THE
# ADEN FORECAST
MONEY • METALS • MARKETS

DECEMBER 2013 *our 32nd year*

# WADING IN UNCHARTED WATERS

It's been a year for the record books. It's also been a journey through uncharted territory. So what's next?

## YEAR OF THE STOCK MARKET

That's the big question, but first let's see where we currently stand...

As you know, this was the year of the stock market. It was the shining star, surging in one of its best years ever, and there was little competition from other markets.

We're happy to report that throughout the year we recommended keeping the largest portion of your portfolio in the stock market, and we still do. This resulted in very good stock gains this year.

## THE METALS SANK

Unfortunately, the flip side of the coin has been the metals markets.

Even though we lowered our recommended metals holdings in February and again in April, the market's steep decline in the first half of the year was greater than we expected, chalking up losses for the year.

The good news, however, is the metals market has held above the June lows since then. But many investors have grown frustrated and impatient waiting for a rise that never came.

## DIVERSIFY

Our overall strategy this year was to diversify, keeping the largest chunk in stocks, and smaller positions in metals and in cash.

We still feel this is a good strategy and even though you may feel like putting more of your eggs into the stock market basket, it would be far too risky.

The way our portfolio currently stands, we're keeping our larger stock position and cash as we move into the new year. We'll also keep holding our lower gold position as long as it stays above the June lows near $1180-$1200.

If so, it'll continue to be a good sign that gold is building a base, which will likely be a springboard for higher prices, especially with the U.S. dollar also on the decline.

But if the June lows are broken, it would reinforce a bearish metals outcome for the period ahead.

In that case, we'd then change our strategy by lowering our metals allocation further, keeping only a 5 – 10% core position.

## FED DRIVING MARKETS

As you know, the big force driving all of the markets for some time now has been the Fed, but this year it intensified.

The world has been fixated on what the Fed is doing, what they're thinking and saying, how their bond buying stimulus program is going, if they'll taper QE sooner or later, what will Janet Yellen do, what will the markets do, and so on.

It really has become over-the-top but, like it or not, that's what the markets have been focused on. Almost every day they move based on one of these Fed related factors. And it's basically the reality of what we're all dealing with.

**To recap, here's the bottom line situation...**

The Fed has been pouring money into the economy via its QE program since 2009. It's also kept interest rates near zero to help boost the economic recovery.

But despite the Fed's efforts, the economy has been struggling. In fact, the most recent decade showed the second worst economic growth in 220 years.

### *Merry Christmas and Happy New Year*

We wish you all a very Merry Christmas and a happy holiday season. We appreciate each and every one of you and sincerely thank you for being subscribers. May the year ahead be filled with good health, love, happiness and good markets!

All our best to you always,
Mary Anne, Pamela and
the team at Aden Research

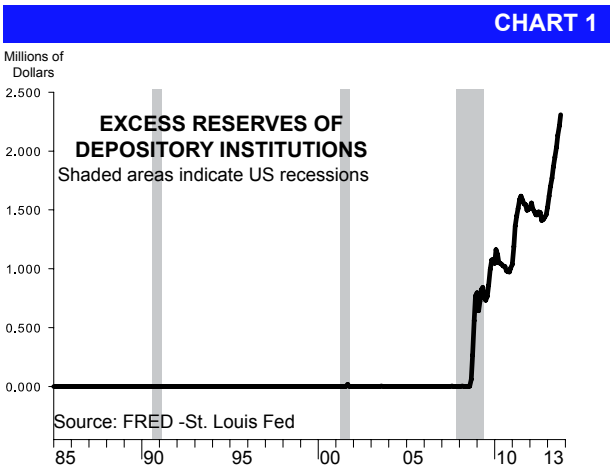
INSIDE

## So what's the matter?

Deflationary forces have been building and inflation has been on the decline. It's currently at a four year low near 1.2%.

This is a real problem for the Fed.

Remember, the Fed has often stated that they'll keep on stimulating until unemployment reaches 6.5% and inflation hits 2%. And despite the biggest intervention by any government in world history, it hasn't happened yet.




## EXCESS RESERVES PILING UP

That's mainly because the Fed has been buying huge quantities of U.S. bonds, thereby providing massive cash reserves to the banks, but the banks are not lending out the money.

Instead, these excess reserves are piling up at the banks, reaching truly unprecedented levels (see **Chart 1**).

Normally, banks will keep a small percentage of their cash in reserve and lend out the rest.

This money is then used to start or expand a business, to buy things, or whatever. And as the money circulates, it multiplies and helps boost economic growth. But again, this isn't working out as planned.

That's why the velocity of money is still falling. The money isn't being lent or spent.

That's also why inflation remains low and the economy is stagnant. That'll continue until the banks start lending, rather than hoarding... So that brings us to where we are today.

> For to be free is not merely to cast off one's chains, but to live in a way that respects and enhances the freedom of others.
>
> **Nelson Mandela**

## WHAT HAPPENS NOW?

Even though the economy has recently shown some positive signs of improvement, we're fairly certain that QE will stay in force well into 2014. Many believe it's the 'new normal.'

Whether that proves to be true or not, the economy doesn't seem strong enough to handle tapering any time soon, and Janet Yellen has essentially reinforced this on several occasions.

Not only did she say that she'll ensure monetary stimulus isn't removed too quickly, but most impressive, Yellen acknowledged that, "we're in unprecedented circumstances, using policies that have never been tried before and we're trying to explain to the public how we intend to conduct these policies. So it's a work in progress."

Plus, Yellen is unlikely to rock the boat and make policy changes right at the beginning of her new stint as Fed head.

Meanwhile, did you happen to see the open letter of apology from a former Fed insider who was involved in the QE program? He calls it the greatest backdoor Wall Street bailout of all time, among other things.

## BE FLEXIBLE

But like we said before, that's what we're dealing with, which means we have to keep an open mind, be flexible and quick to change if Fed or market conditions warrant.

There's no question, we're in challenging and manipulated times. This makes investing more difficult but as we've seen this year, there are still good profits to be made.

For now, with tapering unlikely in the months ahead, that will likely bode well for stocks and as you'll see next, they're set to rise even further.

No tapering will keep downward pressure on the U.S. dollar and it'll boost the global currencies.

A weak dollar, in turn, will be good for gold. So very possibly, now that everyone's fed up with gold, we could see the bottom, at least temporarily, and higher prices as the new year unfolds.

We'll soon know the outcome. But either way, it's sure to be another interesting year and we look forward to sharing it with you.

## NEW ORLEANS

We always enjoy the New Orleans conference. It gives us a chance to catch up with old friends and subscribers. This year we were happy to meet so many of you, and it was very special. Some of you came from as far as the Canary Islands, the U.K., Argentina and many States. Thank you. We truly appreciate it and look forward to next time!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# U.S. & WORLD STOCK MARKETS

## 2013: Best rise in years

The stock market has been on a rip roaring rise this year. It's bullish and it's still poised to head higher next year.

### FIGHTING THE BULL

Despite the market's strength, it's become downright controversial.

Many are calling the rise a bubble. Others say it's a fool's market, a fake and manipulated market, and worse, citing all the reasons why an investor shouldn't be buying stocks.

Nevertheless, the market keeps doing what it's been doing all year. Sure, it might stumble and fall, but then it continues plowing higher.

### BULLISH CONFIRMS

In fact, this year marks one of the best stock market rises in years. As stocks surged to further new record highs throughout the month, the market also triggered several Dow theory bullish signals along the way (see **Chart 2**).

That's pretty incredible considering all the obstacles the market has had to overcome. There's been the fiscal cliff, the government shutdown, the fear of default, a sluggish economy, deflationary forces and more.

Yet stocks have kept on going. In classic fashion, they've been climbing a wall of worry, slowly but surely, without even experiencing a normal 10% correction in over two years.

Currently, the stock market is taking a breather, which is not unusual considering the strong upmove it's had. This downward pressure will likely be temporary because, overall, there's more good news…

### STIMULUS & LOW RATES TO STAY

As we previously mentioned, the Fed is going to continue its easy money policies. And since QE has been the main factor driving stocks higher, all systems are still go.

Reinforcing this, Yellen also said she "does not see stocks in territory that suggests bubble like conditions." In other words, she's fine with the rising stock market.

### P/E RATIO RISES WITH LOW RATES

Interestingly, the historical record backs her up. Over the years, when interest rates were low, the price to earnings (P/E) ratio for stocks tended to rise above average levels.

As you know, low interest rates are very bullish for stocks.

And considering they'll likely stay low for at least another year or two, this will continue to bode well for stocks, trumping the above average P/E ratio (see **Chart 3**).

• Also positive for stocks was the recent budget agreement. It's likely to be passed by the Senate next week, thereby avoiding a repeat of the budget drama last Fall.

As you'll remember, all the uncertainty surrounding the government shutdown and budget standoff drove stocks lower. And as the House Speaker said, this new deal is a 'good start,' which should provide an upward boost for stocks.

• Seasonal factors are very bullish for the market too. For instance, November through April have historically been positive for stocks nearly 80% of the time and it looks like the months ahead will not be an exception.

### TECHNICALS BULLISH TOO

Our technical indicators also

CHART 2

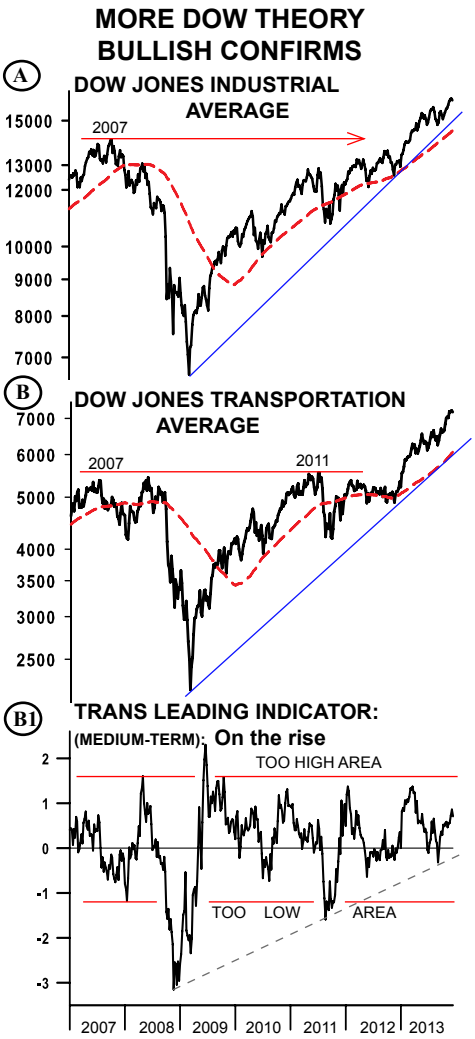
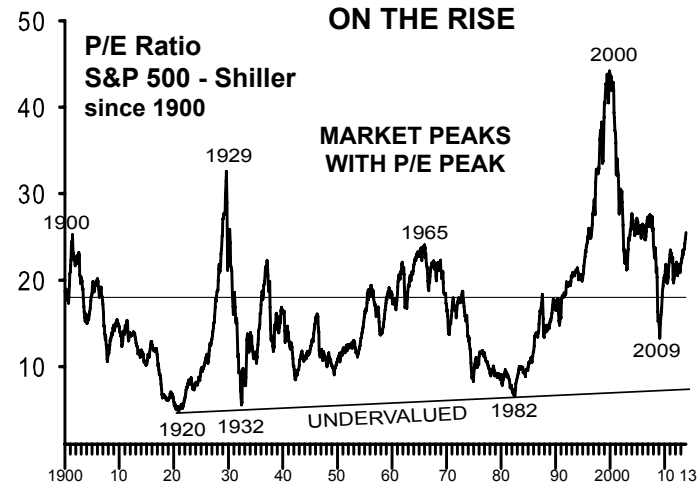



CHART 3



remain super bullish. Despite the strong rises we've already seen in the stock market, our indicators are telling us that stocks are not overbought.

On the contrary, they still have room to rise further (see **Chart 4**).

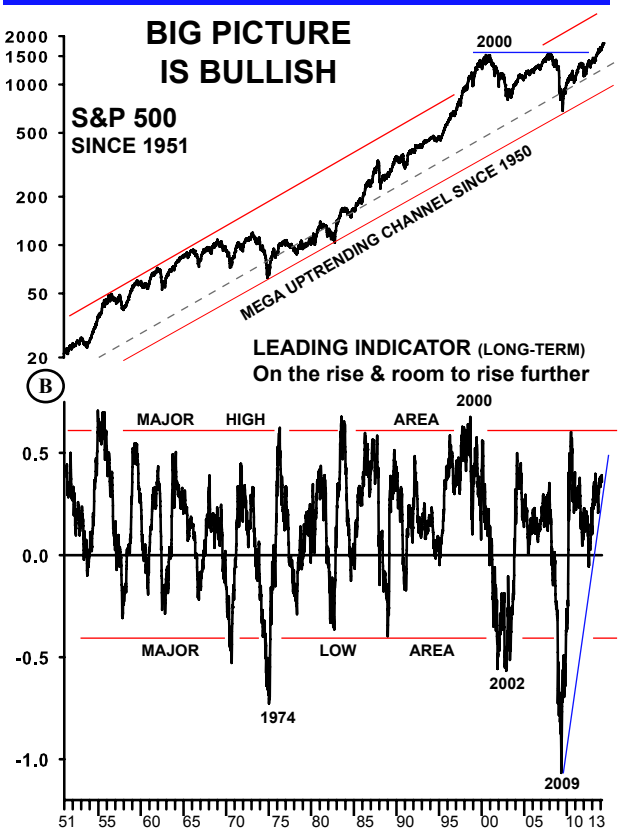
Looking at the big picture for the S&P500, you can see that its leading (long-term) indicator is not yet near the major high area.

This means there's a good possibility the S&P500 could keep rising up to near the top side of its uptrending channel. If so, it could eventually get to near the 3000 level.

If this seems unreasonable, it's important to remember that good years in stocks, like we've seen this year, are historically followed by further gains the next year, in most cases.

- Plus, the economic news has recently been improving. This too is a positive for stocks, assuming it continues.

CHART 4




## DOWNWARD CORRECTION

For now, this week's decline could go lower. So don't be surprised if this happens before a further rise gets underway. If anything, use weakness to buy new positions.

## MAIN STREET BUYING

Main Street is jumping into the stock market. This year, small investors put the most money into stock funds since 2000. And as a group, they generally tend to be late to the party.

In other words, their participation is likely a sign the speculative phase of the bull market is now clearly underway. Many times this has been a signal that the end is near, but we'll see.

As we've previously mentioned, speculative phases can last a long time and investors have few investment options to pick from.

Stocks have been stronger than all other markets and they pay dividends. In this era of super low interest rates, that makes stocks especially attractive, likely driving them even higher.

## GLOBAL MARKETS

The rest of the world has been focusing on the Fed too. They cling to every word that could signal whether the Fed's going to taper or not, and when.

As a general rule of thumb, most of the global markets haven't been as strong as the U.S. They're still lagging, but the big exception is Germany, which also hit a new record high on stronger economic signs (see **Chart 5**).

The emerging markets have been lackluster. But some of these markets are providing great value with good upside potential.

So we're watching them closely and we'll be quick to buy into the stronger ones at the first signs of strength.

## HOLD ON

Meanwhile, we continue to advise keeping a 50% position of your total portfolio in our recommended stocks, listed on page 12.

If you're a new buyer and concerned that it's too late to buy, buy on weakness. If you want to buy and/or add to your positions, we'd stick with the strongest stocks, which are: QQQ, EWG, MSFT and RTH.

For now, the market will remain very strong and bullish with the indexes above these levels: 15500 Dow Industrials, 3850 Nasdaq and 1730 S&P500. Should this change and the market heads South, then we'll change too. But currently, that's not the case.

CHART 5

# U.S. INTEREST RATES AND BONDS

## Low rates will stay

Interest rates were volatile this month. They essentially moved up or down depending on what the Fed may or may not be doing in the future.

This has been an ongoing dominant factor affecting most of the markets. We know it seems silly, but that's the main focus… will the Fed taper or not? And if so, when?

### IMPORTANT FOR RATES

This is important for interest rates. The main reason is because the Fed's low interest rate policy has been a cornerstone of their QE program, ever since it started in 2009 to help boost the economy, following the financial crisis in 2008.

That's why we don't think the Fed will be quick to taper. It would put upward pressure on interest rates, which would only make matters worse… for the economy and the Fed.

Nevertheless, as you can see on **Chart 6**, bonds have been declining for the past year and a half. And that's why we haven't been recommending bonds.

CHART 7

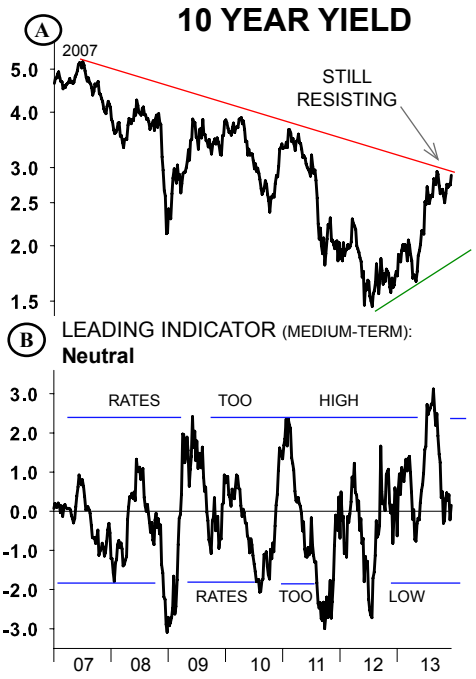



CHART 6


Even though interest rates have been rising since last year, they're still at very low levels (see **Chart 7A**). This makes bonds unattractive and, aside from the Fed, other investors have cut back sharply on their bond buying.

### THE FED'S PLAN

Meanwhile, the Fed has said many times they'll keep interest rates low until the economy shows better signs of improvement. They're mainly waiting for further signs that deflationary forces have diminished.

But the T-Bill rate has already been below one half of 1% for five years now. Still, growth remains sluggish.

Some sectors, however, have benefitted. Housing, for instance, has been on the rise for two years, thanks to low rates (see **Chart 8**).

This has helped boost the real estate market and the price of lumber. And since housing tends to lead the rest of the economy, this is a good sign. But is it enough?

### HOW MUCH LONGER?

So far, the Fed wants to see more. But this leads to the bigger question many investors want to know…

How long can interest rates stay this low?

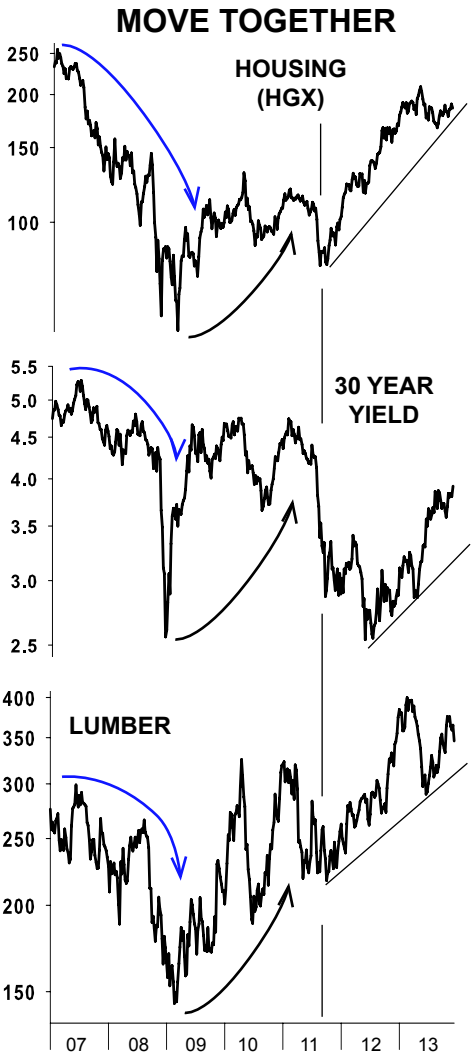
Low rates have already been a big burden for most investors, especially those who rely on interest to supplement their income, like retirees.

Keep in mind, all interest rates have been at historically low levels for the past five years. That is, ever since the financial crisis hit hard in 2008, and they simply haven't recovered since then.

But even prior to 2008, rates have been on the decline since 1981 (see **Chart 9**).

In fact, as far back as the late 1980s, we remember that subscribers and friends were already concerned about the interest rate decline and how far down rates could go.

CHART 8



At that time, the thought of 3% was scary. And unfortunately, that was just the beginning of a long hard road that's still in process.

### LOW RATES IN HISTORY

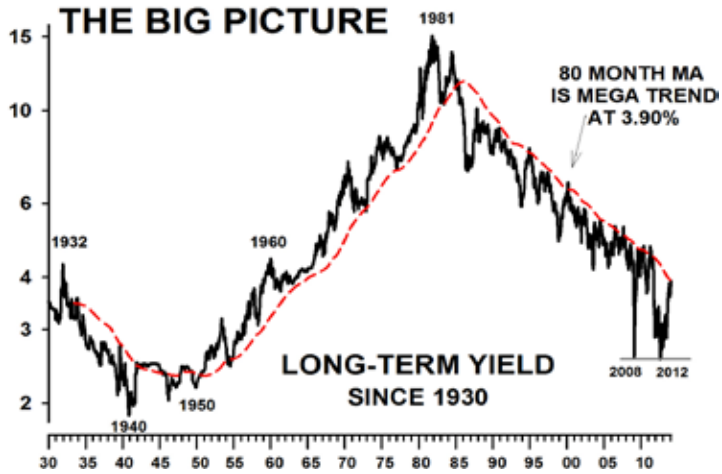
To get an idea of what we might expect going forward, we can go back and look at the U.S. record, as well as what's happened in other developed countries in similar situations.

First, however, let's check out the U.S...

Interest rates were historically low, near current levels, only three times going back to the late 1700s. In those cases, they stayed at low levels between 10-12 years.

The last time this happened was in 1939 to 1951. These 11 years encompassed the end of the Great Depression, World War II and the post war era (see **Chart 9**). This marked the lowest level of interest rates in U.S. history.

CHART 9




### JAPAN... ANOTHER STORY

Looking at Japan, however, it's another story. Since Japan was the first developed country to experience a big deflation in the modern era, and considering that most of the developed countries are following in Japan's footsteps, Japan warrants close attention.

Interest rates in Japan dropped sharply in the early 1990s and they've been near zero for almost 20 years.

Japan has kept rates low to stimulate their economy. Along the way they've had their own versions of multiple QE programs. But despite these efforts, they couldn't shake their debt ridden deflationary forces.

**This year Prime Minister Abe went all out with a massive stimulus program and it seems to be working**, at least compared to the others. But low interest rates are still part of the package and there's no telling how much longer that'll be the case.

As our dear friend Chuck Butler says, "we're turning Japanese." By this he means that if the U.S. continues using the same policies Japan did, which is what it's been doing, we can expect the same results.

In other words, super low interest rates, slow growth, a deflationary debt drag and ongoing QE could continue for a very long time.

On the other hand, we also know the U.S. is now actively trying to kick start more inflation. This tells us it obviously doesn't want to go through what Japan experienced.

### MORE OF THE SAME

So like we've said many times, we have to be prepared and take what comes.

But as you can see looking again at the big picture on **Chart 9**, interest rates have been volatile and bottoming since 2008. And since QE will likely continue into 2014, we can basically expect more of the same.

For now, bond prices are still poised to rise in the weeks ahead. So if you have bonds, it's okay to keep them. But they're risky and we'd sell on strength, and stay on the sidelines.

Overall, standing aside is the best course to take.

# CURRENCIES

## U.S. dollar: Vulnerable

The U.S. dollar drifted down this month. It's on thin ice and very sensitive.

### U.S. DOLLAR: Teetering

Despite this stability, the dollar remains bearish. That is, it's set to fall further and a steeper decline could be triggered at any time and for almost any reason.

At the slightest signs or innuendos regarding the economy or the Fed's QE intentions, for instance, the dollar weakens (see **Chart 10**).

The bottom line is, the dollar has been in a downtrend since 2001. And even though it's been trading in a sideways band for the past five years, it's becoming feeble.

At this point, if the dollar index declines and stays below 79, it'll likely fall to its 2008 lows near the 72 level, which is the lower support level.

Below 72, it'll be in new record low territory and it could then fall sharply.

Many factors could trigger a dollar drop, like a sluggish recovery, stubbornly high unemployment or declining international confidence.

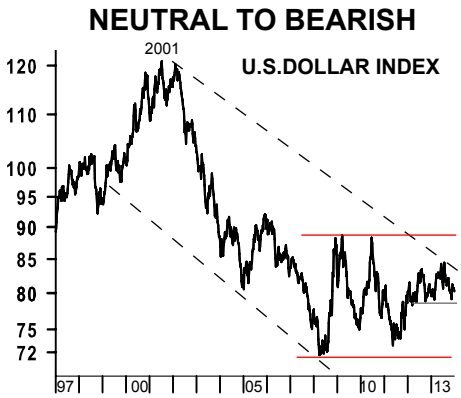
Along these lines, the latest developments out of China tend to reinforce this...

### CHINA: The evergrowing giant

Picking up where we left off last month, China made more important changes this month. This is becom-

CHART 10




ing quite frequent, but this time it left little doubt they're shooting for the world's top reserve currency spot.

Like we pointed out last month, as the risk of a U.S. default became more real, U.S. bond holders were furious. And since China is the U.S.'s largest creditor, it was the most vocal.

China called for a "de-Americanized" world. It said, "Washington has abused its superpower status and it was irresponsible to put the dollar assets of many nations in jeopardy, agonizing the international community." And finally, China called for the U.S. dollar to be replaced as the world's reserve currency.

## Working hard to become #1

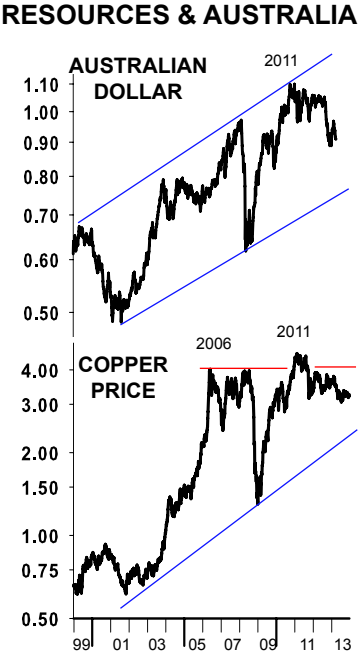
As you know, China has been taking steps in this direction for some time now. But we don't think it's a coincidence that within weeks of making these statements, China announced they will no longer be increasing their foreign currency reserves, which are the world's largest.

And since most of those reserves are in U.S. dollars, they simply will not be buying dollars any more.

In addition, the yuan reached a 20 year high. Plus, it was announced that China has moved into second place, overtaking the euro, as the currency most used in global trade finance.

The U.S. is in #1 position by a wide margin. But we're sure the dozens of trade agreements China has made with other countries, eliminating the U.S. dollar from these transactions, has been a key factor pushing the yuan into the #2 slot.

CHART 12

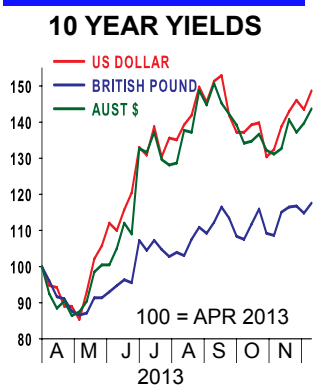



## CURRENCIES

Like most of the other markets, the currencies were also moving to the Fed's beat.

Even though the European Central Bank (ECB) surprisingly cut their interest rates to a record low, the euro has held firm (see **Chart 13**). The ECB did this to keep the Eurozone's economy from stalling and so far, so good.

CHART 11




German confidence increased and manufacturing hit a 29 month high, along with other signs, which drove the euro to a five week high. It's been the strongest currency so far, and we still recommend buying and keeping the euro.

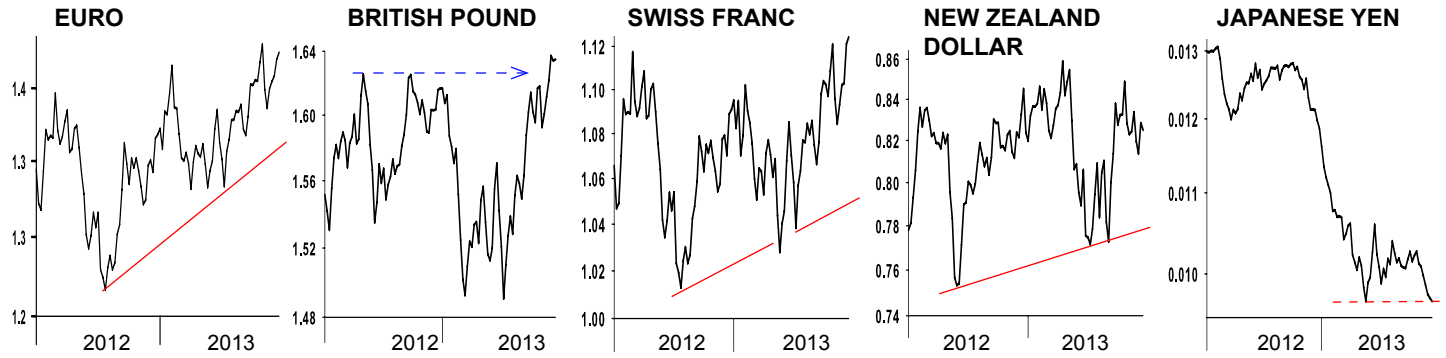
On the other hand, the Australian dollar has been disappointing (see **Chart 12**). With China's recovery slowing somewhat, it's kept downward pressure on the Aussie. The same is true of sluggish resources, like copper, which have affected most of the commodity currencies.

That being the case, we're now advising that you sell the Australian dollar and buy the British pound instead. As you can see on **Chart 11**, the pound has been one of the strongest currencies, it's bullish and it has better upside potential.

For now, the British economy has been maintaining its momentum. So overall, it's a currency that's poised to do well in the months ahead.

The Swiss franc is also strong and it's fine to buy and hold too. Even though we're not officially recommending it, it too has good potential. But since it's linked to the euro, we're opting for the euro instead.

CHART 13



## BITCOIN MANIA

The best investment this year by a huge margin has been Bitcoin (see **Chart 14**). But many aren't even sure what it is…

Bitcoin is basically an alternative, digital currency, and it's bought and sold versus other currencies.

It was designed by a programmer whose identity is unknown, making its debut in 2008.

With thousands of stores now accepting payment in Bitcoins, it has soared in popularity, driving its price to records. But still, pros and cons persist.

On the pro side, many like Bitcoin as a free market competitor to government backed currencies.

It's convenient too. That is, money can be transferred across borders using an app on your mobile. Plus, fees are low, which makes Bitcoin a good vehicle for transferring large amounts of money. It's also difficult to link transactions to the parties involved.

Last month the U.S. Justice Dept said Bitcoin can be a "legal means of exchange." This provided some "official" credibility and it then surged higher.

CHART 14


Now, looking at the cons, Bitcoin is backed by nothing and it's in a speculative bubble. It's also vulnerable to hacking, which makes it risky.

On a more negative note, Bitcoin has been associated with illegal activities, like money laundering, drug dealing and cyber crimes.

These are some of the reasons why China has banned it and global bankers are generally skeptical. They say Bitcoin isn't a real currency with real meaning, so it shouldn't be used by the market.

So where do you get Bitcoins if you want some?

You can buy them through banks, accept them as payments, via online exchanges or even at Walmart.

And while we're not recommending Bitcoins for the time being, they do warrant attention. Bitcoin's influence is growing.

But is it the evolving money of the future, or a bubble fad that's going to pop? The jury's still out.

# METALS, NATURAL RESOURCES & ENERGY

# Optimist or pessimist?... Gold is telling a story

Gold had a bad month. It fell almost 10% in five weeks, from its late October high to the early December low.

## WEAK SIGNS

It's actually been under pressure since September when gold changed its characteristics.

It failed to rise during its best seasonal time, and when the dollar was declining. These factors alone were bearish signs.

In addition, gold jewelry demand was the highest since 2010 in the third quarter, when buyers in Hong Kong and China pushed demand up 40% and 35%.

Plus, China and India together bought 1500 tones of physical gold in the first 10 months, while October saw the second highest gold shipments on record.

Russia is buying gold and, like China, it's keeping all the gold they produce.

It's also being reported that American Eagle silver coin sales are up at the U.S. Mint, while gold sales are up at the Perth Mint.

You'd think the prices would be up on this robust demand for physical gold and silver, but they're not.

Some are still hoping for a year end rally, but the longer gold remains lackluster, the less likely we'll see strength this year.

CHART 15


## TAPER TALK DOMINATING

For the most part, gold has been under pressure because it's been totally focused on the Fed. Like the other markets, all the taper talk has been keeping a lid on gold.

This intensity went up a notch in recent weeks with better economic news out of the U.S., China and Europe. More jobs in the U.S., better consumer sentiment and strong manufacturing have all been positive.

And with a better looking economy, the case to taper stimulus and cut demand for haven assets has grown.

It's often said, the longer a market fails to rise, the more likely it will fall.

**This year is marking gold's first bad year since 2000.**

Investors are loving to hate gold. Hedge funds are the least bullish since 2007. Some investors missed the whole bull market and are now happy to see gold tossed aside.

With each passing month, the

bearish barometer continues to rise. But amazingly, gold is not breaking below the June lows easily.

It's been six months now since gold hit $1180 intraday in June. And it's only been recently that gold tested these lows when it touched $1210 intraday on December 6.

Will it hold? .... That's the million dollar question. Frankly, we're on the fence on this one.

## GOLD OUTLOOK

In today's edition, we're showing several charts, ideas and outlooks for the coming months and years...

• First, we'll start with a close up look at gold on **Chart 15**. Here you can see the full 2+ year decline that followed the record peak in 2011.

Note that gold's decline was relatively mild up until April of this year. It fell almost 20% from the $1900 peak area to the $1536 level and it held there. That is, until the $1536 support was broken in April.

Gold then fell sharply in the second quarter, in its worst quarterly decline of the bull market.

**This example shows that a solid support level can easily be broken over time in a bear market.**

This means we could see the $1180-$1200 level broken, even though gold's been holding above it for six months.

• When looking at gold in terms of several currencies on **Chart 16**, you can see that gold has fallen sharply in dollars and euros, and it's meeting up with gold in yen.

CHART 16

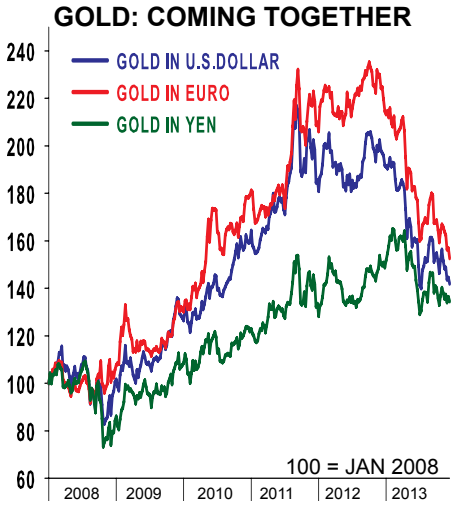
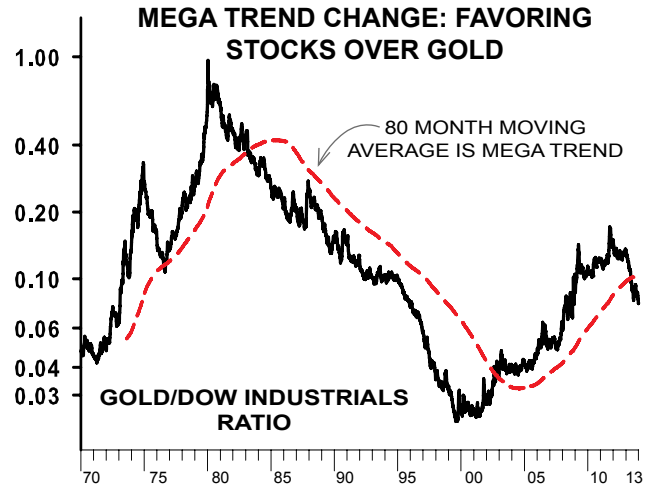



CHART 17




The gold price has come together in several currencies. This is normally a bottom sign and a sign of extremes.

• But on the other hand, take a look at gold compared to the stock market (see **Chart 17**). It was clearly obvious that stocks were the star performers this year.

This ratio goes back to 1970. When the ratio rises and it's above its mega moving average (MA), gold is stronger than the Dow Industrials. Conversely, when the ratio declines and it's below the mega MA, the stock market is better than gold.

You can see this trend doesn't change often, and when it does it pays to go with it. The ratio was below its MA from 1982 to 2002 and it was saying, stay with the stock market. Then the ratio changed in 2002 until 2013, saying ...stay with gold.

The steep gold fall in the second quarter of this year caused the ratio to fall below its mega MA trend and, therefore, it's been saying to stay with the stock market.

And as long as the ratio remains below this mega red MA, it will continue to favor the stock market over gold, meaning stocks will continue to be the better investment.

So as we go into 2014, the stock market has the better potential.

• On an intermediate basis, we could see gold jump up. And then the test will be to see if a bull market can develop from there. Here's what we're watching...

First of all, if the $1180 low is broken, then these intermediate phases will have clearly turned bearish on **Chart 18**, which shows one of our favorite indicators.

We call the June 2013 low, a D low. This is when gold falls the worst during a bull or bear market. An A rise and B decline then follow.

The latest A rise was fine when gold rose to its late August high near $1420, gaining about 18%. This was normal.

The B decline has been underway since then. This 14% decline has lasted over three months and it's a bigger B decline than normal, but it's still okay.

But, if gold now stays below $1330 and falls below $1180, this B decline is off, and the bear will clearly take over. We could then see $1000 gold, eventually.

**So we are very close to the time of truth.** It won't take long

CHART 18

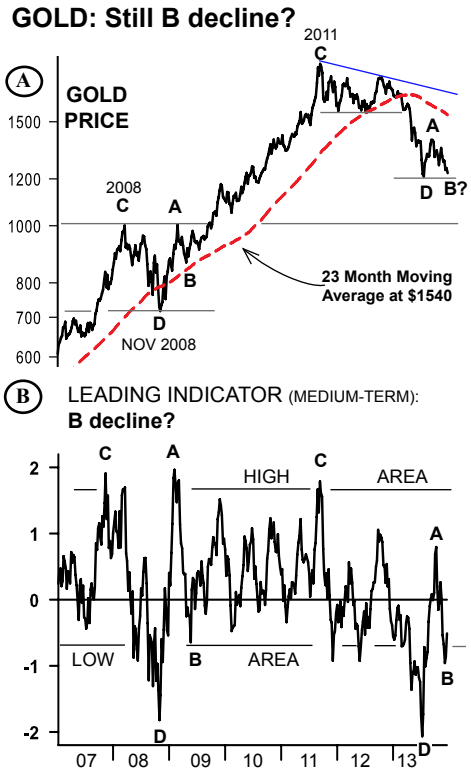


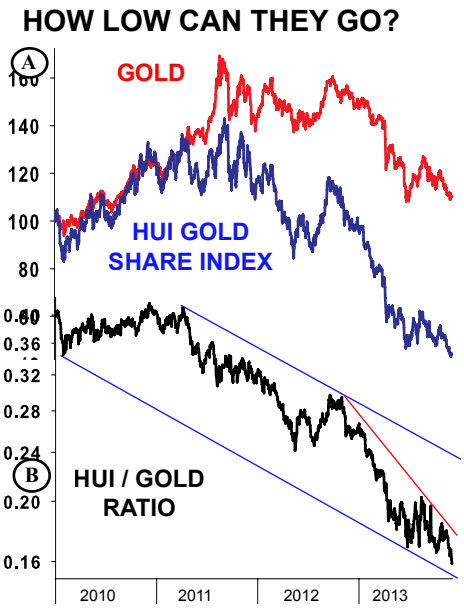
CHART 19


and we must be prepared if a further fall occurs.

If you want to keep your physical gold, even if it falls to $1000, then know that's what you'll do. If you want to sell some, keeping only a 5-10% core position, then do so if $1180 is clearly violated.

On the upside, the B decline will be over if gold closes and stays above $1420, the A high. It could then jump up to the $1536 level, which is also near its 23 month key MA. Gold won't turn bullish until this level is surpassed.

CHART 20




## The Big Picture

Now, let's look at the big picture and what it's telling us. Gold's had impressive, consistent phases since the 1960s, as you can see on **Chart 19**.

First, look at gold's consistent lows in red, when it began trading in the free market. Note on the chart, gold has had a low every 7-8 years since 1969... Lows in 1976, 1985,1993, 2001, and 2008 was the last one.

It's now been over five years since the last low. This means if this cyclical low pattern continues, we could see the next low in about a year's time.

This doesn't mean gold will collapse from here to there, but for now it's saying a renewed bull market is unlikely to get underway before then. The chart also shows that the uptrend since 2001 would be an easy target area.

The mega uptrend since 1969 is unlikely to be reached this time around. There's plenty of time for a low to reach that level in the distant future.

Most exciting is the bull market that will follow, again assuming this pattern continues.

The topside also has phases that tend to occur every eleven years. That is, each 7-8 year low is usually followed by a peak in gold eleven years later and so far gold's latest top was not an exception.

The last low, for instance, was the 2001 low.... and it was followed by a second gold top eleven years later in 2012. Now if we take the 2008 lows and count out eleven years, we get a next gold peak in 2019.

The bottom line is.... based on this pattern, gold is likely to bottom in 2015 and it's likely to reach a mega bull market top in 2019.

The gold rises in the 1980s and the 1990s were moderate but this time around feels different. The 2001 - 2011 bull market, as good as it was, it was never fully realized by all investors because other markets were also rising during a good part of that time.

Be it stocks, bonds or real estate, there were distractions, which is why many investors didn't recognize this bull market was as strong and long lasting as it was.

This is probably why gold fever never really kicked in. Investor frenzy didn't happen and not all investors were involved.

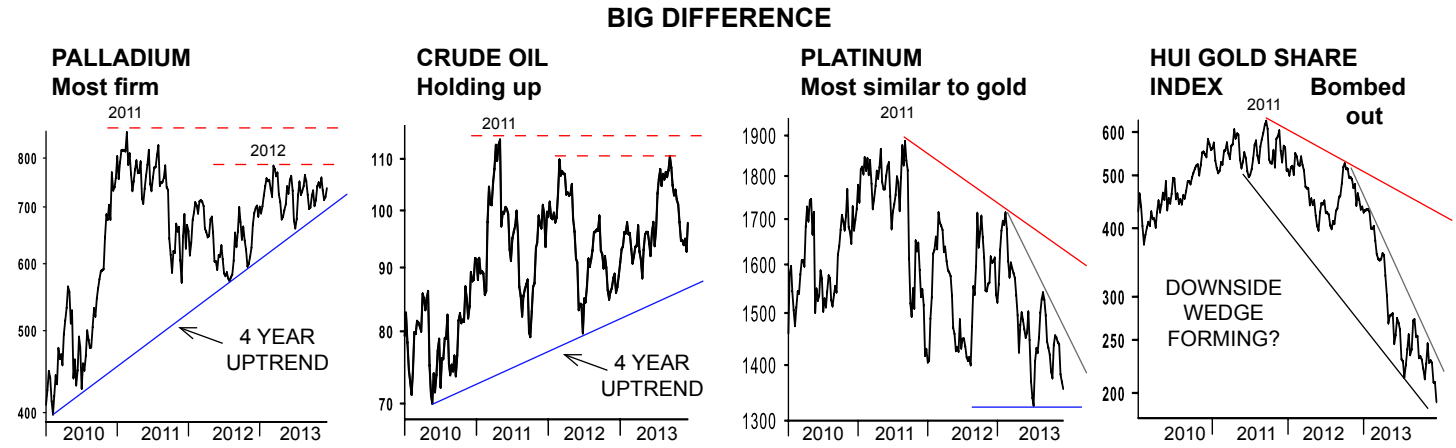
This is one reason why we believe the next bull market leg up will be gang busters. And you'll want to be well invested for this....

For now, we'll wait and see how this market unfolds. We're giving

CHART 21

CHART 22




gold the benefit of a doubt but it still has to prove itself, one way or the other. We're faily certain this will happen soon, so again, be prepared.

## GOLD SHARES: Sitting further in the dumps

Gold shares just can't shake off their severe weakness. They're at a 30 year extreme situation, yet they continue to dribble down, and it looks like they could go a bit lower. They've been getting hit right and left, and until gold stabilizes, we'll most likely see more of the same.

**Chart 20** shows how much weaker the HUI index is compared to gold. So much so that the ratio (**B**) is now forming an over one year downside wedge.

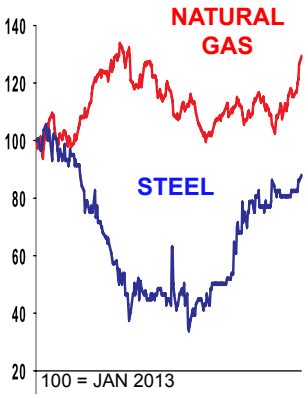
This means HUI could fall lower but once it breaks above 225, we could see a decent rebound rise.

It's hard for investors to like gold shares, especially while the stock market is rising, but this will change at some point.

**Silver** is similar, but it has more volatile swings than gold does. You can see this volatility on the silver to gold ratio on **Chart 21B**. Silver has been declining more than gold since the 2011 peak, but once this ratio rises, it will clearly be a sign of a bottom because silver tends to outperform gold during upmoves.

**Chart 21A** shows that the silver price has come into a juncture where it will likely hold. Note that silver fell to its 11 year uptrend, which is also close to the 2008 highs near $20. This means that as long as silver stays above its June intraday low at $18.20, this area will continue to provide a solid support level.

CHART 24




**Palladium** is holding firm, and it's strong above $710 (see **Chart 22**). With demand firm from the auto industry, we could see palladium surpass the 2012 highs, and possibly the 2011 highs as well.

**Platinum** is lackluster, like gold, and it's holding near the 2013 lows (see **Chart 22**).

## RESOURCES AND ENERGY

**Copper** is the best barometer for global growth because it's used in many sectors. This month it's begun to rise on optimism over China's recovery and on better U.S. jobs.

China unveiled some of the biggest economic reforms in 35 years, which will benefit the commodity world. You can see on **Chart 24** that steel is on the rise and it has been for a few months.

This ties in with the record iron ore exports to China from Australia. And with China importing about 60% of the world's iron ore to make steel, you can understand why it's rising.

**Chart 23** shows an interesting picture of copper since 1979. Note that in spite of copper's lackluster performance over the last few years, it's been holding at the high side of a mega upchannel (see shading). This shows strength.

Copper is firm above $3.10 and it'll look good above $3.35.

**Crude oil** fell this month while natural gas finally started to rise. They've been out of whack for several years, but this could be the start of a change.

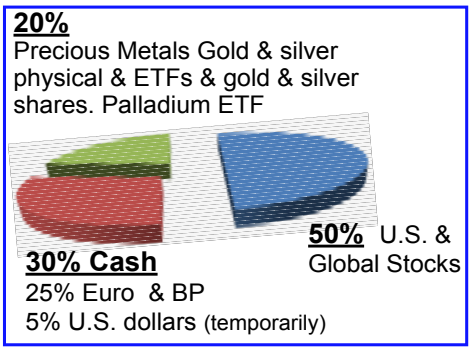
Crude oil remains in a four year uptrend but it resisted at its 2011-12 highs (see **Chart 22**). The U.S. oil revolution taking place in recent years and ample supplies will surely affect the oil price going forward.

Overall, the resources are looking better, and so are some of the select energy sectors as well. But we advise generally holding off in these areas for the time being.

CHART 23

# OVERALL PORTFOLIO RECOMMENDATION

It's been a year for the record books. It's also been a journey through uncharted territory. The stock market has been the shining star, surging in one of its best years ever. Unfortunately, the metals markets fell steeply in the first half of the year, but they've been basing since then. For now, we're keeping the positions we have, but we've made a change in our cash currencies.




## PRECIOUS METALS, ENERGY, RESOURCE

Gold and silver declined steadily in November reaching the June low area this past week. Gold shares declined more as they broke below the June lows. Gold is set to have its first down year since 2000. We're now watching the June lows closely near $1180-$1200. If they're broken, the bear will clearly take off. We'd then change our strategy by lowering our metals allocation, keeping only a 5-10% core position. The metals are at a key juncture that will soon tell us if gold bounces up from here, or dips into a steeper bear market. Palladium is firm, keep it. Keep your positions, but do not buy new ones yet, and keep in touch via our weekly updates.

## OUR OPEN POSITIONS

### 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 | 70.11 | 0.57 | Hold |
| Silver Wheaton | SLW | Sep-09 | 11.66 | 20.31 | 74.19 | Hold |
| Silver (physical) | | Aug-03 | 4.93 | 19.45 | 294.52 | Hold |
| iShares Silver Trust | SLV | May-06 | 14.50 | 18.81 | 29.72 | Hold |
| SPDR Gold Shares | GLD | Nov-04 | 44.38 | 118.29 | 166.54 | Hold |
| Gold (physical) | | Oct-01 | 277.25 | 1224.90 | 341.80 | Hold |
| iShares Gold Trust | IAU | May-05 | 4.17 | 11.90 | 185.44 | Hold |
| Central Fd of Canada | CEF | Apr-04 | 6.39 | 13.45 | 110.49 | Hold |
| Central Gold Trust | GTU | May-09 | 36.53 | 42.71 | 16.92 | Hold |
| NewGold | NGD | Apr-10 | 5.13 | 4.86 | -5.26 | Hold |

### STOCKS & ETFs

| NAME | SYMBOL | PURCHASE DATE | PURCHASE PRICE | PRICE AT issue date | % GAIN/LOSS SINCE BOT | CURRENT RECOMM |
|---|---|---|---|---|---|---|
| Powershares Nasdaq | QQQ | Aug-12 | 66.86 | 84.96 | 27.07 | Buy/Hold |
| MSCI Germany | EWG | Oct-13 | 28.31 | 29.67 | 4.80 | Buy/Hold |
| Microsoft | MSFT | Feb-13 | 28.01 | 37.22 | 32.88 | Buy/Hold |
| Mkt Vect Retail | RTH | Oct-13 | 56.05 | 59.90 | 6.87 | Buy/Hold |
| iShares Glbl Telecm | IXP | Oct-13 | 65.97 | 66.74 | 1.17 | Hold |
| iShares Transports | IYT | Oct-13 | 118.85 | 126.50 | 6.44 | Hold |
| iShares Russell 2000 | IWM | Oct-13 | 107.68 | 109.84 | 2.01 | Hold |
| iShares US Med Dv | IHI | Oct-13 | 86.70 | 88.73 | 2.34 | Hold |
| Procter & Gamble | PG | Sep-12 | 68.10 | 82.30 | 20.85 | Hold |
| Global 100 | IOO | Oct-13 | 72.97 | 74.69 | 2.36 | Hold |
| SPDR S&P Bank | KBE | Jul-13 | 30.30 | 32.25 | 6.44 | Hold |
| Johnson & Johnson | JNJ | Feb-13 | 76.16 | 91.16 | 19.70 | Hold |
| Energy Select SPDR | XLE | Aug-12 | 72.37 | 85.41 | 18.02 | Hold |
| DJ US Telecom | IYZ | Sep-12 | 25.22 | 27.85 | 10.43 | Hold |
| Mkt Vect Vietnam | VNM | Feb-13 | 23.27 | 19.01 | -18.31 | Hold |
| BHP Billiton | BHP | Aug-13 | 67.68 | 63.95 | -5.51 | Hold |
| US Global Inv Res | PSPFX | Sep-12 | 10.02 | 9.34 | -6.79 | Hold |

### CURRENCIES

| NAME | SYMBOL | PURCHASE DATE | PURCHASE PRICE | PRICE AT issue date | % GAIN/LOSS SINCE BOT | CURRENT RECOMM |
|---|---|---|---|---|---|---|
| British Pound ETF * | FXB | Sep-13 | 161.11 | 161.18 | 0.04 | Buy/Hold |
| Euro ETF | FXE | Sep-13 | 134.82 | 135.99 | 0.87 | Buy/Hold |

## U.S. & GLOBAL STOCK MARKETS

The stock market has been surging in its best rise in years. It's super bullish and it's still poised to head higher. Even though a downward correction is normal following such a strong rise, we continue to advise buying and keeping a 50% position of your total portfolio in our recommended stocks, listed on the left. If you're a new buyer or want to add to your positions, buy the strongest ones, which are QQQ, EWG, MSFT and RTH.

## CURRENCIES

The U.S. dollar softened this month. It's on thin ice and remains bearish. The dollar is set to fall further as most of the currencies head higher. We continue to recommend buying and holding the euro but the Australian dollar has been disappointing. So we're now advising that you sell the Australian dollar and buy the British pound instead, which is bullish and has better upside potential.

## INTEREST RATES & BONDS

Bonds have been declining for the past year and a half. That's why we haven't been recommending them. Meanwhile, interest rates remain at historically low levels and they've been volatile. If you have bonds, it's still okay to keep them. But they're risky and we'd sell on strength, and stay on the sidelines.

* New Position

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