THE
# ADEN FORECAST
MONEY • METALS • MARKETS

DECEMBER 2014 *our 33rd year*

# GROWING TENSIONS...
# HEADING TOWARD A NEW WORLD ORDER?

As the year draws to a close, there's a lot to think about...

## SORTING OUT THE NOISE

So much is going on, it can sometimes be head spinning. Nevertheless, we have to do our best to break it down, simplify and fine tune what's most important. Why?

That's because this will affect the economy, and it'll affect the markets.

So we want to be sure we're on the right side of the crosscurrents that're taking place, and base our investment decisions on what's important to the markets.

The fact is, there's so much information out there, along with opinions, commentaries and so on, it can be confusing. So all things considered, here's what looks most important as we enter the new year...

## ECONOMIC WAR

The U.S. economy is doing well, but the rest of the world isn't. In fact, most people don't realize that an economic war is taking place and it's gaining momentum. It's happening on the world stage and it's being fought on several fronts.

In one way or another, this global war is linked to deflation, which shouldn't come as a surprise.

As we've discussed for quite a while, deflation has been gaining momentum. It's overpowered inflation and it's clearly in the driver's seat.

This has affected the markets and it'll continue to do so. It's also affecting the economic war. But let's take the markets first...

## BONDS ARE BEST

As you can see on **Chart 1**, U.S. government bonds have risen sharply this year. They've been the top performing market. That's because bonds do well in a deflationary environment and as long as deflation persists, bonds will remain bullish, heading even higher.

That of course means interest rates will stay low, which hurts savers. But it'll continue to be good for the stock market.

On the other hand, the copper price has been on a downhill slope.

As many of you know, copper is often referred to as "Doctor Copper" because it tends to be a reliable global economic barometer. And the fact that copper's at a four year low is not a good sign for the resource and metals sectors.

It's actually signaling a slowing world economy, and it's deflationary.

The facts reinforce this... Japan has moved back into recession, despite the massive QE efforts via Abenomics. So has Russia. China's growth is the slowest since 2009, and the rest of Asia is basically in the same boat.

The Eurozone is hanging by a thread. It's teetering between very slow growth and recession.

Latin America is hurt by the global slowdown and low commodities. And the U.S., which is by far the best of the bunch, still can't get inflation to rise above 2% no matter what it does.

So against this backdrop, it's no wonder the individual countries are sweating it out. They have to be increasingly nervous about what's happening in the world... slow growth, recession, big economic stimulation with minimum results, super low inflation and the ultimate fear, deflation.

So they've been taking their own measures, which have resulted in an economic global war.

## OIL PLUNGING

The latest example happened on Thanksgiving. With oil flooding the

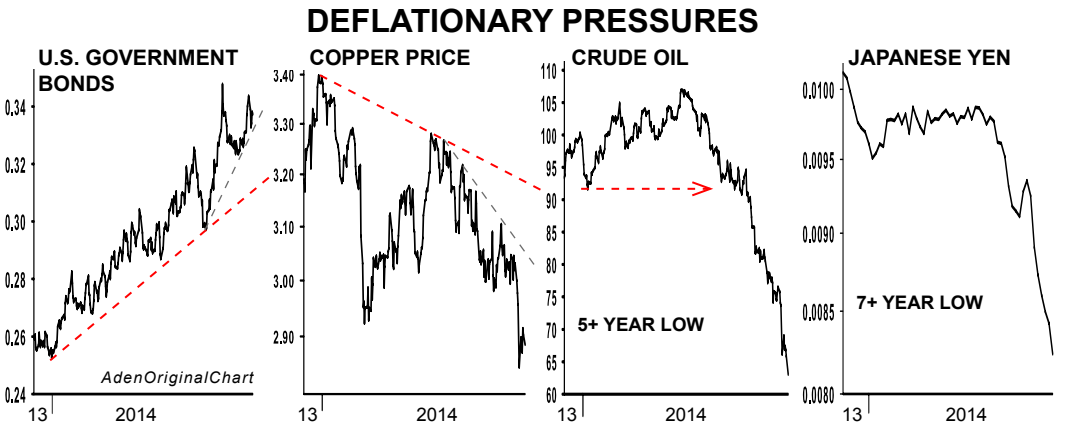
INSIDE



We wish you a very Merry Christmas and happy holiday season. We're grateful to have you as subscribers and wish you all the joy, love, peace, good fortune and good health life has to offer.

Mary Anne, Pamela,
Nuria, Giannina, Gaby, Susy and your team at *The Aden Forecast*.

CHART 1




market, OPEC announced it would not cut its oil production to help prop up oil prices, which have been collapsing.

As you may remember, last year the U.S. became the world's largest oil producer (see **Chart 2**). OPEC obviously doesn't like this, so the Saudi oil minister told his OPEC colleagues to leave production as is and let the oil price fall.

This was done in an effort to put pressure on North American oil producers and hopefully squelch the U.S. shale oil boom, driving marginal companies out of business.

Since most oil producing countries need about a $100 oil price to be okay, this was a drastic measure. The oil price has plunged 41% in six months and OPEC's decision will keep downward pressure on the oil price. It'll also make oil exports very cheap and it'll further fuel the deflationary pressures.

In addition, energy companies are also collapsing, and many have taken on high yield debt. There's some concern the low oil price could trigger defaults in these junk bonds.

We'll see, but for now, it just adds to the vulnerable situation since the banks involved are basically the same ones that suffered through the 2008 housing crisis, but to a lesser degree.

> "Never underestimate the size of a panic, nor the power of the politician."
> *Sir Harry Schultz*

Some experts argue that the lower oil price will be good for consumers and it'll likely boost the economy. The idea being that consumers will spend more because gas is cheaper. And while that may be true under normal circumstances, this theory may not be as valid in a deflationary environment, but we'll soon find out.

## ANOTHER WAR, A CURRENCY WAR

Meanwhile, a currency war is also going on, which is adding fuel to the economic war.

The bottom line is, no one wants a strong currency. Instead, they want a weak currency because it will make their exports cheap.

The hope is that this will attract buyers for their products, which will help boost their economies. But it's also flooding the world with low priced goods, again fueling deflation.

The most extreme example is Japan. With Japan in its fourth recession since 2008, it's taken strong measures, which includes a collapsing Japanese yen (see **Chart 1**).

This has put a lot of pressure on the other Asian countries to also devalue their currencies in order to remain competitive. The same is true in countries all over the world.

The end result is that most currencies are falling. The strong U.S. dollar is still the world's safe haven, along with U.S. bonds. And it's pushing most currencies down.

This puts a lid on U.S. competitiveness. With the U.S. dollar strong, U.S. exports are more expensive and less desirable. This in turn could put a damper on U.S. growth, which has been impressive.

It could also keep a damper on the gold price since the dollar and gold generally move in opposite directions.

## GLOBALIZATION: Intertwined

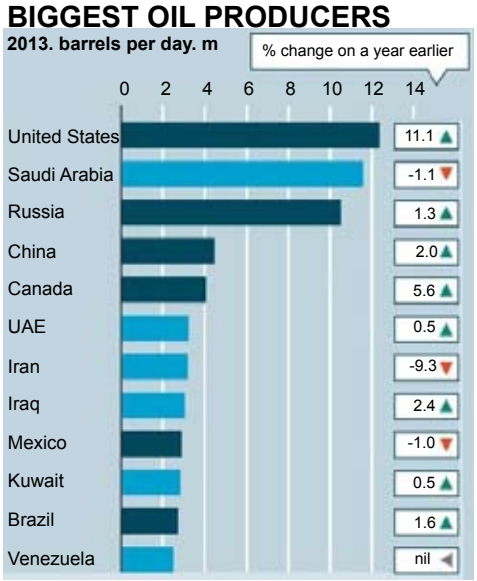
The bottom line is, the world is so intertwined that what happens in one country or market will reverberate across the globe.

Whether this economic war is intentional or not is really beside the point. It's basically every man for himself and this is creating new global tensions in a world that's already filled with them.

As Mikhail Gorbachev warned, "The world is on the brink of a new cold war. Some say it has already begun." Unfortunately, that appears to be true and it's going to mean new global challenges.

But it'll also mean new opportunities. That's what we'll be focusing on as we move into the new year and we urge you to do the same.

CHART 2




COURTESY: The economist
SOURCES: EIA, Deutsche Bank; Bloomberg

# U.S. & WORLD STOCK MARKETS

## A roaring bull market

The stock market just doesn't stop. This month it was one new high after another and the action has been extremely bullish.

### TOO MUCH OF A GOOD THING?

We know that many experts are saying this can't continue. The market's gone too far, too fast. Stocks are overvalued. They're too expensive. Many stocks are not participating in the rise, especially the international stock markets. It's a fools market and so on. But is it?

It sure doesn't look like it. Even though the stock market's been climbing a wall of worry during most of its rise, the upmove has been super strong.

CHART 3

THE STRONGEST INDEXES!


### NEW HIGHS... COMMONPLACE

Once again, most of the stock indexes hit record highs (see **Charts 3A & B**). The Nasdaq surged to a new 14 year high and the leading indicators are bullish. They're signaling an even higher stock market to come.

The Dow Industrials and the Dow Transportations also both hit record highs several times, again reinforcing a Dow Theory bullish signal. This alone tells us that stocks are going to rise further.

More impressive, this market has stayed strong all along. As Jon Strebler reported, going all the way back to 1885, there hasn't been another example of the stock market rising for three full years without a correction greater than 10%.

This alone is pretty amazing and it's signaling how strong this bull market is.

### U.S. IS STRONGEST

In addition, the global stock markets are looking better than they did before. For the most part, aside from some of the emerging or energy based markets, they're neutral or rising, and that too is a good sign (see **Chart 4**).

As you'll remember, we were concerned because the international stock markets were lagging. And in an ideal bull market situation, the majority of the global stock markets will join in and head higher too.

And even though the U.S. market continues to be the strongest, that's okay. At least the others are generally moving in the right direction and that's an improvement.

### DEMAND GROWING

Also bullish is that more main-

CHART 4

HONG KONG LAGGING

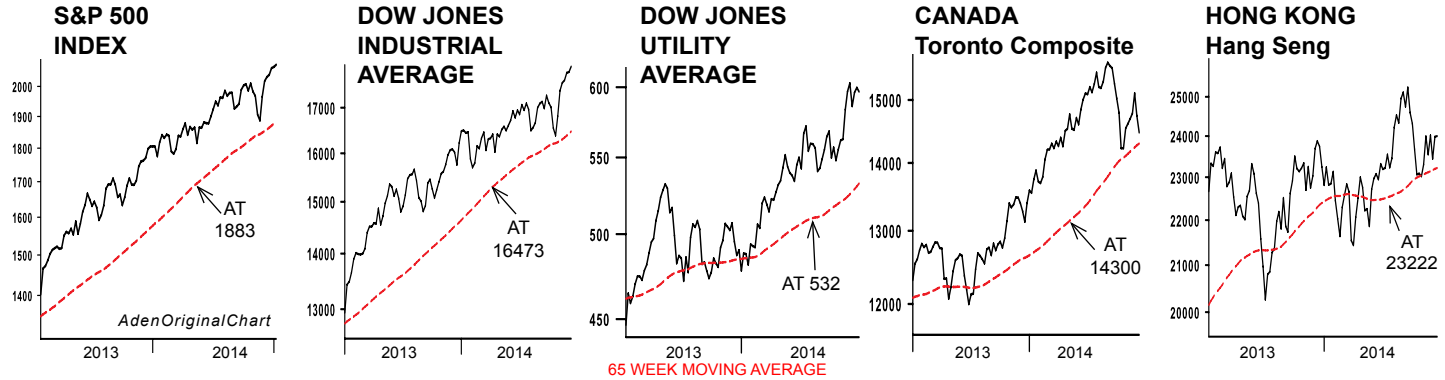
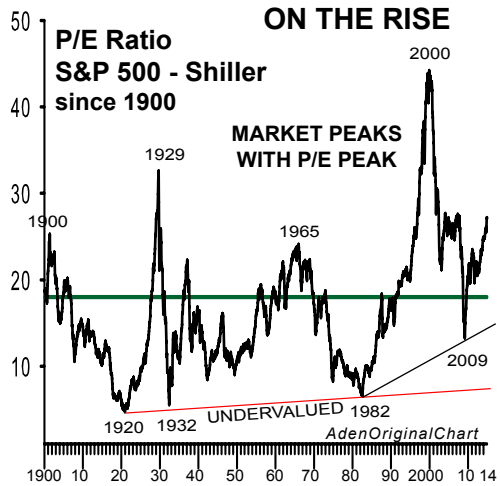


CHART 5




stream investors are jumping into the market. They've been gun shy for quite a while but, as stocks keep rising, it's finally attracting their attention.

This will drive prices even higher and as it does, more investors will join the party. Under normal conditions, this usually marks the beginning of the end. It tends to drive the market up to very speculative frothy levels, which generally coincides with the end of the bull market.

That's what happened in the late 1990s, for example. Everyone was going crazy over tech stocks. That's all they talked about. People were quitting their normal jobs to trade stocks and they were euphoric... That was truly a frenzy and it lasted a few years. Then the bubble popped big time.

We know this was an extreme case, but it provides an example of the wild sentiment you see at bull market tops.

As you know, we're not anywhere near this type of sentiment yet. Yes, investors are becoming more interested and they're moving into the market, but they're still somewhat nervous.

They're nowhere near euphoric. And this ties in with what our technical indicators are showing. That is, the stock market will likely rise further.

## SLIM PICKINGS OTHERWISE

One good reason why is because there aren't many options to invest in. Bonds are great but most investors think bonds are boring. They don't realize they've been much stronger than stocks, and they generally like the action in stocks better, assuming they're going up.

**Personally, we're becoming increasingly convinced that stocks are going to keep rising as long as interest rates stay low.**

Low interest rates are good for stocks and that's been the primary factor driving stocks higher, along with better economic signs. For now, there's no reason to believe that's going to change any time soon.

Also, stocks are not super expensive (see **Chart 5**). While the P/E ratio is on the rise, it's well below the bubble tops in 1929 and 2000. So here too we see prices are becoming more richly valued but they're not in the stratosphere.

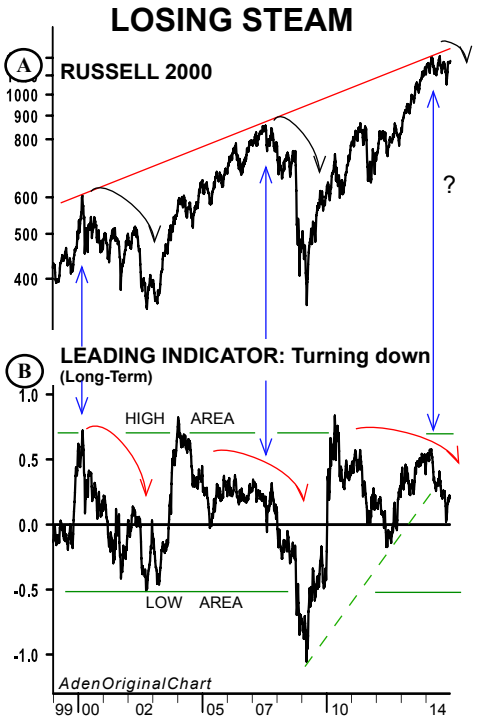
## KEEP PROTECTIVE STRATEGY

But there are still some signs of caution, so you don't want to let your guard down. One example of this can be seen in the Russell 2000 (see **Chart 6A**).

Even though the Russell is currently bullish, it's been stalling, and its leading indicator has also been declining. In previous cases when this happened, it preceded or coincided with a steep drop in the Russell 2000. Will it happen again?

At this point, we don't know.

CHART 6




The rest of our leading indicators are bullish. Still, we're keeping a watch on this one, just in case it's leading.

## RIDE THE BULL

Meanwhile, we continue to recommend keeping the stocks you have. Our stronger recommended stocks are at, or near new highs and they've chalked up gains between 32% and 70%.

Several of our stocks, however, remain weak. These are mainly energy or resource related stocks. But since some have fallen far and fast, they're due for some sort of rebound. At that point, we may sell, so keep in touch with our weekly updates.

For now, we'll keep riding the bull. Even though it may be reaching maturity, or near maturity, it's unlikely to end soon. On the contrary, it's strong and we advise staying with it for as long as it lasts.


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. INTEREST RATES AND BONDS

## Bonds: Best investment in 2014

Well, who would've imagined?

If anyone told us last year that U.S. government bonds were going to be the big winners for 2014 it would've been hard to believe. But that's exactly what happened.

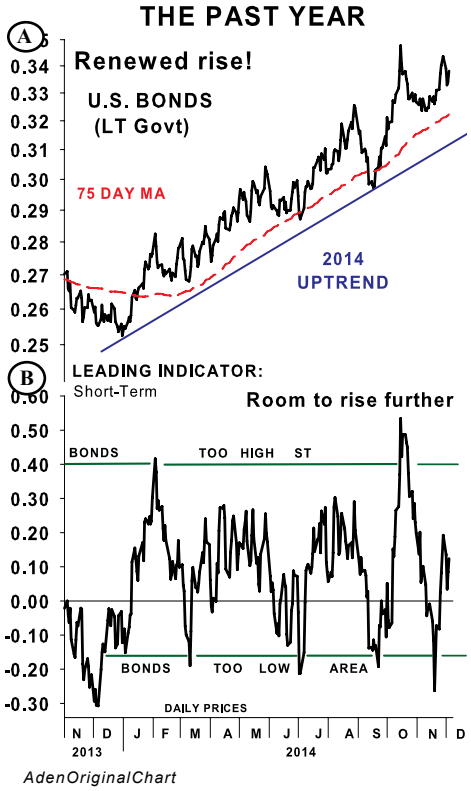
### BEST SECTOR

Bonds have gained 38½% so far this year, and there's still more to come. We recommended buying them in February and we're glad we did. Since then, our profits in long-term government bonds are 32%.

In comparison, the Dow Industrials has only risen 8½%. In other words, the gains in bonds have been almost quadruple the gains in the stock market.

And if we look at gold, the numbers are even more impressive. So far, gold has been about break-even this year. That is, there's little comparison between the two. Bonds have been far superior.

CHART 7




They've also had the benefit of a strong U.S. dollar. This has made bonds more attractive to foreign investors, chalking up even bigger profits, thanks to the rising dollar, which has basically been frosting on the cake.

### GOV'T BONDS LT: Best bonds

So without a doubt, long-term U.S. government bonds get the #1 prize this year. Not only have they outperformed the other markets but they've also risen more than other bond categories, like corporate or municipal bonds.

You can see this in our own bond ETF recommendations.

The Ultra 20+year Treasury (UBT), for instance, has gained 32% since we recommended it. On the other hand, the Intermediate Muni (MUNI) ETF is only up 1.9%.

The other long-term bond ETFs have gained between 7.10% and 14.3%. So UBT is clearly the strongest and if you want to buy new positions, or add to the ones you already have, we'd buy UBT.

### ARE BONDS IN A BUBBLE?

But wait a minute, you may be thinking... Aren't bonds way too overextended at this point? Isn't it too late to buy new positions because the party's about over?

Surprisingly, the answer is no. In fact, it's just the opposite. Despite the fact that bonds have already risen strongly this year, a renewed rise is just getting started (see **Chart 7A**).

Plus, the leading indicator for bonds is showing they have room to rise further. This reinforces higher bonds ahead. This of course means interest rates are going lower.

We know that may seem strange, especially considering that interest rates are already near zero, and they've been super low for the past six years. But that's what the market's telling us and we advise you to go with it (see **Charts 8** and **9**).

Remember, even though this may not make sense today, a lot of things don't make sense when they're happening. But when all is said and done, the markets tell the story and the reasons why will always become obvious in time.

### BONDS THRIVE IN DEFLATION

In this case, we're fairly sure the main reason why bonds are headed higher is because of deflation. It clearly has the upper hand and as long as that's the case, U.S. government bonds will continue to do well, keeping their status as the world's favorite safe haven.

All over the world, economies are struggling. Growth is sluggish and everyone is battling deflationary pressures, which are becoming more forceful.

In fact, the world wants inflation and they're doing all they can to get it. Why? Because inflation is a lot better than deflation, but so far it's not working out.

CHART 8

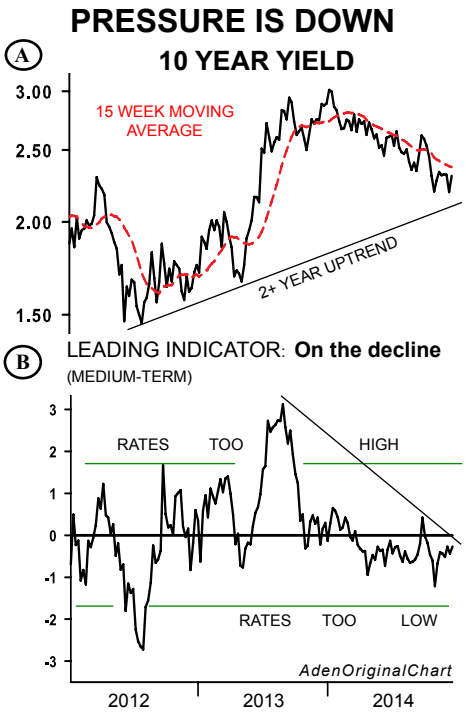
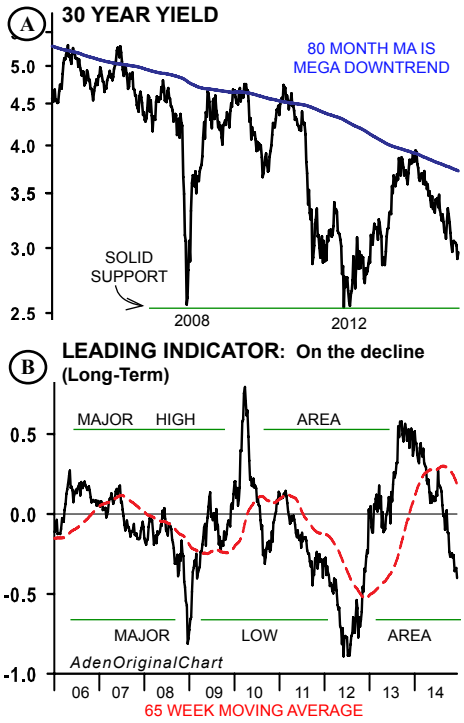


CHART 9

## HEADING DOWN TO LOWS




Instead, **deflation is getting worse** and the big danger is that it could slip into a depression. The plunging drop in the oil price, for instance, may be good news at the pump, but it's not good news considering the current deflationary backdrop.

If anything, the super low oil price means global inflation will likely stay low for a long time. That in turn means interest rates are going to remain low a lot longer than most expected, despite the mainstream view that interest rates would be rising sooner rather than later.

### INFLATION-DEFLATION BAROMETER

One good reason why this is unlikely is because of the action in our inflation-deflation barometer (see **Chart 10A**).

Here you'll see gold compared to bonds. Since gold tends to rise during times of inflation and bonds rise during periods of slow growth or deflation, this chart illustrates the pulse of the economy and, therefore, the markets.

Note that in recent months this barometer has dropped sharply. Not only did it break a strong support level but it's now at a six year low.

This clearly illustrates that deflationary pressures are dominating the world stage. That is, inflation is not a potential problem or concern.

CHART 10

## GOLD WEAKER THAN BONDS


That being the case, this chart is also telling us to buy and hold long-term U.S. government bonds. They're strong and bullish, and they continue to be the best investment. On the other hand, gold is still on the back burner and it warrants a smaller position.

# CURRENCIES

# U.S. dollar: A strong safe haven

The U.S. dollar is very strong. It literally has no competition as it surges to new multi-year highs.

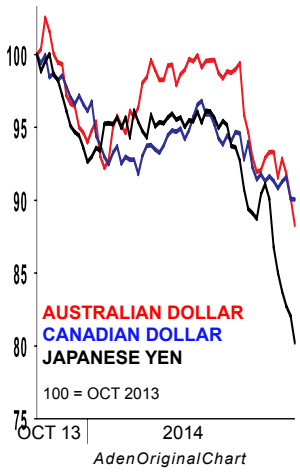
With deflationary forces picking up steam, the U.S. dollar continues to be the world's favorite safe haven. Why?

### DOLLAR IS SECURE

The dollar is viewed as secure and the U.S. economy is holding up a lot better than the economies in other countries. Third quarter U.S. GDP, for instance, was revised up to 3.9% from 3.5%.

CHART 11

LOOK OUT BELOW!



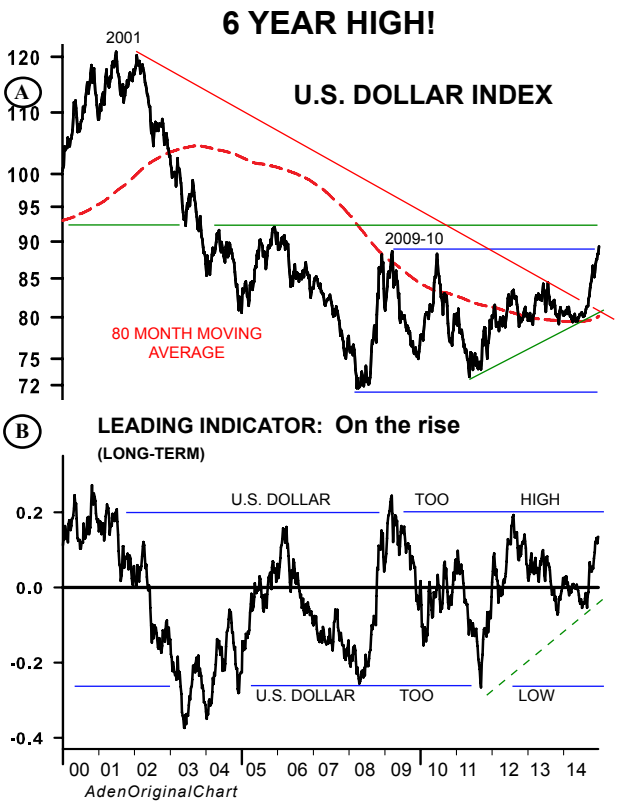

We know that many people don't believe the government's numbers. But even if growth was only half of the reported number, it's still a significant move. And it makes the U.S. dollar especially attractive considering the rest of the world is either in recession, bordering on recession or experiencing slow growth.

Plus, consumer confidence in the U.S. hit another seven year high, the stock market is soaring, leading economic indicators are up, wages and salaries rose the most since 2008, and more jobs have been created this year than in the past 15 years.

In other words, these signs are a ray of sunshine on an otherwise dreary economic landscape. While other countries are battling deflation and trying to boost inflation by stimulating their economies via QE type methods (Japan), or planning to kick up their stimulation efforts (Eurozone), the U.S. has ended its QE program.

CHART 12




## U.S. IMPROVING

This in itself is amazing and so far, so good. Contrary to what many believed, the U.S. is doing fine without QE. It's holding its own and that alone is a big deal in today's deflationary environment.

Normally, deflation hurts the economy because, while prices are falling, consumers hold off on their spending while they wait for prices to fall even further. This sentiment then tends to feed on itself, fueling a snowball effect.

But so far, this isn't happening, at least not in a big way. So the U.S. has that going for it too, along with the other positive signs.

## DOLLAR INDEX: 5 year high

That's why the U.S. dollar is the best currency in the world today, and it looks like it's going to rise further. Looking at **Chart 12A**, you'll see what we mean…

The top chart shows the U.S. dollar index going back to 2000. This shows the big picture.

Following a steep decline that began in 2001, the dollar index bottomed for several years. It has now broken clearly above its long-term downtrend, hitting a five year high, reinforcing that this was indeed a huge bottom.

The dollar index has also reached a strong resistance level at 89, which coincides with the 2009-10 peaks.

And if the dollar index now stays above this level, it'll be super strong and it could then rise up to near the 91 level as its next target.

As you can see, despite the strong rise the dollar's already had, the leading long-term indicator has not yet reached the "too high" area. In other words, the dollar hasn't reached a major top yet and it has room to go even higher.

## TIME FOR A BREATHER

Taking a more close up view, however, we see the dollar's likely due for a rest, in the weeks ahead (see **Chart 13A**). The dollar has risen too far, too fast and it could decline first before it heads higher.

Note the (short-term) leading indicator (**B**) is near the high area. And in previous cases when this happened, like in 2012 and 2013, a dollar top followed a few weeks after the indicator hit the high area (see vertical lines).

If this pattern continues, then the dollar index is likely near a temporary top. This would not be unusual. In fact, we've been expecting some sort of normal downward correction. But so far, it hasn't happened.

Once it does, it'll provide a good opportunity to sell any of the other currencies you may be holding, and move into U.S. dollars.

Currently, we continue to recommend keeping all of your cash in U.S. dollars. It's simply the best strategy for the time being. And even though U.S. interest rates are low, interest rates are falling in the rest of the world too (see **Chart 11**).

CHART 13

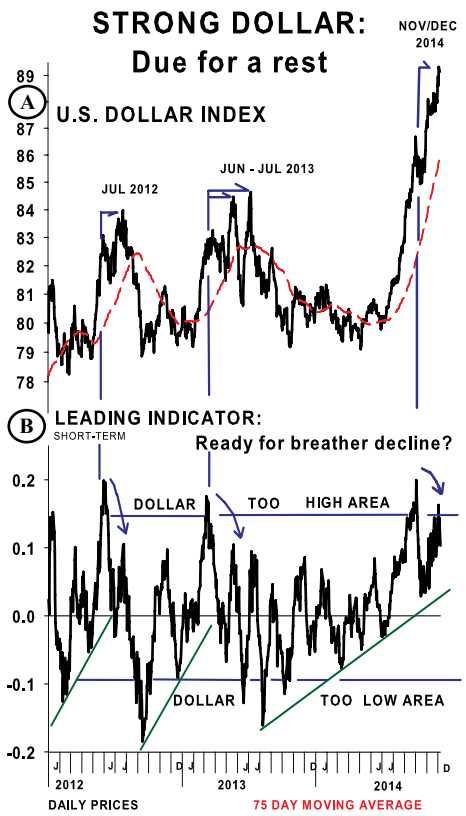
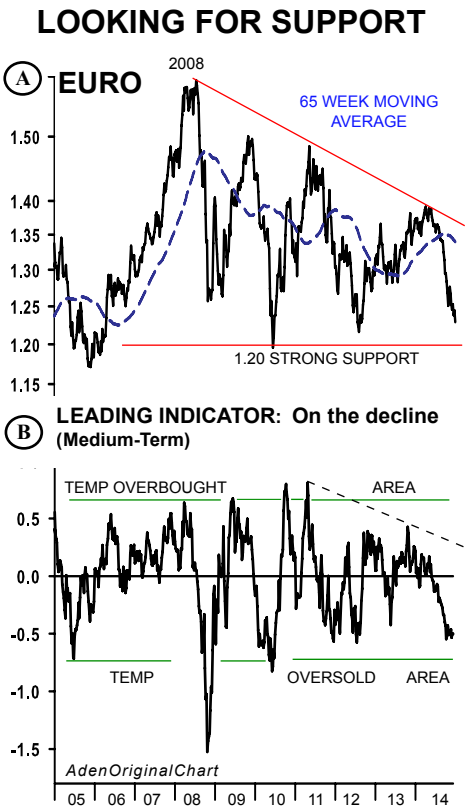



CHART 14



So the days of an interest rate advantage in another currency are over. It simply doesn't matter anymore. The advantages the U.S. dollar has far outweigh anything else, including interest rates.

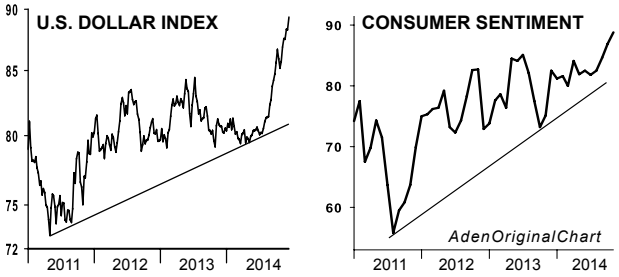
### CURRENCIES: Weak

For now, most of the global currencies remain weak and bearish. They're primarily being hurt by the slow global economy, economic stimulation policies, the plunge in oil prices, low commodity prices, competitive devaluations, low interest rates and just generally bad news.

The euro provides an example of what we're seeing across the board (see **Chart 14A**).

CHART 15

MOVE TOGETHER




It's bearish, well below its moving average. Plus, its leading indicator is not yet oversold. This tells us the euro and the other currencies could fall further as the U.S. dollar heads higher.

But again, we could see a bounce up in the currencies if the U.S. dollar takes a break, as we suspect. And if so, you'll want to take action if you have other currencies. If not, then just stay in U.S. dollars.

Until the dollar tells us otherwise, it's the best place to be (see **Chart 15**).

# METALS, NATURAL RESOURCES & ENERGY

## Calm after the storm

The metals calmed down this month, at least for most of the month.

Except for the wild volatile move provoked by the plunging oil price and the Swiss no vote, gold, silver and gold shares have been firmly basing above the November lows.

They're not out of the woods just yet. That is, a decline since March is still underway. But there are some signs that the lows may be behind us.

For instance, the Gold Forward Offered (GOFO) rates have been in negative territory since November. This is the interest rate one pays to use gold as collateral for U.S. dollars.

Normally, the person who owns gold pays interest to borrow dollars against it. This negative rate means the opposite, that dollar holders are paying for the right to borrow gold.

Plus, gold lease rates have soared, which means demand is strong for immediate gold delivery.

The volatile and low oil price could continue to influence gold and the commodities, especially because it adds to the global deflationary environment. But the strong U.S. dollar is mainly the reason why gold and the commodities in general have been under pressure.

### THE GOLD REPORT CARD

The U.S. economy is the only bright spot in the sluggish world today, which has made the dollar the best safe haven, for now.

This became more noticeable in July when the dollar index started to rise sharply. This put pressure on gold as the Summer wore on, falling during a seasonally good time, and reminding us that the bear had the upper hand.

CHART 16

GOLD & THE DOLLAR...


**It's interesting though that gold has not fallen as much as the dollar has risen (see Chart 16).**

As we write, the dollar index is near 89. So far, however, gold is showing strong buying support.

This alone doesn't mean gold can't go lower in the current D decline. But if gold doesn't fall further than the Nov 4 low at $1140, then the bear market will not be looking bad.

### HOW WILL 2014 FARE?

We're just weeks away from year end. And if gold can now stay above $1203, it will close the year higher than it closed the year in 2013.

Last year was clearly the worst and only down year for gold since the year 2000 when it was down 5.5%. This means, in spite of all the fluctuations and downward pressure since the highs of last March, gold may close up, or near unchanged for this year.

Gold lost almost 29% in 2013. Let's now see how this year closes out. If gold falls in a steeper D decline for the next month or so, it will make this year the second bearish

year.

But if gold stays like it has, it will be a good sign.

This is another psychological point for gold. Will the D decline become a full fledged leg down in the bear market, or not? We'll be watching this closely. You can bet on that!

## GLOBAL UNREST

It's incredible to see so much unrest in the world today. Every day the news is filled with some intense situation.

From the Ukraine/Russia crisis, to Russia being upset with the squeeze from sanctions and the lower oil price. Then there's Iran joining in on the fight against ISIS. Tensions are also heating up in Israel and Hong Kong. There's been terrible killings in Mexico and Kenya, and so on.

The protests and riots around the U.S. remind us of the 1960s. It's back to hating "the pigs" and racial riots. Clearly, the world is uncertain, and there seems to be wide growing unrest.

At some point, this and all the ongoing imbalances in the world will affect the gold price. It's just a matter of time.

And that time seems to be next year, as we showed you last month.

## DEMAND GOOD

The demand situation seems to also be uncertain, depending on the source. The World Gold Council has different figures than Koos Jansen. The WGC shows demand is down this year whereas Mr. Jansen says it's up.

We tend to lean on Koos Jansen's information.

Physical metal buying has been ongoing while paper gold has been sold. This month provided another good example of this.

India dropped its restrictions on gold imports this month. And they did this during their high gold buying time, which is the wedding season.

We also know Russia bought more gold once again, but global holdings in ETF products backed by metals slumped to their lowest since May 2009.

CHART 17


This month also gave us some other insight.

There have been ongoing conspiracy theories about gold and how the metals have been manipulated over the years. This is now coming to light.

In a first class action lawsuit of its kind in the U.S., Goldman Sachs and HSBC were sued in New York over claims they conspired for eight years to manipulate prices for the precious metals. This case will be very telling indeed.

## HIDDEN INFLATION

Inflation failed to accelerate this year, and last year it was down as well. But we all know that is not true at the grocery store.

Rather than raising prices, manufacturers are also shrinking their quantity and charging the same price. This is a trick we first noticed in the 1970s.

And considering Wall Street has $12 trillion in derivatives that could be affected if interest rates rise, makes us think that we could see another 2008 repeat at some point, only worse.

Or should we say, more of the same. And this is what the growing global unrest has as a foundation.

CHART 18

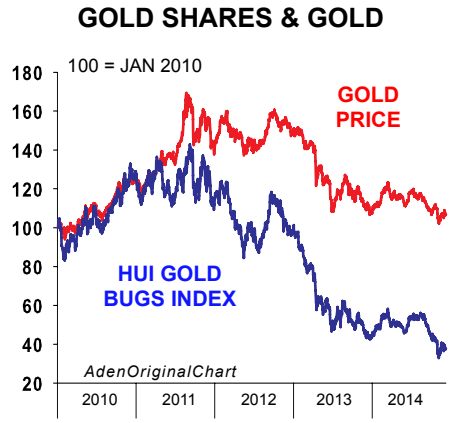

## GOLD TIMING:
## D decline, what's next?

Our favorite gold timing tool is shown on **Chart 17**. It identifies the intermediate rises and declines in the gold price, and it gives signs of major turns in the trend.

As you know, a D decline has been in process since last March. Gold has declined 10½% since then. D declines tend to be the worst decline in a bear market, when gold falls to new bear market lows.

This already happened on Nov 4. We saw a new low for the bear market. The main question now is, will this be

CHART 19




THE low for this decline, or is a further leg down still to come?

Looking at **Chart 17**, it could go either way. The D decline is still alive and well. The leading indicator shows it's bouncing up from a normal D low area. But since it's still in a downtrend, the decline is not over yet.

We can't rule out a steeper leg down, similar to 2013, but if gold continues to base above the lows and the indicator breaks up, then Nov 4 will likely end up being the low for this move. And it'll be great for the yearly gold action.

**Keep an eye on $1140**. As long as gold stays above this level, it will continue to base. If $1140 is clearly broken, however, we could see $1100 and possibly even $1000 as a worst case scenario for a deeper leg down target. On the upside, a sustained rise above $1215 will confirm that an A rise is starting. If gold can then rise and stay above $1270, it'll be very positive and above $1325 would be super bullish.

Meanwhile, long term investors should slowly accumulate physical gold.

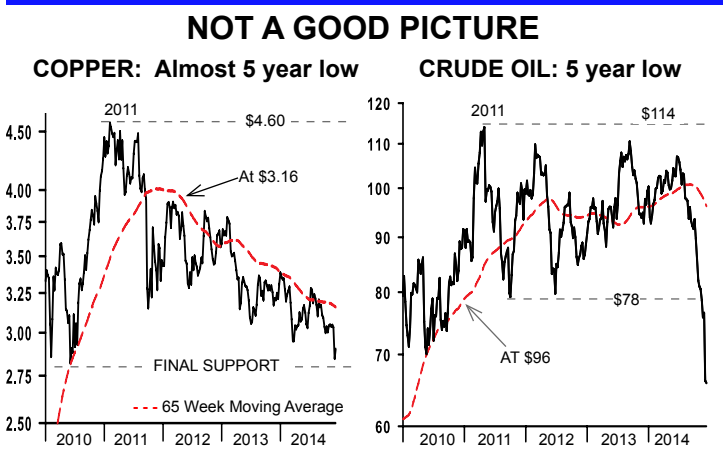
**Silver is weaker than gold,** and it has been since the bear market started. This is normal behavior during down times, and as long as it remains weaker, it'll reflect a bearish reading.

Silver will remain under pressure by staying below its 65 week moving average at $19.60, but the downside looks limited. Note on **Chart 18A** that silver is approaching the bottom side of a 25 year upchannel.

And the silver to gold ratio is near a major support. It's getting closer to the extreme lows reached at the depths of the 2008 financial crisis.

Silver is also being dragged down by the weak copper and oil prices. Silver will most likely remain weak until these commodities stop falling.

CHART 21




Overall, silver is in a generally good buying area for the big picture, and while it could stay depressed a while longer, let's keep an eye on the key numbers.

Silver could bounce up to the $19.50 level, but the trend won't be changing to the upside until silver rises and stays above that level.

On the downside, silver, like gold, will continue to form a small bottom as long as it stays above its Nov lows at $15.

## GOLD SHARES: The most hated market today

It's easy to hate gold shares. They've taken the prize for the worst performing sector over the past few years. And especially so with the soaring stock market taking over.

This time around, the bear market in gold has clearly influenced gold stocks.

In fact, gold shares represent the classic saying, "buy cheap, buy value." It couldn't be more true today. The main point is to buy strong solid gold companies. Some are hurting, some are being taken over, and some may go out of business. But buying selectively is the key to value.

**Chart 19** shows how much weaker gold shares have been since the bear market started in 2011. The recent months' excessive fall from August to November was the most severe.

**But, it looks like the downside is limited for gold shares.** They've stabilized near the lows reached in early November. And as long as these lows hold, at 147 on the HUI index, a base will continue to build within an oversold area.

The next level to watch on HUI is 190. But, once it rises and stays above 217, a turnaround will begin to show promise (see **Chart 20**).

**Palladium** continues to be the exception. It's been clearly on the rise since 2012, and a renewed rise has begun this month.

CHART 20

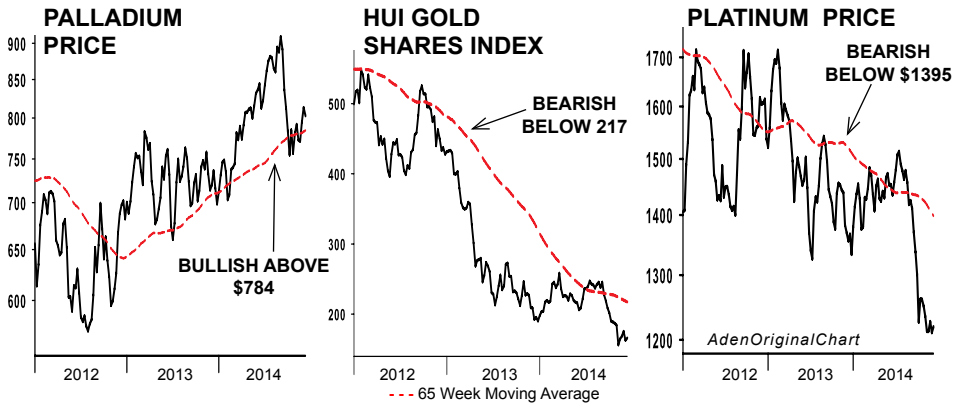
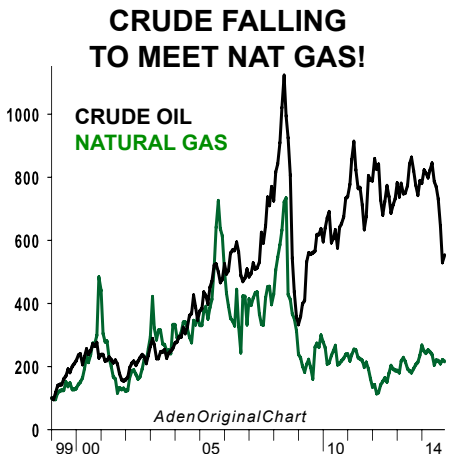


CHART 22




Palladium has the benefit of strong global auto sales. And it looks like this will continue. Keep your positions in palladium. As **Chart 20** shows, it's strong and bullish above $784.

## Resource Woes

The collapsing crude oil price and the falling copper price are a sign of the times, and **Chart 21** shows it best.

When OPEC decided to keep output levels unchanged, it underscored the price war. The U.S. shale boom has been adding to a global oil glut while global demand is down. This move by OPEC was their way of squeezing the shale companies out of the market.

Oil fell clearly below its four year base level, to 5+ year lows, and it continues reaching new lows. This slide is hurting oil based countries like Russia, while benefitting the U.S. and China, at least for now.

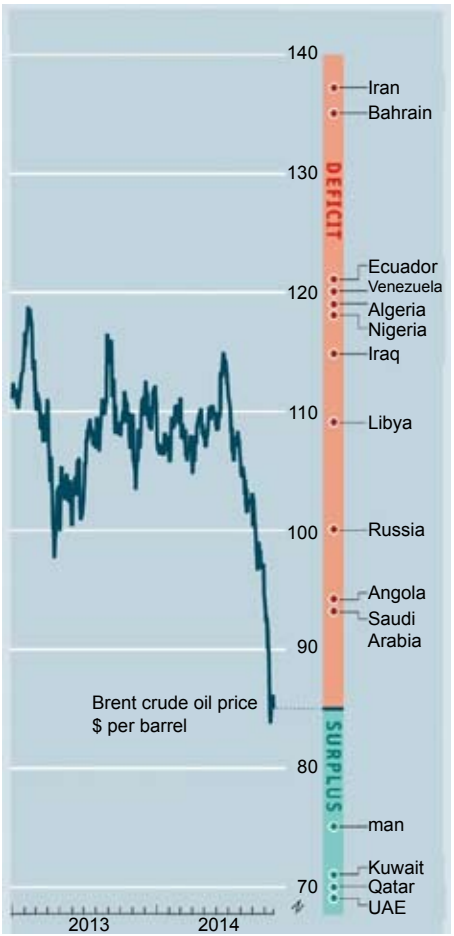
Emerging markets have been suffering from slow growth, low commodity prices and weak exports. Their currencies have also been weakening, which can be good, but it's hurting investor confidence.

The falling oil price is also causing a collapse in energy companies and it's affecting the stock market. Clearly, it's adding to the deflationary environment.

Oil has been outpacing natural gas for the last 6 years (see **Chart 22**). We thought natural gas would eventually rise to meet up with crude. But instead, the opposite is happening. Oil is falling to meet the always lackluster natural gas price.

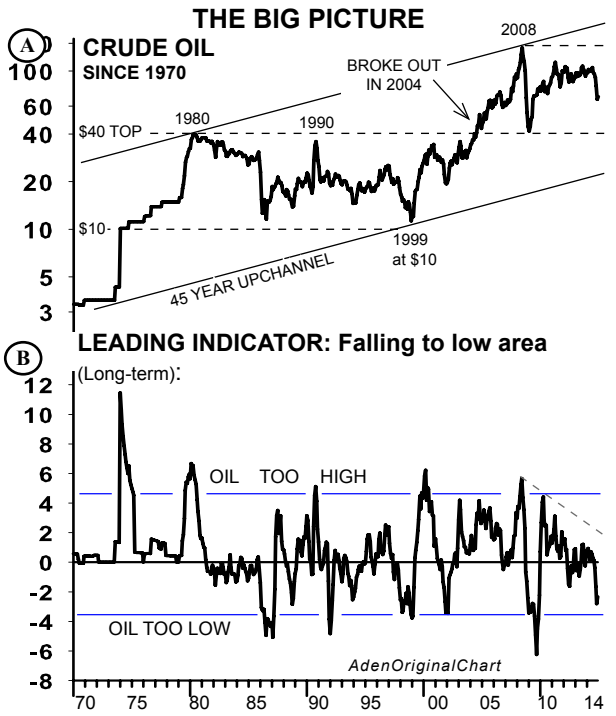
In fact, looking at the break-even oil price for the exporting countries, you can see why there is so much upset because of the falling price. **Chart 23** shows at what price level many countries are at break-even. Crude is now much lower that the price on the chart, which is saying at today's lows, all those countries are in a deficit.

CHART 23




COURTESY: The economist
SOURCES: EIA, Deutsche Bank; Bloomberg

CHART 24




## So how low can oil go?

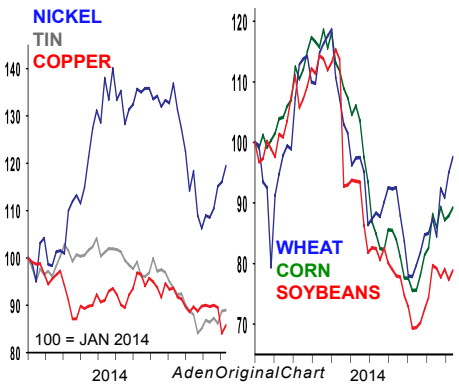
**Chart 24** shows crude since 1970, the big picture. Note the oil price (**A**) is in a 45 year upchannel. It was moving within a $10 - $40 band from the mid 1970s to 2004. (It's hard to believe oil was near $10 in 1999).

But since 2004, oil broke out of that range and moved into a higher band between $40 and $147. Oil never surpassed that 2008 record peak and it's now coming down.

Could it test $40 again? It's unlikely. But it could go lower before oil is clearly oversold, as the indicator (**B**) shows. The $50- $60 level is possible.

For now, oil has fallen too far, too fast and it's too painful for many countries to see it this low. We'll likely see a rebound bounce up, possibly up to the $80 level, but it'll remain vulnerable below this area.

CHART 25



# OVERALL PORTFOLIO RECOMMENDATION

As the year draws to a close, there's a lot going on. The U.S. is looking good but the rest of the world isn't. Deflation continues to weigh on the markets and the plunging oil price is adding more pressure on the markets. Bonds and stocks remain bullish, along with the U.S. dollar and that's where we're keeping our focus for the time being. Palladium has been the best precious metal by far.

### PRECIOUS METALS, ENERGY, RESOURCE

Gold, silver and gold shares essentially consolidated near the lows this past month while palladium began a renewed rise. The Nov 4 lows are holding, and if gold stays above $1140, it could end the year near breakeven. This would be a good sign that we could see a bounce up for gold and gold shares. For now, we're not out of the woods yet, and we'll keep our position at 10%. Keep your palladium (PALL) position, as well as RGLD and your physical gold and silver. Don't buy new positions just yet.

### U.S. & GLOBAL STOCK MARKETS

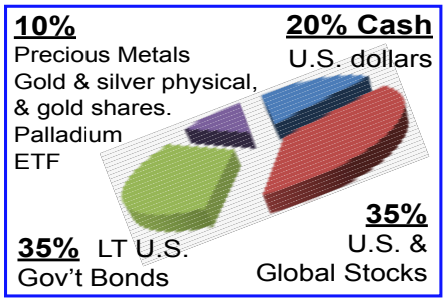
The U.S. stock market is very bullish. It continues hitting new record, or new bull market highs and it's poised to rise further. For now, keep a 35% position in the stocks you have but don't buy new positions because the rise is getting mature.

### CURRENCIES

The U.S. dollar is also very strong. It's still the world's favorite safe haven currency and it looks like it's going to rise further. Continue to keep 20% of your portfolio in cash, in U.S. dollars only. The other currencies are weak and if you still have them, sell on an upward rebound.

### INTEREST RATES & BONDS

Bonds are super strong. They've been the top performers this year and they're set to head higher. That is, interest rates are poised to decline further. We continue to recommend buying and holding 35% of your total portfolio in over 10 year U.S. government bonds. We also like the bond ETFs listed to the right. For new positions, buy UBT, which has been the strongest.




## 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 |
|---|---|---|---|---|---|---|
| Palladium | PALL | Jan-13 | 69.71 | 78.62 | 12.78 | Hold |
| Royal Gold | RGLD | Mar-14 | 66.04 | 70.84 | 7.27 | Hold |
| Gold (physical) | | Oct-01 | 277.25 | 1232.00 | 344.36 | Hold |
| Silver (physical) | | Aug-03 | 4.93 | 17.13 | 247.55 | Hold |

### STOCKS & ETFs

| NAME | SYMBOL | PURCHASE DATE | PURCHASE PRICE | PRICE AT issue date | % GAIN/LOSS SINCE BOT | CURRENT RECOMM |
|---|---|---|---|---|---|---|
| iShares US Med Dv | IHI | Oct-13 | 86.70 | 114.64 | 32.23 | Hold |
| Dow Diamonds | DIA | Jun-14 | 169.08 | 177.96 | 5.25 | Hold |
| Procter & Gamble | PG | Sep-12 | 68.10 | 90.71 | 33.20 | Hold |
| Nasdaq Powershares | QQQ | Jun-14 | 92.82 | 104.96 | 13.08 | Hold |
| Nasdaq Biotech | IBB | Nov-14 | 296.31 | 314.92 | 6.28 | Hold |
| iShares Transports | IYT | Oct-13 | 118.85 | 161.28 | 35.70 | Hold |
| S&P Glbl Tech | IXN | May-14 | 87.75 | 95.88 | 9.26 | Hold |
| Johnson & Johnson | JNJ | Feb-13 | 76.16 | 108.05 | 41.87 | Hold |
| Utilities Select | XLU | Apr-14 | 43.11 | 46.47 | 7.79 | Hold |
| Global 100 | IOO | Oct-13 | 72.97 | 78.36 | 7.39 | Hold |
| Microsoft | MSFT | Feb-13 | 28.01 | 47.59 | 69.90 | Hold |
| iShares Hong Kong | EWH | Jul-14 | 21.65 | 20.92 | -3.37 | Hold |
| DJ US Telecom | IYZ | Sep-12 | 25.22 | 29.11 | 15.42 | Hold |
| iShares Singapore | EWS | Jul-14 | 14.04 | 13.21 | -5.91 | Hold |
| iShares Canada | EWC | Jul-14 | 32.65 | 28.66 | -12.22 | Hold |
| iShares Mexico | EWW | Jul-14 | 70.93 | 60.22 | -15.10 | Hold |
| Energy Select SPDR | XLE | Aug-12 | 72.37 | 77.87 | 7.60 | Hold |
| BHP Billiton | BHP | Aug-13 | 67.68 | 48.57 | -28.24 | 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 | 76.84 | 32.48 | Buy/Hold |
| 20+ year Try Bond | TLT | Feb-14 | 107.78 | 123.20 | 14.31 | Buy/Hold |
| SPDR L-T Treasury | TLO | May-14 | 66.40 | 71.30 | 7.38 | Buy/Hold |
| 10-20 Treasury Bond | TLH | Feb-14 | 125.73 | 134.64 | 7.09 | Buy/Hold |
| Intermediate Muni | MUNI | Feb-14 | 52.69 | 53.68 | 1.88 | 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.