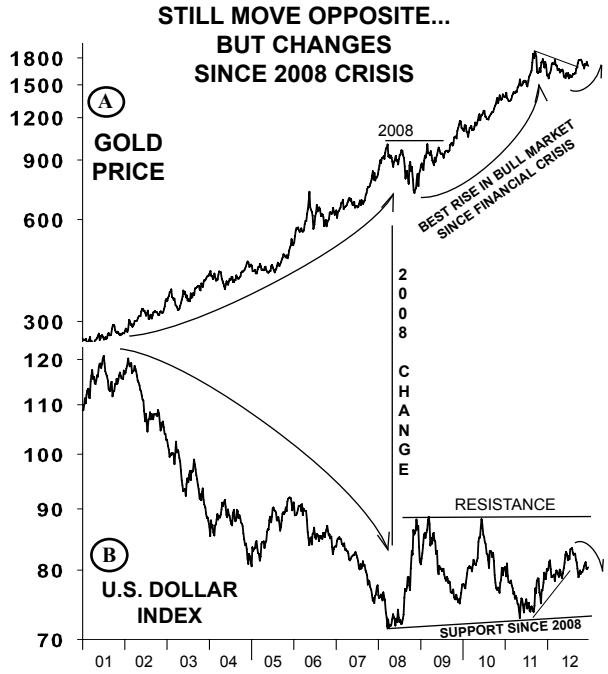
As you know, gold and the U.S. dollar have been moving in opposite directions ever since the dollar went off the gold standard in 1971.

Since the 2008 financial crisis, however, there's been a change... gold's been rising, but the U.S. dollar also became a safe haven, and it stopped falling. This was most noticeable in 2011 when the dollar index held above the 2008 low when gold reached a record high.

This won't last for long as the dollar will eventually give way. But even if it does last longer, gold clearly has the upper hand as it always has.

Nevertheless, we still receive more questions and comments about gold than any other investment. So we'll try to answer as many as we can in the next few pages...

CHART 16



First is, why are we confident that gold is going higher... There are many reasons and one of the most important is ongoing monetary creation and/or stimulus by the world's central banks. This is very inflationary and it's keeping upward pressure on gold because gold is the ultimate inflation hedge.

MORE BULLISH FACTORS

Another very bullish factor is the **growing demand** for gold by the world's central banks. They've been buying gold for a few years now and in greater amounts. It's fairly obvious they're diversifying out of dollars and buying gold instead, as well as other currencies.

China has clearly been a leader in this movement. For the past few years they've been telling their citizens to buy gold and they've made it easy to buy at banks and post offices.

Over the past five years, gold demand out of China has surged 27% per year. And it's not just the citizens, China's central bank is doing the same.

Even though China has been buying lots of gold and they're the world's largest gold producer their gold reserves are only 2% of the massive $3.3 trillion in reserves they have.

That's tiny compared to the U.S., Germany and several other countries that're holding more than 70% of their reserves in gold.

So China has a lot of catching up to do, and that's what they're doing. This steady and strong demand by China and other Asian countries will keep gold strong and propel it to far higher levels.

U.S. demand is also strong. Gold and silver ETF holdings are at record highs and last month, American Eagle gold coin sales were the strongest in 14 years.

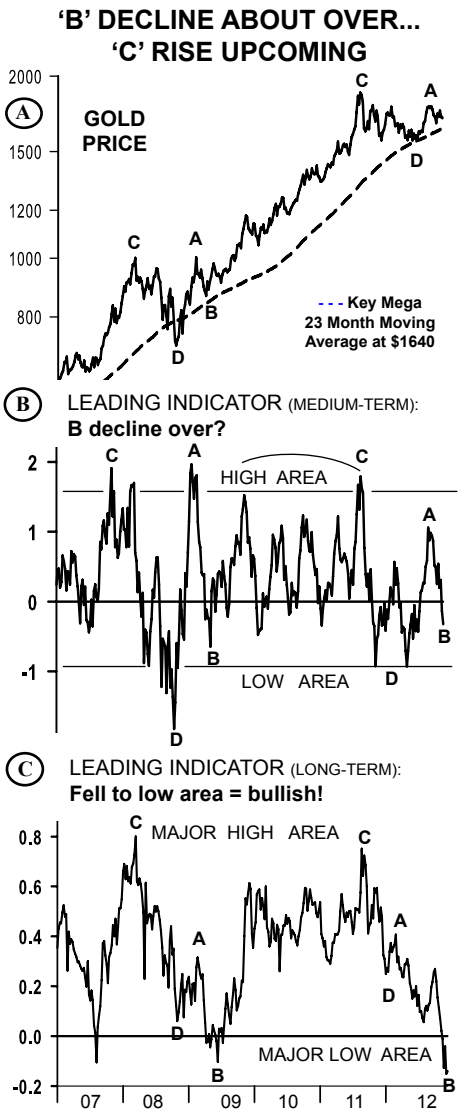
So interestingly, the central banks are flooding the world with liquidity on the one hand, and then protecting themselves from the effects on the other.

In addition, the U.S. dollar and other currencies are all weaker than gold, interest rates are very low, so there's no competition, and gold is technically bullish.

Overall, these are the main reasons why we believe gold is headed much higher, but we also know deflation is weighing overhead and it could push gold down.

So like we previously mentioned, we're going with the flow and keeping an open mind. We'll let the market tell us and so far, so good.

CHART 17



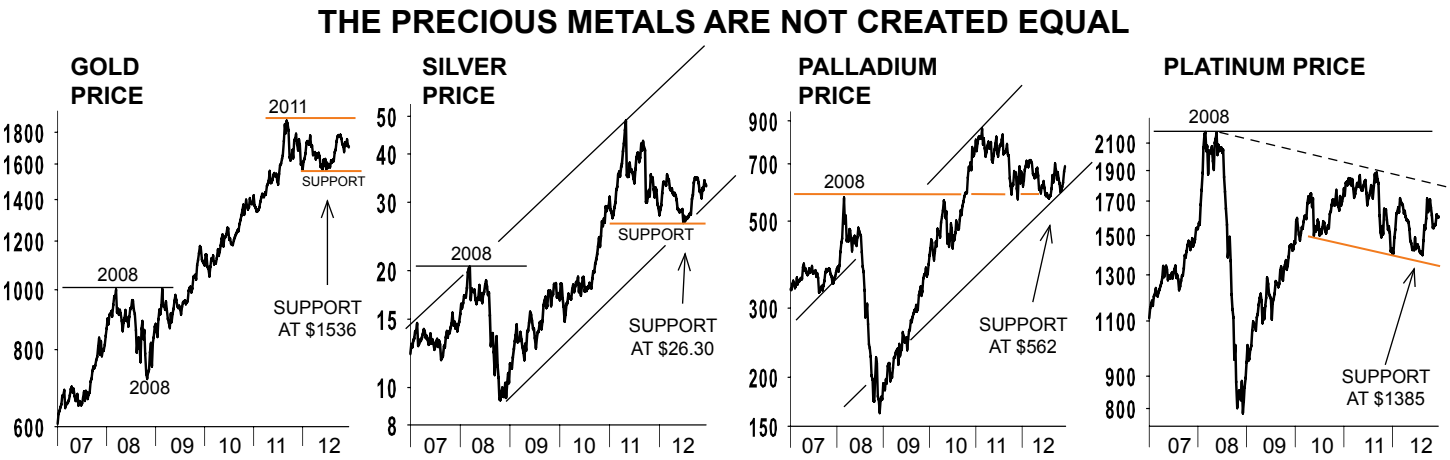
GOLD TIMING: Basing in a B decline

Chart 17A shows gold holding solidly above its long-term moving average at $1640, and especially above $1675 (its 65-week moving average). This alone is very bullish.

Currently, a B decline is in process and gold is down almost 7%, so it's been moderate.

Gold is now bottoming within this decline by staying above $1675, its Nov 2 low. Once this B decline is over, which could be any time, a C rise will be underway. A gold close

CHART 18



above $1750 will be the start of a C rise. Gold could then attempt to break above $1800 once again.

C rises have consistently been the strongest intermediate gold rises in the bull market, taking it to new record highs.

The leading indicator backs up this bullishness. Note the (longer-term) leading indicator is at an extreme major low area which tends to precede strong rises in gold (see **Chart 17C**). This tells us gold is very oversold and it's due for a major rise.

Keep an eye on gold... once $1750 is surpassed it'll be a strong sign that a new C rise is on its way. Above $1800 would further reinforce that.

Meanwhile, we understand some of your concerns that gold has been lackluster. It's true because gold reached its last C peak 14 months ago in September, 2011.

But in 2008 gold reached its peak in March and a new record high was hit again in September, 2009. That time it took 18 months before we saw another record high. So this time hasn't been so bad.

Remember, this is basically a major long-term bull market making its way up slowly but surely, and solidly.

MAJOR TREND IS YOUR FRIEND

Our view is, we'll stay with it for as long as the major trend is in force. We won't sell beforehand, trying to anticipate when a top may form.

Currently, there are no signs that a bubble in gold is forming, at least not yet. If that changes and the market tells us otherwise, then we'll change with it. But that's not the case at this time.

On the contrary, **gold's B decline is providing a good opportunity to buy new positions, or add to the ones you already have.** To buy physical gold or silver coins we recommend Dana Samuelson at www.amergold.com, phone 1-800-613-9323. We've known him for decades and we like the service he provides.

For now, all of the precious metals are looking good and they're all holding above strong support levels (see **Chart 18**). If they stay above the supports shown on the chart, it'll be a very positive sign for the entire metal's sector.

SILVER: Better than gold

Silver is bullish and when zeroing in on silver's big picture you can see it's still a great buy (see **Chart 19A**).

As we showed you last month, the current bull market since 2003 looks similar to silver's bull rise in the 1970s. If it stays above $26.30, this strength will continue and silver could soar to much higher levels and it'll most likely outperform gold.

Silver is interesting because it tends to trade quietly for long periods of time. But when it takes off, it usually soars and it's best to be on board before that happens.

Like gold, silver's leading indicator is also signaling it's poised to rise in another leg up. Silver will remain firm by staying above $32.80. Once it closes and stays above $35.10, a renewed rise will be underway. Above $37 would be a super bullish move, and silver would then be well on its way.

GOLD SHARES: Up like a rocket... down like a...

Several of you have asked why gold shares have been weaker than gold…

Looking at the gold share index, you can see that despite the weakness, the major trend is still up (see **Chart 20A**). Most of our recommended shares are also holding up okay.

CHART 19

CHART 20

Plus, the leading indicator, like silver, is at a major low area (see **Chart 20B**). Remember, these lows precede strong rises in the shares, so this is a time to be holding.

There's no question, however, that gold shares have been weaker than gold. This is clearly illustrated on **Chart 21**, which compares gold shares to gold.

Our good friend and mining expert Matt Badiali explains it best... "Most miners sacrificed profits for growth. Companies employed huge capital budgets from 2005 to 2011 to grow reserves. As the price of gold has ebbed over the past year the giant, low grade projects were no longer economic to develop. The mining firms have begun writing down the asset values. Today, though, things could be turning around."

Obviously, this does not apply to all gold mining companies but it has been a drag on the industry.

Looking again at **Chart 21** you'll note that **there have been three times when gold shares were much weaker than gold or when gold shares rose less than gold.**

The first one was leading up to the 1980 gold peak. The next one was the decline leading up to the stock market top in 2000, and the third is the current decline since the 2008 financial crisis.

Gold shares outperformed gold during the early stages of this bull market from 2001 to 2008. But they haven't recuperated like gold has since the crisis.

Will this change? It looks like it will. Gold shares are cheap and bombed out, which is why we still advise keeping a portion of your metals holdings in gold and silver shares.

Gold, however, is clearly stronger and that's why we continue to recommend holding a larger portion in the physical metal.

CHART 21

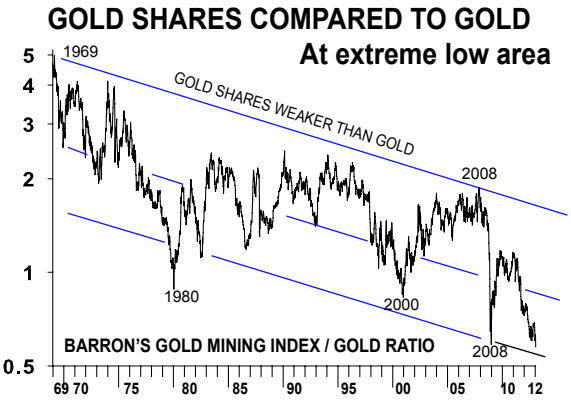
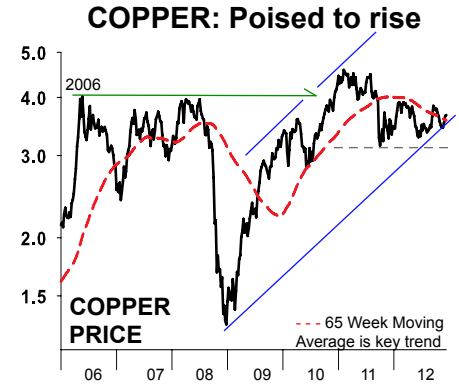


CHART 22



COMMODITIES, RESOURCE & ENERGY: Looking better

The commodity world got a boost of optimism this past month, especially the base metals. Copper lead the pack closing at a seven week high this week. It looks good and poised to rise further, which is a another good sign for the world economy.

We all know that inflation has been seen clearly in the tangible world. From art, to medicine and food, there are many areas that have been rising. But now it looks like the resource sector has good potential looking into 2013.

The commodity currencies and the base metals are a good guide.

Note copper, for instance, on **Chart 22**. You can see the quiet base building copper has been doing since last year when it reached its low at $3.05. It's now rising above its 65 week MA and by staying above it at $3.58, a renewed rising is getting started. Copper would be strong in its renewed rise above $3.84.

The other base metals are similar. They look poised to rise in another leg up in the bull market.

This is saying... stay with your resource shares because 2013 is starting to look like it's going to be a good year.

Natural gas is finally bouncing up from an over ten year low. It's been a laggard but it now has the potential to catch up to the stronger crude oil price.

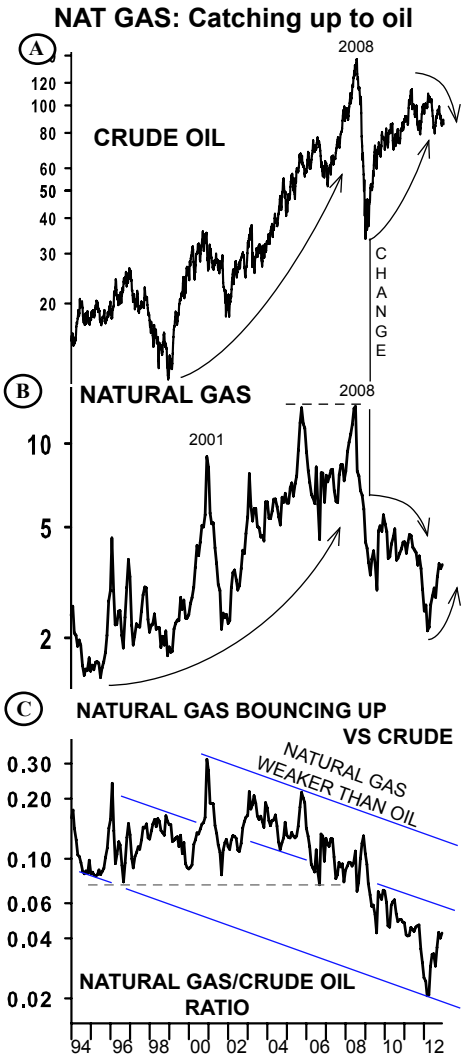
Note on **Chart 23** the strong rise both oil and natural gas had during the multi year rise leading up to the 2008 peak. The ratio (**C**) was essentially flat during that rise which showed that both were rising similarly.

But natural gas never recuperated like crude did. It fell further reaching a low last April.

Oil has yet to surpass its 2008 record high, but its been consolidating while natural gas bounces up from the lows. The ratio shows it has room to now rise more than oil in the upcoming months.

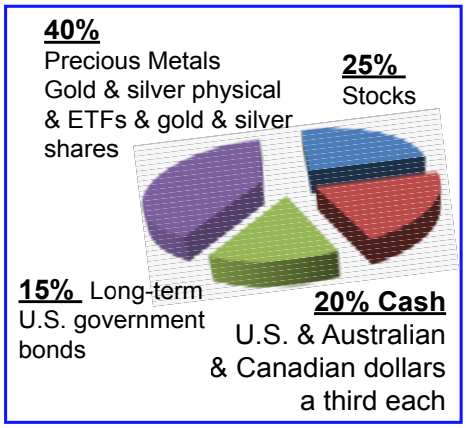
Overall, the sector has potential.

CHART 23



OVERALL PORTFOLIO RECOMMENDATION

It's been a challenging year. As it draws to a close, all eyes are on the fiscal cliff... will it be resolved or not and how will it affect our investments? If an agreement is reached, stocks, metals and commodities will head higher. If not, the safe havens will have the advantage, which will push the U.S. dollar and bonds up. Currently, the markets are suggesting an agreement will be reached. But nevertheless, watch the markets closely this month because surprises often happen around the holidays, and keep the positions you have for now.



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

Gold was volatile this month. It bounced around due to several factors but the fiscal cliff was most influential. Gold tested the $1700 level but it then rebounded and its major trend remains up by staying above $1675 and $1640.

Gold's fundamentals are also very bullish. Demand is strong and this alone will likely propel gold to far higher levels. Currently, a B decline is in process but it could end at any time. This is providing a good opportunity now to buy new positions or add to the ones you already have.

We recommend buying and holding gold and silver, but if you already have all your positions purchased, then sit tight. We also advise keeping more of your metals position in coins or bars. We like the ETFs too... GLD, IAU and SLV. Hold the gold and silver shares you have but keep a smaller portion of your metals portfolio in the shares. If you want to buy new positions, then buy the strongest ones at the top of the list. CEF is a great way to hold physical gold and silver in Canada.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The U.S. and global stock market outlook is far more positive than it was last month. The U.S. market is bullish, it's gaining momentum and it's poised to rise further. Most of the global stock markets are also showing real improvement. For now, if the S&P500, Dow Jones Industrials and Nasdaq, stay above 1340, 12660, and 2870, respectively, the major trend will remain up, signaling stocks are headed higher. We advise keeping our recommended stocks and buy new positions in the strongest ones at the top of the list.

CURRENCIES RECOMMENDATION

The U.S. dollar has been under downward pressure this month. Its safe haven status is diminishing and as a result, the major currencies have been rising. The U.S. dollar index will remain firm by staying above 80, but below this level would be a bearish sign.

The Australian and Canadian dollars are firm. Continue to keep your cash equally divided between the U.S., Canadian and Australian dollars. You can buy these currencies at Everbank, Chris.Gaffney@everbank.com, or buy the ETFs: FXA and FXC. We also like the New Zealand dollar.

INTEREST RATE & BOND RECOMMENDATION

U.S. bonds are still a safe haven. They're strong and prices are likely headed higher in the weeks ahead. That is, the major trend remains down for long-term interest rates and up for bonds if the 30 year yield stays below 3%. For now, expect more volatility while rates continue bottoming. Even though the upside is limited for bond prices, keep the bonds you have, but since risk is high don't buy new positions at this time.

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

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

STOCKS AND ETFs

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

CURRENCIES AND ETFs

Canadian dollar	FXC-NYSE
Australian dollar	FXA-NYSE

