THE
ADEN FORECAST
MONEY • METALS • MARKETS

NOVEMBER 2018 *37th year*

STILL IN UNPRECEDENTED TIMES

The markets have been volatile. They've been in flux and they've been deceptive.

We've seen choppy upside breakouts followed by erratic declines, and vice versa. The end result has been frustrating, but we push on trying to obtain more insight based on what the markets are telling us...

So standing back and looking at the big picture, following are the items we feel are most important and our strategy moving forward...

DEBT IS A DRAG...

Unfortunately, debt has been a real drag hanging over the world. And thanks to easy money over the past 10 years, the debt has literally skyrocketed (see **Chart 1**).

The world is drowning in debt and no one really knows how this is going to work out. Oh, there are plenty of theories, but what we're seeing is truly unprecedented.

To give you an idea, using U.S. debt as an example, between 1776 to 1969 the debt grew to $1 trillion. But over the past 49 years, the debt has soared from $1 trillion to $21 trillion!

...WORLDWIDE

Now, people have been talking about the debt dangers for decades. They've been warning a crisis or a collapse is coming... but things have managed to move along without too many mishaps.

The big question is, how much longer can this go on? And again, this is something no one knows. In the meantime, the debt keeps growing.

Paul Volcker, the respected ex-Chairman of the Federal Reserve says, "we're in a hell of a mess in every direction." He also notes that the current system is not sustainable.

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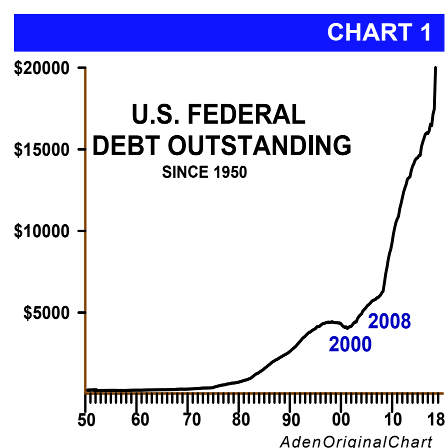
But the U.S. isn't alone. Debt has expanded worldwide and everyone's in the same boat to some extent. Even China, with its huge reserves is facing some potentially big problems.

CHART 1



As economist Carmen Reinhart points out, China has been lending billions to low income countries in Africa and elsewhere, and almost no one knows how much debt is on the books.

Then there are leveraged loans, the gigantic derivatives market, and so on... We point this out not to scare you, but simply to remind you how overwhelming the underlying situation is, which doesn't make things easy.

SO WHAT'S THE LIKELY OUTCOME?

Most experts believe there are only two ways to deal with this debt... Paying it back is not an option because the debt is way too massive. So one option would be to default on the debt, but that's not really a valid option either.

The second choice is more workable, which would be to inflate the debt to more manageable levels. That is, boost inflation and let the dollar decline.

Without much fanfare, this is generally how the debt's been handled since 1971, when the U.S. dollar went off the gold standard. At that point, fiscal discipline vanished, spending soared, and so did the debt.

Inflation surged too and the dollar's been in a long-term decline since then, dropping about 80% against

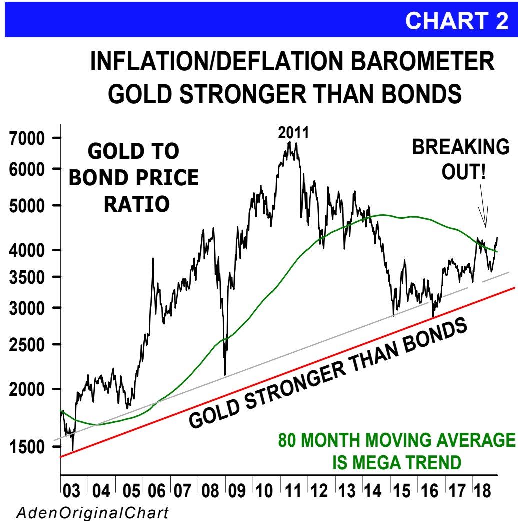
Our thoughts and prayers to all of our subscribers and friends in California. The news has been heart breaking and our hearts go out to you...

the other major currencies.

And interestingly, the markets are currently reinforcing this scenario (see **Chart 2**).

Here you'll see what we call our Inflation/Deflation barometer. It shows gold (which tends to rise during inflation), compared to bonds (which tend to rise during periods of economic weakness, recessions or deflations).

Note, the ratio was rising for most of the 2000s until 2011. This told us gold was stronger than bonds and inflation had the upper hand. The ratio then declined until 2016, signaling deflation forces were gaining momentum. That is, bonds were stronger than gold, thanks to the steep drop in interest rates.



Now, however, the barometer is changing again. It's been rising since 2016 and it's currently breaking above its moving average, telling us that gold is stronger than bonds and inflation is picking up steam.

BIG CHANGES TAKE TIME...

But wait a minute, you may be thinking, the U.S. dollar is hitting a 16 month high and gold has been steady, so how is this a good environment for inflation?

First, it's important to remember that these big changes take time. They don't happen from one day to the next.

The U.S. dollar, for instance, is still in a mega 47 year decline but it's been rebounding in recent years. In other words, the dollar's current strength will likely be temporary. That's especially true considering the huge debt and the fact the dollar is gradually losing its international reserve status.

As you'll see in this month's Currencies section, this alone is a huge deal. Our dear friend Chris Weber is not only an excellent analyst but a great historian. He notes...

"The most important that goes with being the world's reserve currency is that you can borrow all you want in your own currency. And then create more of that currency to pay it back... Changes will be put in place by non-Americans... There is a reason why central banks are buying more gold than they ever have before. They are all preparing for a time when the U.S. dollar loses its reserve currency status."

...AND EFFECTS DO TOO

Again, this is a process but it's happening and it will have many repercussions... an ongoing decline in the standard of living will be one.

Many of you may remember seeing film clips in the early 1960s of the Beatle's hometown, Liverpool. It was gray and dreary, following the war and the loss of their global reserve status.

We obviously don't know how the current situation will play out. But we do know that if the dollar continues to fall as we expect, gold will rise and this would also mean the stock market will decline since they tend to move in opposite directions (see **Chart 3**).

But again we want to stress this is based on the big picture. That is, it could take many months for this transition to evolve, or it could happen more quickly.

But all things considered, we feel our strategy is on the right track. For now, a large cash position is best during these volatile times.

But it's important to own physical gold and silver, and keep it through the ups and downs. We still believe gold is forming a big bottom and sooner or later it's going to take off.

Yes, we bought the metals related investments too soon and the rise we've been expecting has taken much longer than we anticipated. But we'll hold on for the time being during this period of dollar strength.

In the end, we think you'll be glad you did because by all indications, we're heading into more unprecedented times.

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U.S. & WORLD STOCK MARKETS

The Bucking Bronco

The stock market's been on a wild ride. It's been very volatile, plunging and surging on the news of the day.

MORE BULL, OR NOT?

This has led to a lot of confusion, and with reason. The big question now is, is the bull market going to continue, or not? And opinions are all over the place.

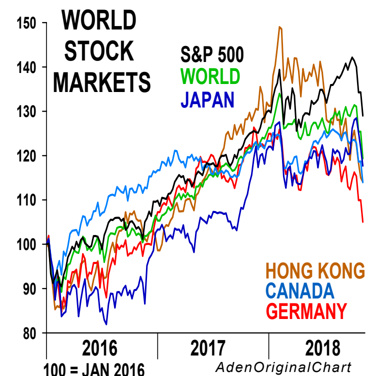
As an example, the "Godfather" of technical analysis, Ralph Acampora, said the damage to the stock market is much worse than many Wall Street investors appreciate. And there is evidence to back this up.

On the other hand, stock market guru Steve Sjuggerud has nearly guaranteed that a huge "melt up" stock market rise is still to come. And here too, there's evidence on the bullish side as well.

We respect both of these analysts a great deal, but this illustrates the big divide that's currently in play. So it's no wonder investors are confused and uncertain.

But when all is said and done, it really all boils down to China. That's been the primary force driving the stock market.

CHART 4



CHINA IS KEY

When trade tensions between the U.S. and China increase, it weighs on the stock market. And the likelihood of an escalating trade war really spooks the market, for a couple of reasons...

First, it hurts U.S. corporate earnings' growth.

The trade situation is also slowing China's economy. This in turn raises concerns the slowdown could spread to the rest of the world, dragging global economies and stock markets down.

This is already happening to some degree. As you can see on **Chart 4**, most of the world stock markets are heading lower.

And since the stock markets of the world generally move together, this intensifies concerns across the board.

But then, in early November, hopes of a U.S.-China trade deal evolved and stocks breathed a sigh of relief. They moved up sharply on optimism a resolution could be worked out.

CHART 5

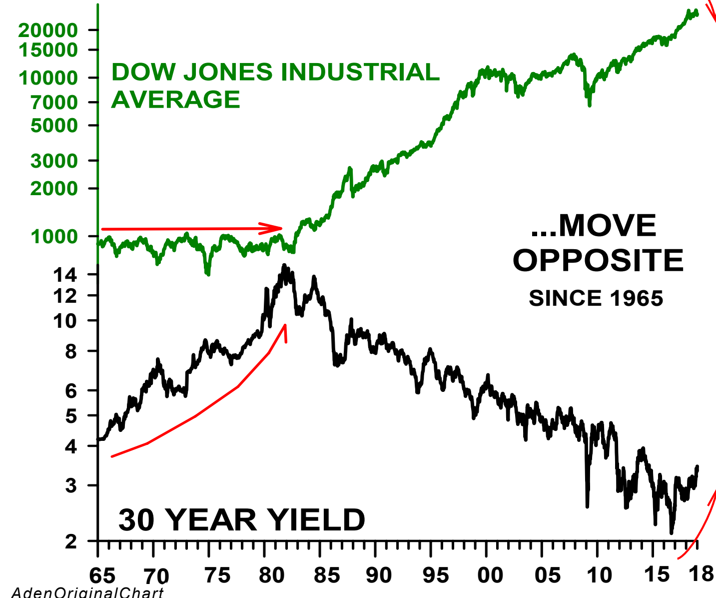
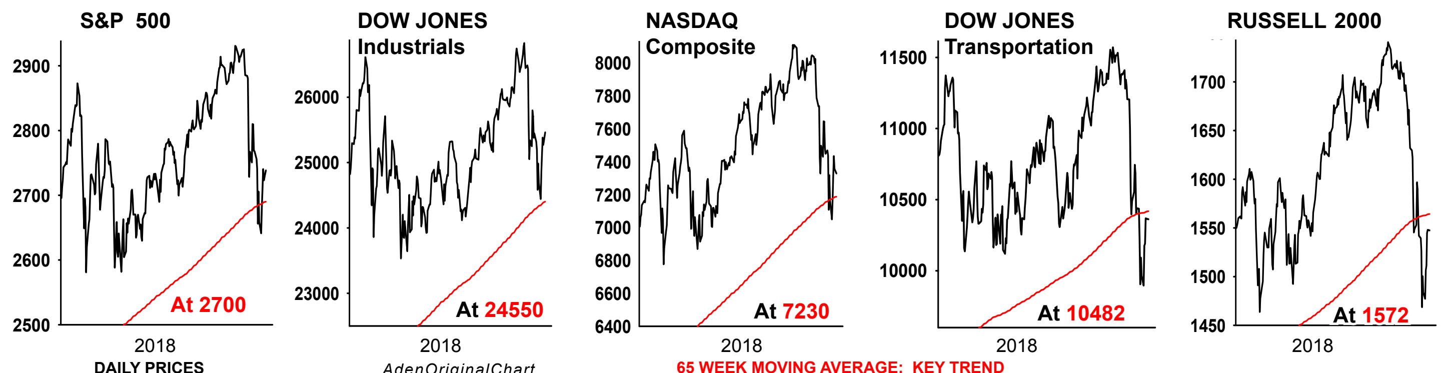


CHART 6

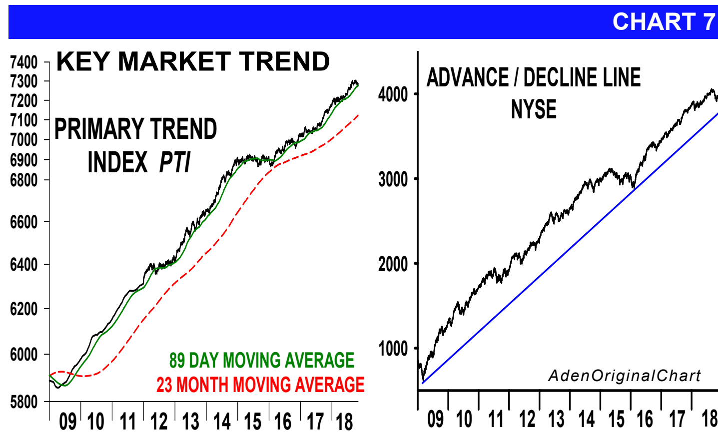


PUSH-PULL

Of course, China wasn't the only market mover. The elections also boosted stocks, but debt and interest rates didn't.

Rising interest rates have not historically been good for stocks (see **Chart 5**, which shows the Dow Industrials and the 30 year yield).

The main reason why is because, at some point, the upmove in interest rates hurts economic growth. And slower growth affects business in general, which results in lower stock prices.



As you know, the current interest rate rise has been going on for over two years now. But what's changed is that interest rates are now rising faster.

That's making the stock market nervous as interest rates creep even higher, suggesting the breaking point is getting closer.

OKAY, SO WHERE DOES THE MARKET CURRENTLY STAND?

The stock market is still bullish but it's flashing yellow caution signals that're even brighter than before... Here's the deal...

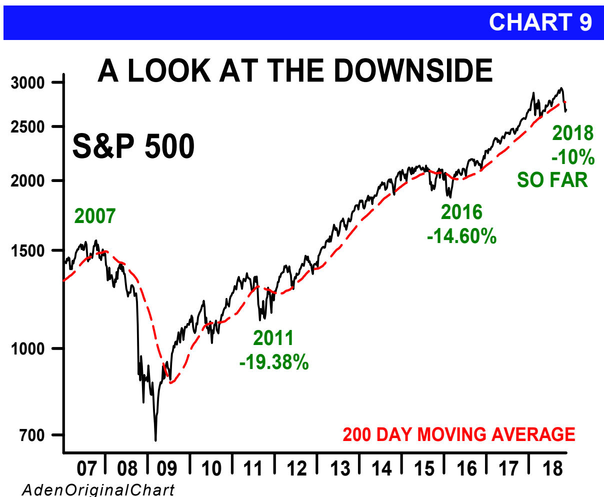
This month several of the stock indexes broke below their 200-day and/or 65-week moving averages (see **Chart 6**). These were bear market signals. But most are now back above these averages, thanks to the early November rebound, which is currently vulnerable as stocks continue to flip-flop. So we'll be watching to see if they can stay above these levels, or not. (The moving averages are listed on the chart.)

If they do, the market will remain technically bullish. If not, the stock market will be sketchy, possibly turning bearish.

DOW THEORY STILL BULLISH

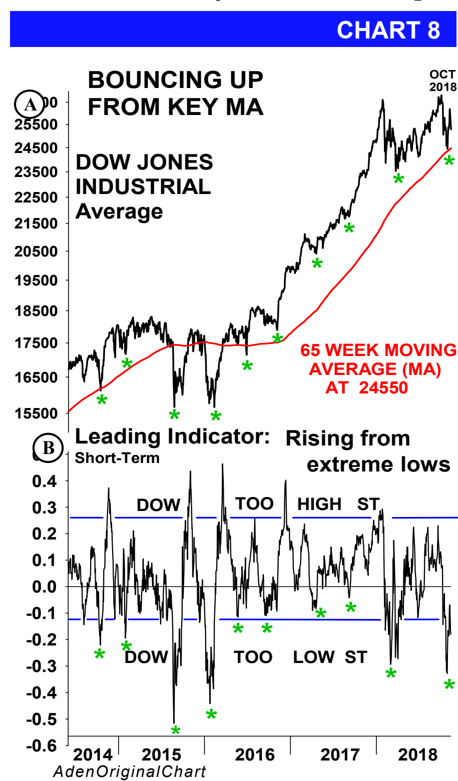
Meanwhile, Dow Theory also remains bullish. This month, Jon Strebler provides great insight on Dow Theory at this critical juncture.

As for the PTI, Richard Russell's reliable and famous Primary Trend Index has been marginal, telling us the primary trend of the stock market is trying to stay up (see **Chart 7**).



And the same is true of the Advance/Decline line, meaning more stocks are rising than declining, and that's another good sign.

Plus, looking at **Chart 8B** you'll see that the (short-term) leading indicator for the Dow Industrials is just starting to rise from a very oversold area (see asterisks and the rise in the Dow Industrials that follows these oversold levels on **Chart 8A**). This tells us that stocks are bombed out and they're set to temporarily move up in the weeks ahead.



WIDE RANGE

The bottom line is this... we have a record high at 26828 on the Dow Industrials, which was reached on Oct 3, and a low at 24443, hit on Oct 29. For now, these are the highs and lows and whatever happens in between these levels will just be more, ongoing volatility.

So the swings could be wild, but this has happened before... Note that the S&P500 on **Chart 9**, has had two steep declines during the current bull market that started in 2009. These happened in 2011 and 2016 when the S&P declined 19.38% and 14.60%, respectively, and then the market headed higher.

A similar situation could be happening again, but time will soon tell... and those highs and lows will be important in determining the final outcome.

For now, the only stock we're still holding is Walt Disney (DIS), but sell it if it closes below 114.

We were stopped out of the other stocks and, therefore, we now have a temporarily large cash holding until we see how things unfold. If you have other stocks, it's okay to hold them as long as the bull market continues.

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U.S. INTEREST RATES AND BONDS

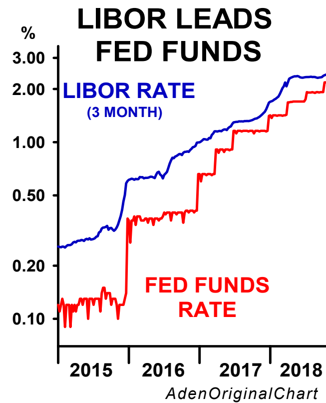
Faster rise rattling markets

There's no question about it... interest rates are on the rise...

10 YEAR HIGH

The Libor interest rate is at a 10 year high and this alone is a very big deal. Why?

The Libor rate tends to be the global interest rate leader (see **Chart 10**). It sets the pace for other interest rates, like mortgage rates for example(see **Chart 11**).



So a surging Libor rate, like we've seen in recent months, is making the world more nervous. It's increasing uncertainty about higher borrowing costs, which is affecting businesses and consumers.

It's also been affecting the world stock markets, as you saw on page 3. That's especially true of the emerging markets because a lot of their debt is in U.S. dollars. And as interest rates go up, they have to pay more money in interest payments to service their debts, which is putting the heat on their economies, making them more fragile.

Like the stock markets, the housing sector is also feeling the pinch (see **Chart 12**). As you can see, thanks to higher interest rates, the housing sector has slowed. It's currently rolling over, hitting a two year low.

THE PARTY IS ENDING

The bottom line is, no one likes higher interest rates. They're bad for business and the economy.

But after so many years of super low interest rates, everyone got used to them. Low interest rates drove stocks and housing higher, and no one wants the party to end.

But the party is ending. With each passing month, it's becoming more obvious that interest rates are going even higher.

Meanwhile, the most outspoken party goer, Donald Trump, wants the band to keep playing, but they're not.

UH-OH...

The end result has been ongoing criticism and tensions between the President and his new Fed Chief, Jerome Powell...

In recent weeks Trump said, "Jerome Powell was endangering the U.S. economy by raising rates and that he, "maybe regretted nominating him." He also noted that, "Powell almost looks like he's happy raising interest rates."

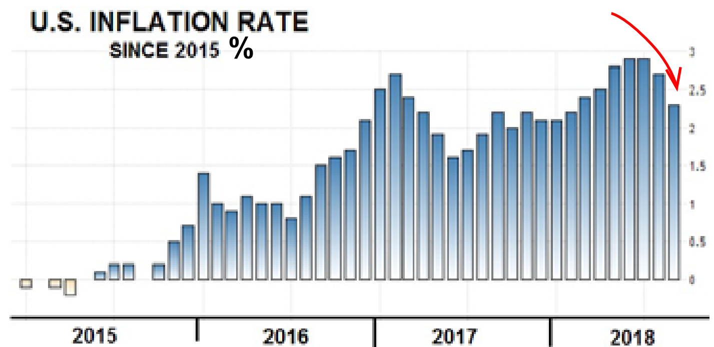
This in itself is unusual because the President and the independent Federal Reserve don't usually air their differences in public. But the Fed seems to be divided...

Some Fed members feel interest rates have risen enough, and further increases could slow the economy too much and boost the risk of recession. Others, however, feel further hikes are necessary to keep inflation under control.

INFLATION: UNDER CONTROL

The funny thing though is that inflation is not a problem, not by any stretch... Looking at **Chart 13**, you can see that inflation's actually been coming down in recent months and it's currently below 2½%. In other words, it's under control.

That's why Trump and the others feel interest rates do not need to head higher. Reinforcing this, the real 3



month Treasury Bill interest rate (T-Bills minus inflation) is now approaching zero, meaning T-Bills and the inflation rate are about the same level.

This hasn't happened in quite a while and it's a good sign, indicating that inflation is no longer eroding the interest paid out to investors.

You may remember that back in the deflationary days, a few years ago, everyone wanted some inflation. So now that it's here, it just makes sense that rates should not go up, or the Fed will slow the very inflation they wanted to begin with. And they'll likely slow the economy too.

RATES GOING UP

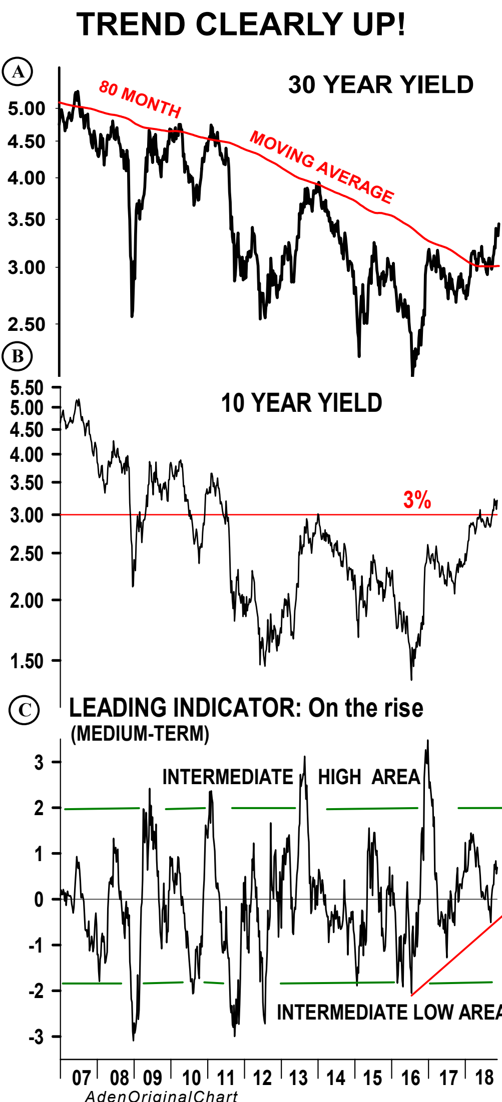
But regardless of what should happen, the market is telling us a very different story…

As we showed you last month, the mega trend on the 30 year yield is clearly up, above its moving average (see **Chart 14A**). This only happens every few decades.

This is a mega reversal, signaling interest rates are going to keep rising in the months and years ahead.

The 10 year yield is similar (see **Chart 14B**). And they're both suggesting interest rates will continue to affect the other markets and the economy, dominating the global scene, whether Trump likes it or not.

In other words, the Fed will likely continue on with its plans…



BUYERS WELCOME

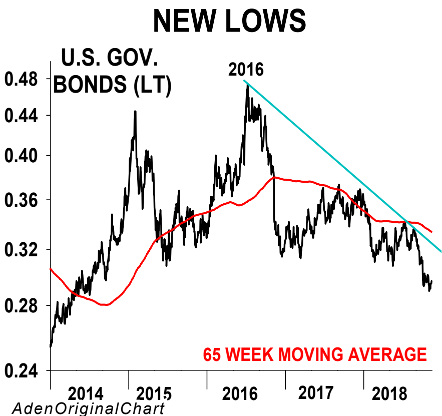
One important reason why interest rates may have to go up is simply to attract buyers. As you saw on **Chart 1**, the debt continues to soar and the government has to sell more Treasury bonds to pay all the bills.

At the same time, many foreign bond holders are selling their U.S. bonds. In recent months, for instance, Russia sold nearly all their U.S. bonds, and now China and other countries are also selling.

That being the case, the U.S. may have no choice but to boost interest rates due to its indebted situation.

Either way, higher interest rates are going to keep downward pressure on bond prices (see **Chart 15**). So bonds will likely stay bearish and it's best to avoid them.

And since bond prices tend to move together, this would apply to most bonds. That is, domestic, international, corporate and junk bonds… they'll all feel the pressure.



CURRENCIES

U.S. dollar: King for the month

Most people don't think about the U.S. dollar much. They tend to take it for granted, earning, spending, saving and using dollars almost very day, but not giving it much thought.

And why should they? If you live in the U.S., the dollar's always been around. It's essentially been a stable constant.

In contrast, this has not been the case in many other countries. Devaluations, collapses and currency crises have been ongoing throughout recorded history.

AN HONOR

But at the other end of the spectrum, one big positive in the U.S. dollar's favor is that it has been the world's leading reserve currency for the past 74 years. This means it's been the international currency, accepted and saved by central banks around the world.

This is an honor and a privilege, which has been bestowed on the world's strongest, fiscally sound nations

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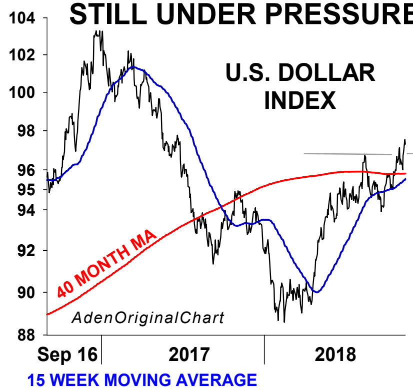


through the centuries. In the past, this position was held by the Spanish, Dutch, British and others.

CHANGE COMING

In recent years, change again appears to be in the air and this time it involves the dollar...

Whether we like it or not, there are many signs showing that the U.S. dollar is slowly losing its reserve status. It's being chipped away and some feel it's just a matter to time until this happens.

The main reason why is because the U.S. is the world's largest debtor nation. But international tensions and trade wars between the U.S. and other countries aren't helping matters either.

As we've often pointed out, many countries are now doing their own thing.

TAKING ACTION

This month, for example, China and Russia agreed to further conduct trade in their own currencies, thereby bypassing the U.S. dollar in their transactions. China and Japan did the same.

Plus, Russia is moving ahead on its alternative to the SWIFT network, which is U.S. dominated for international payments.

Again, this is being done to de-dollarize the U.S.'s dominance on the global financial stage, and Europe is also taking steps in this direction. The general feeling seems to be that the world will move ahead with its various agreements and plans without the U.S.

Some may feel who cares? Let them do what they want... But it's important to understand that in this global world we live in, it does matter.

For example, the global demand for U.S. dollars is going to weaken because of this. It'll also continue eroding the dollar's world reserve status. And this alone would have many repercussions.

It would be bad news for the U.S. It would mean a decline in the standard of living, for instance, and a steep drop in the U.S. dollar.

DOLLAR LOSING POWER SLOWLY

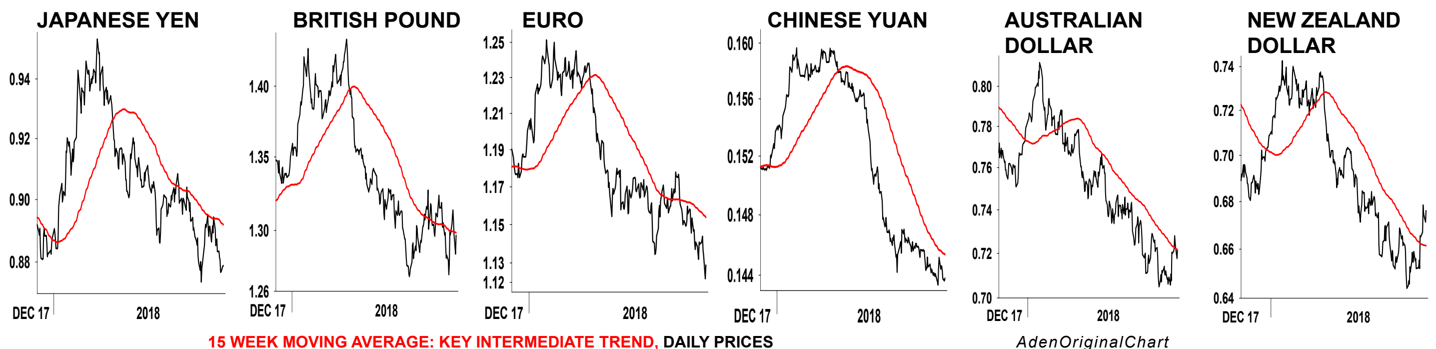
Many people don't realize that the U.S. dollar has already lost about 98% of its purchasing power ever since the Federal Reserve was formed in 1913. But since it's been gradual, the decline hasn't been so obvious.

For now though, the dollar's been holding strong above its key moving average (see **Chart 16**). It'll remain firm by staying above 96. But if it declines and stays below 95.50, it'll be the first sign that a renewed dollar decline would be underway.

As we mentioned before, we believe the dollar's currently topping and it has been for the past couple of years. So eventually it's going to head lower.

The bottom line is, everyone wants a weaker currency and the U.S. is not an exception. This would provide an advantage in trade transactions.

Trump has often said he wants a weaker dollar and with China driving its currency down sharply to a 10



year low, this is increasing the pressure for the U.S. to take similar measures (see **Chart 18**). But China's not alone...

RACE TO THE BOTTOM?

As you can see, most of the currencies remain weak. And most of them are outright bearish.

Could this end up being a race to the bottom on the international currency scene as countries attempt to make their goods less expensive and, therefore, more attractive? It wouldn't be the first time this has happened.

If so, we wouldn't be surprised because the straws are already in the wind... and our technical indicators are also pointing in this direction...

Looking at **Chart 17** as an example, you'll see the euro, along with its long-term leading indicator. Note, the indicator has been declining and if it now stays below the zero line, it'll be signaling the euro's headed lower.

This in turn would likely keep the U.S. dollar firm, at least for the time being. And until this changes, it's best to keep your cash in U.S. dollars.

We realize we currently have a large cash position, but with the markets so volatile, we feel it's warranted.

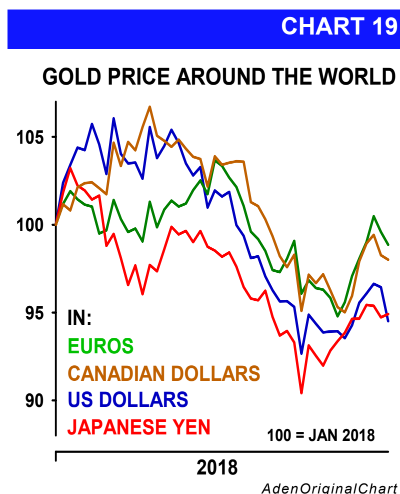
This will be temporary, but it's best to be on the sidelines with a good portion of your funds in cash for now. That way you'll have these funds available for good investment opportunities as they arise.

METALS, NATURAL RESOURCES & ENERGY

Topsy-Turvy: Extreme pessimism

Gold benefitted this past month from the stock market volatility. It bounced up further from its August lows in a promising intermediate rise we call a C rise.

Many positive factors helped the gold rise... from a short squeeze, to a safe haven status, to central bank buying, to a strong Fall season... to name a few of the good reasons that pushed gold higher.



RISING DOLLAR & RATES PRESSURING GOLD

But the strong U.S. dollar and rising interest rates poured cold water on what was developing into a good C rise. Erratic behavior in many markets this past month, including Italian debt woes and Brexit complications, kept downward pressure on the currencies, which fueled strength in the U.S. dollar.

So here we are with another bruise in the gold price. And the question is, is this all we're going to get in this intermediate rise? The verdict is still out, and the rise is still underway. Extreme pessimism has been running through this sector since the Summer months, and doubt combined with hope are still the main emotions out there.

The recent set-back, however, hasn't been bad. Gold held up well above the lows and above $1200 so far, showing stability. Note that gold's also been rising in many currencies since the August lows. This shows good action, as you can see on **Chart 19**.

But recent weakness now has investors looking towards the dollar and interest rates. They are clearly an influence with rising rates keeping the dollar strong in the face of the world's low interest rate environment. But there's more...

It's time to revisit gold's relationship to interest rates.

BUT 'REAL' RATES TELL THE STORY

Clearly, on a short term basis, the recent fast paced rise in interest rates has put pressure on the metals, in spite of rates coming from extremely low levels.

But when looking at real interest rates, that is the 90-day Treasury Bill minus the inflation rate, you can see on **Chart 20**, the real T-Bill rate has also been rising in recent months.

Granted, real T-Bills is just approaching zero, but the point is the fast move was the key here.

Note this chart going back to 1967 shows that in general when real T-Bills were below or near zero, it was a bullish factor for gold.

The 1970s provide a clear example. Interest rates at the time were soaring, but inflation was rising faster than rates, which made real interest rates negative ... and therefore bullish for gold.

But the exact opposite happened ever since the 2008 financial crisis. Interest rates fell to historically low levels, while low inflation was higher than the very low rates.

Again, this was good for gold.

The bottom line is that interest rates must be higher than inflation, regardless of the level, to be a real negative on gold.

Note in 1980, Paul Volcker killed inflation, and we saw real T-Bills stay above zero for the better part of the 1980s-1990s.... and gold declined during that time.

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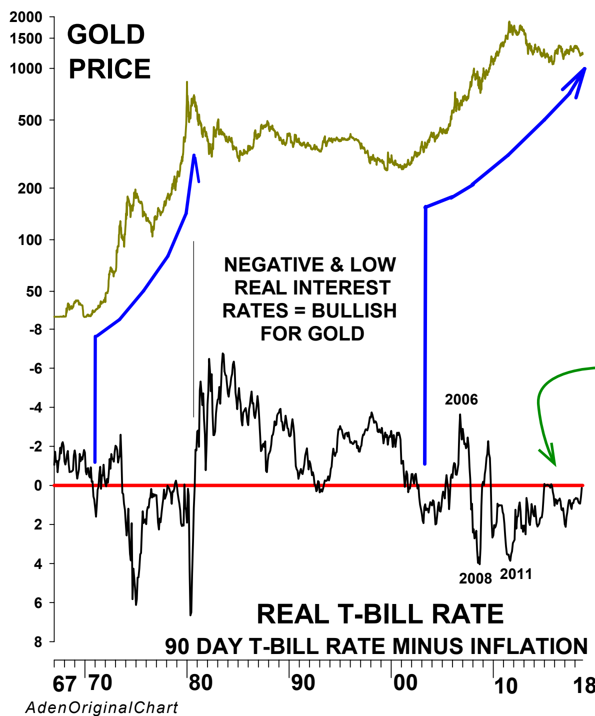


So what do we look at going forward?

One important thing to be on the look for is rising inflation.

And if last Friday's wholesale inflation surge, which was the fastest pace in 6 years is a gauge, inflation is set to rise with rising interest rates. And it's to be seen if inflation rises more than interest rates.

Interestingly, real T-Bills are currently nearing zero, see close up on **Chart 20**. And if inflation picks up steam from here, we could see T-Bills stay near zero for the foreseeable future. We'll be watching this in the upcoming months.

For now, if rates rise moderately, or move down to sideways, it shouldn't have a sustained negative effect on gold.

While a rising dollar will keep a lid on gold, they can move together at times depending on world events.

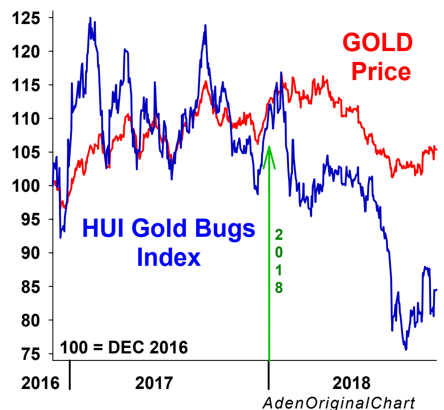
THE OTHER METALS

Platinum is bouncing up from the lows, along with gold. But it couldn't be more different than its sister silver and palladium.

Note on **Chart 21**, the three amigos don't have much in common lately. **Silver** is lackluster, hanging onto the $14 level, while palladium soared back up to the highs, peeking into record high territory. But when the stock market fell, palladium continued to resist at the highs.

If **palladium** continues to resist it may be saying the best is behind palladium. That wouldn't bode well for the stock market, but it'd have little effect on gold, silver and platinum.

There's no question that gold has held up better than silver, platinum and gold shares. **Chart 22** shows how much weaker gold shares have been compared to gold. And the gold/silver ratio also shows gold moving into a new high area versus silver. Plus, gold is now outperforming crude oil too.



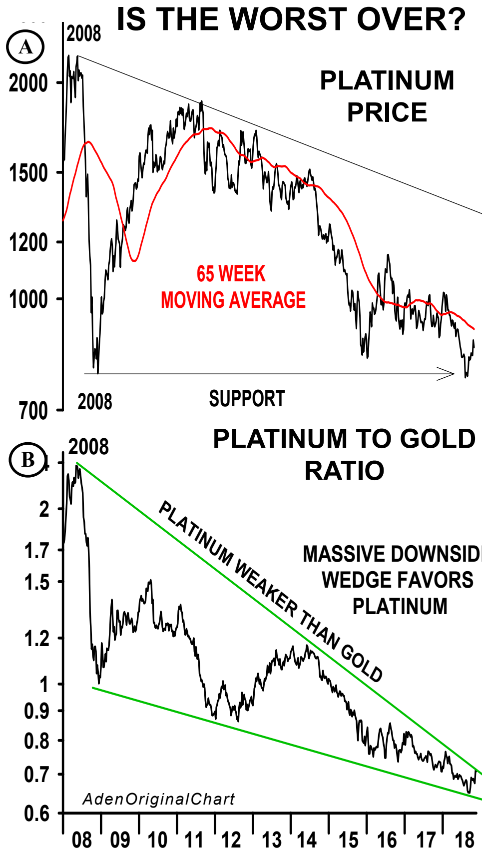
Gold's been the leader and we'll watch the leader closely.

But platinum is in an interesting situation and it warrants special attention as well. **Chart 23A** shows platinum since its super record high in 2008. Note how platinum never regained its luster since then, and it's been undervalued for years.

Many have already forgotten that platinum has always been a higher priced metal than gold. But its long hard bear market left it behind. Note that it recently fell to its 2008 lows and it's now bouncing up from those lows in a move that's drawing attention.

Plus, platinum is bombed out versus gold (see **Chart 23B**). The ratio is at a new low, and interesting, it's been forming a massive downside wedge funnel. If the ratio breaks up it would be bullish for platinum and a good sign for the gold universe.

This is the case with silver and gold shares too. We'll be watching all of them for signs.



GOLD: The latest

Gold is still in a turnaround phase with the 5 year saucer bottom still forming. That hasn't changed and as long as the leader stays in this position we'll keep our lower position.

So what would make us decide that the turnaround has gone sour? The gold market has steps and watching these will keep us focused on the bigger picture.

Chart 24 shows you the gold price since 2003. We've added the steps in the bull market and up to the present. These steps will help clarify gold's stance today.

The 2011 record high is the top of Step 4. From that high gold fell back into Step 3 during the bear market where it's stayed since the lows in December 2015. This low was above the record high back in 2008, which marked the bottom of Step 3.

Perception is interesting. Back in 2015, there was bearish disbelief that gold had lost almost half of its value from the record high in 2011.

Yet in 2008 at the heat of the raging bull market peak, that same price range was gold's peak area! There was disbelief that gold rose so high at the time.

In other words, 10 years ago gold was at an incredible price near $1000, whereas today it would be in the pits if it fell back to these lows. And considering that this would be the worst case scenario today, it's really not that bad in the big picture.

We don't think we'll see this level tested, but it is the bottom of the current third step. But considering that the high leading up to one of the biggest financial crisis in U.S. history, is the low side today tells us a lot about today's world.

To zero in on the current action, let's turn to our gold timing indicator to better gauge the price movement. And the bottom line is... the C rise is still in process. It's had a set-back but it's not over.

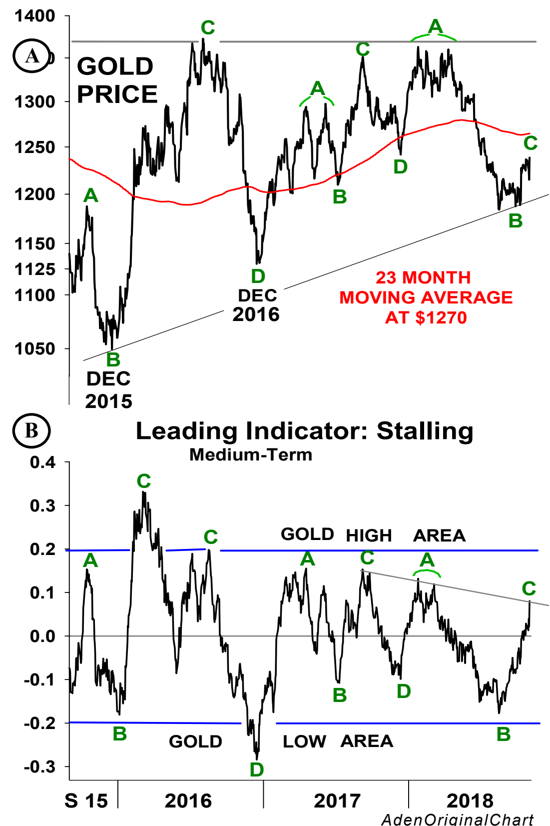


Chart 25B shows the indicator's sharp rise from the lows and, while it's resisting, it has further to run before it reaches the high area. Gold is holding above $1200, which is a stable sign. And even if it tests the $1180 level it'll be okay.

On the upside, gold will continue its intermediate C rise when it hits a new high, and especially if it rises back above $1270 its 23 month moving average.

Overall, gold looks solid and we'll keep our position.

GOLD SHARES: Down but not out... just bombed out

Gold shares fell much more than gold during the trade tensions. And junior mines have fallen much more than the

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seniors this past month, which in itself is a bad sign for the whole group.

But they've been bottoming since the Summer lows. And the level they are bottoming at is a very interesting one.

Chart 26 shows the HUI gold bugs index over the last 22 years. It's approaching the 2000 uptrend and it's trying to bottom above it. Gold shares have yet to turn around but we're watching this closely.

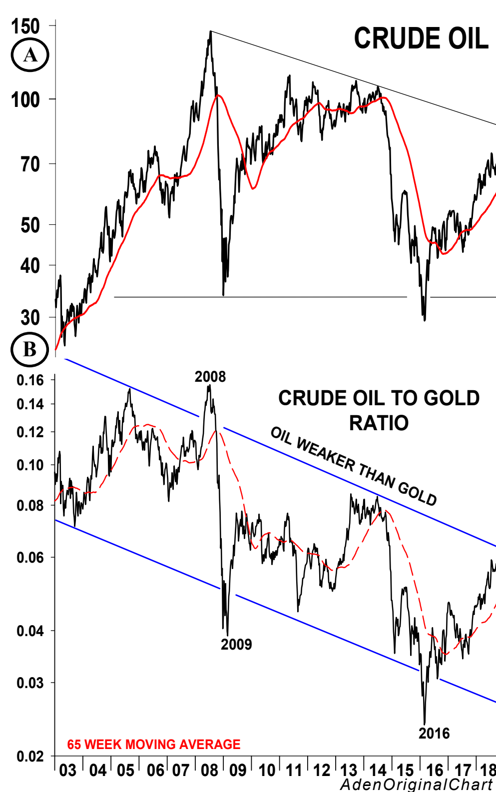
The biggest gold mining merger with Barrick Gold and Randgold is a bullish sign for the industry. Their merger saw almost 100% of Barrick (ABX) shareholders' vote in favor of the merger. Barrick is increasing Randgold's dividend by 35% and it's expected to close in the first quarter 2019.

Crude is also now weaker than gold. Note the ratio on the chart (**27B**) has resisted at a 14 year downtrend and turned down. This is saying that gold may now continue to outperform oil going forward.

You could say crude is falling to better line up to the base metals and resource sector in general. **Chart 28** shows the disconnect oil and copper had earlier this year when trade tensions pushed the resource sector down with the emerging markets. Oil is now lining up while the resource sector looks better.

Together, Barrick will become the world's biggest gold producer, creating a $6 billion gold mining company.

This is the company your average investor will buy going forward, and it looks like a buy at these low levels. We will likely soon recommend ABX, but not yet.

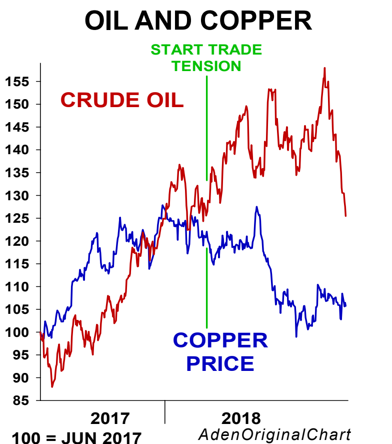


RESOURCES & ENERGY:

Crude oil took a further plunge from its 4 year high, following the stock market (see **Chart 27A**). It's been down 12 sessions in a row, turning bearish along the way.

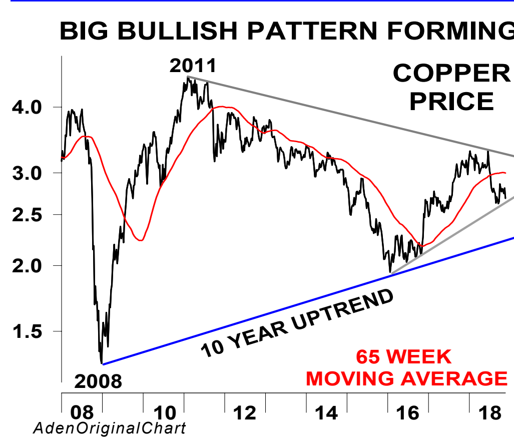
Concerns over global demand and over-supply have been the main concern, in spite of OPEC's proposed production cuts.

Oil is now below its 65 week moving average, and the longer it stays below it at 63 the more likely the rise is changing gears.



Base metals are coming off of a weak third quarter, bouncing up. **Copper** has been lackluster and consolidating in recent months. **Chart 29** shows copper has been in a solid 10 year uptrend and, it's been consolidating above a steeper 3 year uptrend.

The point is... copper is promising and the upside is open. Plus, with the mid-term election over, the next major government projects will most likely be in infrastructure. This of course would be very bullish for the resource sector. Overall, gold still looks good. Hold your physical gold and silver, and the metals investments too. Even though we bought too soon, we feel all of these markets will head higher, hopefully sooner rather than later.



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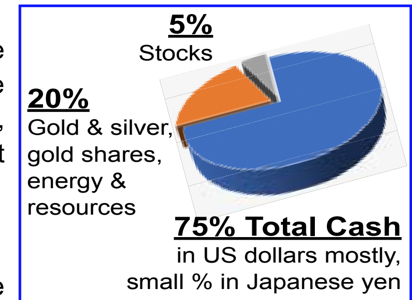
OVERALL PORTFOLIO RECOMMENDATION



CURRENCIES

The U.S. dollar index is strong and it'll remain firm by staying above 96. The currencies are weak and it's best to keep your cash in U.S. dollars. We realize we currently have a large cash position, but with the markets so volatile, we feel it's warranted. This will be temporary, but it's best to be on the sidelines with a good portion of your funds in cash for now. That way you'll have funds available for good investment opportunities as they arise.

PRECIOUS METALS, ENERGY, RESOURCE

Gold bounced up in its C rise and the 5 year saucer bottom is still forming. And despite some downward pressure, gold has been the leader in the metals sector. Overall, gold looks solid and we advise keeping your positions. Continue to hold physical gold and silver through the ups and downs. We recognize we bought the metals investments too soon, but we'll continue to hold on for now. In the end, we feel these will be worthwhile because by all indications we're heading into unprecedented times, and technically they're also looking more poised for an upmove.

U.S. & GLOBAL STOCK MARKETS

The stock market's been on a wild ride and it's been very volatile. The bull market, however, remains intact, but it's flashing caution signals that are brighter than before. We advise watching the 65 week moving averages on the individual stock indexes listed on Chart 6 for signs as to which way next. In the meantime, the only stock we're still holding is Walt Disney (DIS). Keep it but sell it if it closes below 114. We were stopped out of the other stocks, leaving us with a large cash holding. But if you have other stocks, it's okay to hold them as long as the bull market continues.

INTEREST RATES & BONDS

Interest rates keep rising. The Libor rate is at a 10 year high and the mega trend remains up for long-term interest rates. This means interest rates are headed higher in the months and years ahead, and they'll continue to affect the other markets and the economy. Higher rates will keep downward pressure on bearish bond prices and it's best to continue to avoid bonds.

OUR OPEN POSITIONS in order of strength per section

STOCK ETFS & SHARES

		PURCHASE		PRICE AT	% GAIN/LOSS	CURRENT	TRALING
NAME	SYMBOL	DATE	PRICE	issue date	SINCE BOT	RECOMM	STOP
Walt Disney	DIS	Aug-18	112.68	117.11	3.93	Hold	114

PRECIOUS METALS, ENERGY, RESOURCES

		PURCHASE		PRICE AT	% GAIN/LOSS	CURRENT
NAME	SYMBOL	DATE	PRICE	issue date	SINCE BOT	RECOMM
Gold (physical)		Oct-01	277.25	1215.00	338.23	Hold
SPDR Gold	GLD	Mar-17	117.51	114.77	-2.33	Hold
Horizons Marijuana	HMMJ.TO	Jan-18	20.38	18.89	-7.31	Hold
HMLSF (OTC)						
Agnico Eagle	AEM	Feb-17	47.10	35.30	-25.05	Hold
BHP Billiton	BHP	Sep-17	42.00	47.12	12.19	Hold
Gold Miners ETF	GDX	Feb-17	25.20	19.90	-21.03	Hold
Rare Earth	REMX	Jan-18	32.12	19.08	-40.60	Hold
Freeport-McMoRan	FCX	Feb-18	19.12	11.96	-37.45	Hold
Royal Gold	RGLD	Sep-17	90.19	74.43	-17.47	Hold
Silver (physical)		Aug-03	4.93	14.26	189.31	Hold
Jr Gold Miners ETF	GDXJ	Feb-17	42.12	27.12	-35.61	Hold
Silver Trust	SLV	Jun-18	16.17	13.42	-17.01	Hold
DJ US Energy	IYE	Jan-18	41.84	36.51	-12.74	Hold

CURRENCIES

		PURCHASE		PRICE AT	% GAIN/LOSS	CURRENT
NAME	SYMBOL	DATE	PRICE	issue date	SINCE BOT	RECOMM
Japanese Yen ETF	FXY	Mar-18	90.25	84.14	-6.77	Hold

Note: Shares, funds & ETFs are listed in the box in order of strength per each section.

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November, 2018

"The termination of a bull market is much harder to recognize than the end of a bear market."
Robert Rhea

By Jon Strebler

The Dow Theory was originally referred to as "Dow's Theory," since it was based on the thoughts and writings of Charles H. Dow who, along with Edward D. Jones, formed *Dow Jones and Company* in the 1880s. The "Theory" itself was actually established by Dow's good friend Samuel A. Nelson, who wrote about Dow's many editorials dealing with how bull and bear markets operate and can be identified. As such, Nelson was the first proto-Dow theorist. But it was really *Wall Street Journal* editor William P. Hamilton who organized Dow's methods into the Dow Theory that we know today. Following his death, the baton was passed to Robert Rhea, who some – including Richard Russell - considered the finest Dow theorist of them all. Together with Russell and E. George Schaefer, these men's writing form the guidebook to "Dow's Theory."

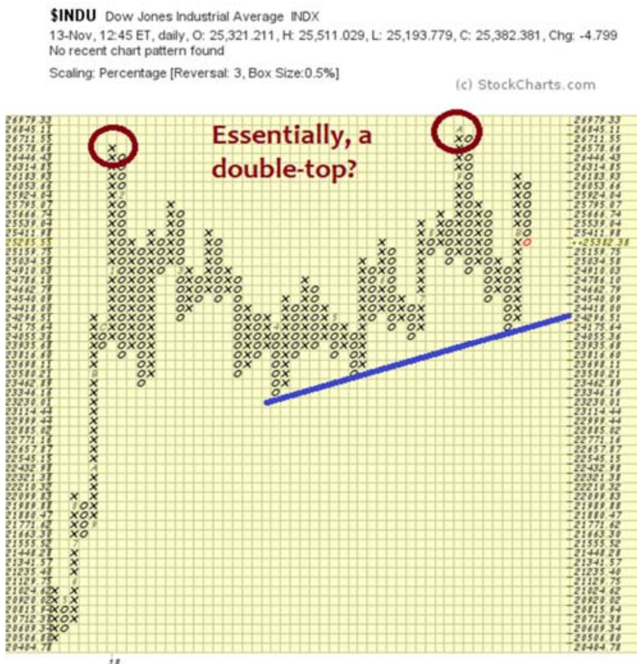
More than 100 years after its creation, is the Dow Theory still relevant? Many suggest that its time has long passed, yet it has been instrumental in helping investors stay with long bull markets, and avoiding the crushing losses that bear markets can bring. With that in mind, what does the Dow Theory tell us now about the future direction of the current, confusing stock market?

Well first, let's recall that the Theory is about much more than what the Industrial and Transportation Averages do. "*Bear market signals must not be oversimplified. Over and over again, the great Dow Theorists have warned us not to take a shallow, mechanical reading of the Averages while disregarding phases, duration, and extent of market movements*," according to Russell. Now, our current bull market is clearly in its third **phase**, where stock prices go beyond proven values; with a **duration** longer than any other in history. And with the S&P 500 having hit very oversold levels, down 11.4% from its October highs, and falling well below its 200-day moving average, this latest correction's **extent** easily qualifies as a secondary reaction.

But then there's the issue of **value**; are stocks over- or under- valued? Charles Dow himself wrote "*The best way of reading the market is to read from the standpoint of **values***." His friend S.A. Nelson said "***Value**... is the determining factor in the long run. Prices fall because values are falling*." Hamilton was "*a shrewd judge of **values,***" Richard Russell wrote in his 1960 book <u>The Dow Theory Today</u>.

Russell himself said *"…the cycles of stock **values** tend to extremes,"* and often wrote about the importance of buying stocks when they are "*great values*."

When talking about whether stocks are a good value, investors historically consider the S&P 500's price to earnings (P/E) ratio, price to sales ratio, average dividend yield, and price to book value. Below is one of those in chart form, where the current price to sales ratio of 2.17 compares to 0.8 when the bull market started ten years ago, indicating that stock prices are very overvalued now. The others are similar: Shiller P/E ratio at 31.53 now vs. 15 in 2009; price to book value 3.36 now vs. 1.8 in 2009; dividend yield 1.86% now vs. 3.11% in 2008. Their message is all the same: US stocks at current prices are anything but "great values."



Additionally, we've seen all of the major stock indices fall decisively below their 200-day moving averages for the first time in years, along with the **A/D line** and Richard Russell's beloved **PTI** falling below their respective MAs. Thus, all of the ducks are in a row for the start of a bear market, awaiting only the action of the Dow Averages to seal the deal.

And then there's this barely known fact: "*Perhaps the most common misconception about the Dow Theory is that it implies waiting for a bear signal in the Averages before selling. Nothing in the writings of Hamilton or Rhea remotely suggests such a dangerous method of operation. Most Dow Theorists would gladly sell out of a market which has all the earmarks of a third-phase climax;* ***they never wait for the actual bear market signal***." The author? Richard Russell. We can argue over the "climax" part, but nevertheless I recommended that my subscribers lower their equities allocation to 30% in the rally from October's lows, and hope they actually did that. As for Monday's 602 point decline – as unnerving as it was – it isn't all that significant when pondering whether the market is still bullish or not.

As this semi-log P&F chart shows, the Dow has only given back about half of its recent rally totals. I take a rather blasphemous view that October's highs in the Industrials were basically a double top, as they exceeded January's peak by less than 2%. As such, and given all of the above discussion, I would consider a break below the blue uptrend line, and certainly a fall below October's closing low of 24,443, to be a legitimate sell signal in the true spirit of the Dow Theory, regardless of any other factors.

Want to wait for the Averages to confirm a bear market in the strictest, mechanical sense before selling? In that case, you'll have to wait for the Industrials to 1) finish this rally, then 2) close below October 29th's 24,443 close, **and** 3) for the Transports to roll over and then close below their October 24th's low of 9,905. And this assumes that the rally off of the October lows 4) lasts at least a few weeks, satisfying those earlier requirements about duration and extent. If it doesn't – well, then the picture gets a bit muddier.

Questions, comments, or want future updates? Log onto my website, at: www.jonstreblersinvestmentoutlook.com