

# THE ADEN FORECAST

**MONEY • METALS • MARKETS**

AUGUST 2015

**VOLATILE MARKETS...**

*our 34th year*

## YOUR QUESTIONS ANSWERED

The markets have been difficult this year. And they were wild again this month. They've been swinging up and down, and some of the moves have been dramatic.

Times like these usually means more e-mails from you with lots of questions and comments.

With gold, silver and their shares falling sharply this month, many of your questions surround the metals sector. Following were the questions most frequently asked, and you'll find more information in this month's Metals section.

**Q. The gold shares are getting killed. Should I sell and avoid further losses? Another subscriber writes, since it is so oversold, is this the time to buy?**

**A.** There's no question the drop in the metals and shares was a worst case scenario. Gold's bear market and the D decline took it into another leg down. The question is, what to do now?...

We know we've been saying this for months, but these markets are truly bombed out and extremely oversold.

This tell us they're near the lows and that's why we don't recommend selling at this time.

**The metals markets are currently representing great value and prices are rising.**

Now, this doesn't mean they're going to go straight up from here. It could still take months until the bottoms are formed but the point is, they're near bottom areas. And sooner or later, prices are going to be much higher than they are now.

As for buying, we'd wait until we see that the bottoms are in and new uptrends have started.

If you don't have any metals, and would like to pick up some value, then yes take advantage of these low prices. But also remember that a bear market is still in force.

**Q. I think you should know and alert us before something like this happens.**

**A.** Last month we noted that a worst case decline for gold would be the \$1100 level. We also warned that a vicious bear market D decline would happen below \$1100. While that didn't seem likely at the time, we couldn't discard it... and in the end, that's what happened.

The drop in gold was sharp and steep in the middle of the night and that's something that surprised nearly everyone. And as you'll see in the metals section, we'll do our best to get you back on track in the months ahead.

**Q. Is the portion in physical metals a buy and hold for life strategy? Do you recommend coins, bars, etc?**

**A.** Yes, we'd keep about 5%-10% of your portfolio in physical metals as an insurance policy against a financial crisis. We can't say if that'll be for life, but it could be. We would keep this in popular coins like the Canadian Maple Leaf, American Eagle or So African Krugerrands and bars too.

**Q. Any comments about the IMF not accepting the Chinese yuan? Some say China will retaliate against the U.S.**

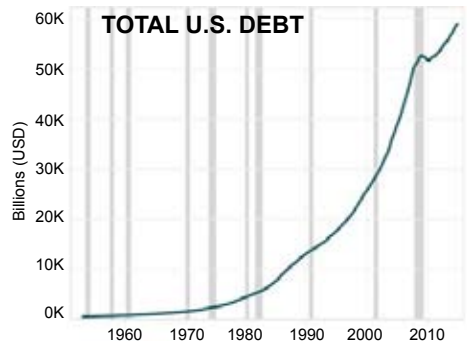
**A.** For now, the Chinese currency will not be included in the IMF's currency reserve basket. This will set China back in their quest to become a major reserve currency.

This week China devalued the yuan, and this is already affecting most of the markets, especially stocks. Even though China is now engaging in the currency wars, they'll probably still be included in the IMF basket next year.

**Q. How much is the total U.S. debt?**

**CHART 1**

**U.S. Has More Debt Than Ever Before**



SOURCE: EverBank Research Team, based on analysis of publicly available data from the Board of Governors of the Federal Reserve System  
COURTESY: www.dailyfennig.com

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**A.** It's close to \$60 trillion (see **Chart 1**). But if you add in the unfunded liabilities (payments that are due in the future), the debt is more than double this amount.

**As we've often pointed out, the debt has passed the point of no return.** The whole world is drowning in debt and it's become a real drag on the world economy.

This is fueling deflationary pressures and creating a headache for the world's central bankers, who have fewer options available to deal with this situation (see **Chart 2**).

**Q. What are your thoughts on the potential direction of energy prices?**

**A.** As you'll see in this month's Currencies section, the oil price has dropped nearly 60% in the past 14 months. It's approaching \$40 and it'll be very important to see if it stays above that level. If it does, the bear market may be near an end. If it doesn't, then oil is headed even lower.

**Q. Any investment recommendations to take advantage of what's happening in Iran?**

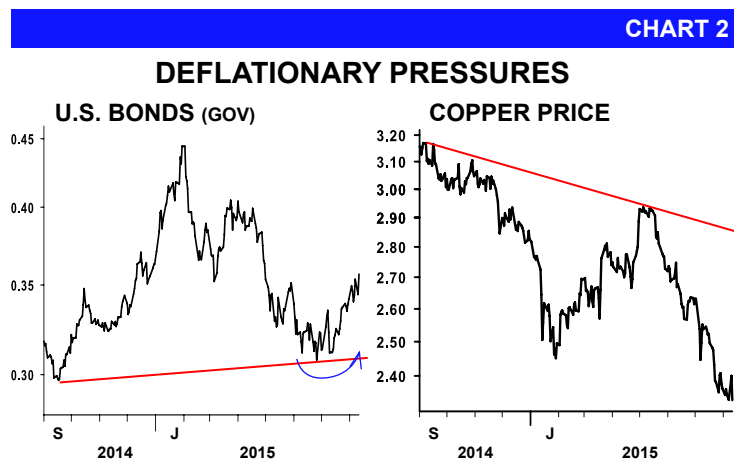
**A.** Following the Iranian nuclear deal, Iran has started to increase its oil output. This could keep downward pressure on the oil price and again, \$40 is the line in the sand.

If oil is going to fall further, some of the oil companies would be good to short.

But if oil is near a bottom, some of the oversold energy companies would be good buys. The jury is still out, but we should know the outcome soon and we'll then invest accordingly.

**Q. When the time comes to go long interest rates or short bonds, would ETFs like TBT, PST or TBF be how you'd invest, or would you just be out entirely?**

**A.** We would recommend buying ETFs, like the ones you mentioned, which have good potential to gain when interest rates rise. And if a mega trend change in interest rates eventually occurs, it would mean interest rates are going a lot higher and we'd recommend a larger posi-



tion to take advantage of the historical rise. Even if interest rates just go back to "normal" levels, it could be very profitable, but that's not the case yet.

**Q. The crash of the Chinese stock market warrants an update. Is this a concern?**

**A.** Yes, we're always watching China. With the largest economy in the world, what happens in China affects just about everyone, in one way or another.

In perspective, however, the drop in their stock market wasn't that bad (see **Chart 7** on page 4). It was scary, because it happened so fast. But the stock market surged about 150% over the past year and the decline was about 30%. That's pretty normal following such a steep rise.

The biggest concern was the possibility the stock market bubble would pop and spread to other global stock markets, which is a valid concern.

For now, the Chinese government has taken many measures to halt the decline. And things have settled down, but the drama is probably not over yet.

**Q. Whatever happened to RE McMaster Jr? Any information would be appreciate.**

**A.** As some of you may remember, we took over RE's subscribers many years ago and we're happy you're still with us. We talk to RE from time to time and in recent years he got married, he's happy and he's still trading the markets.

**Q. I am a new subscriber. In order to follow your recommendations, how much should I buy in**

**each sector?**

**A.** Generally, try to follow our allocation breakdown as well as our buy or hold status on page 12. For example, we may have a stock but we may not recommend buying new positions. You may want to start by buying the strongest stocks in each sector that are buys and which are listed at the top of each section.

For example, currently we'd put 30% in U.S. government bonds or the bond funds and it's best to average in, buying gradually over a couple of months.

**Q. I depend on dividends for my income. If bonds are sold, what other option will I have?**

**A.** For now, long-term government bonds are the best and that'll likely continue in the months ahead. Overall, the options are slim and that's been a dilemma in this era of near zero interest rates. Rising interest rates would be helpful but this could take some time.

**Q. Could you explain how you arrive at the allocations you recommend on page 12?**

**A.** As a rule of thumb, we generally try to keep a larger percentage of our overall recommended portfolio in the stronger markets and a smaller percentage in the markets that are not as strong. Currently, for instance, we have 60% in bonds and stocks, and 15% in metals related investments.

But considering how much the metals markets declined, in hindsight, this percentage should have been lower. Even better, we should have been on the sidelines, which is the standard procedure during bear markets.

The overall idea is to diversify, keeping a balance where the stronger markets will make up for the markets that are not as strong. And when the markets are lackluster, volatile and/or frustrating, like they've been lately, it's always good to keep a healthy cash position. This way you'll be ready to jump onboard when good opportunities arise. So stay tuned.

# U.S. & WORLD STOCK MARKETS

## Bullish, but on the fence

The stock market has been volatile and frustrating. Still, it remains bullish and we recommend staying with it for now, but maybe not for long. Here's why...

Events in China have rattled the stock markets at a time when they're already vulnerable. The markets are on the fence and it wouldn't take much to push them into bear territory.

Will China end up being the tipping point? It could be and we recommend keeping a close watch on the stock market for the time being.

Meanwhile, the market is facing pros and cons. So let's start with the pros.

### MARKET CHUGGING ALONG

The S&P500 is still looking good (see **Chart 3A**). Even though it's been going sideways this year, the two+ year uptrend remains intact.

Granted, it hasn't been a rip

roaring bull market, but it is a bull market.

Most interesting, the short-term leading indicator (**B**) has formed a bottom, it's breaking above the green downtrend and it's starting to rise. This tells us the S&P500 will likely soon follow. And if it does, the bull market will continue as stocks head higher.

Most of the other stock market indexes are also backing this up. As you can see on **Chart 4**, **Nasdaq hit another new record high this month** and it's still the market leader. It remains solidly above its moving average, along with the Russell 2000 and the S&P500.

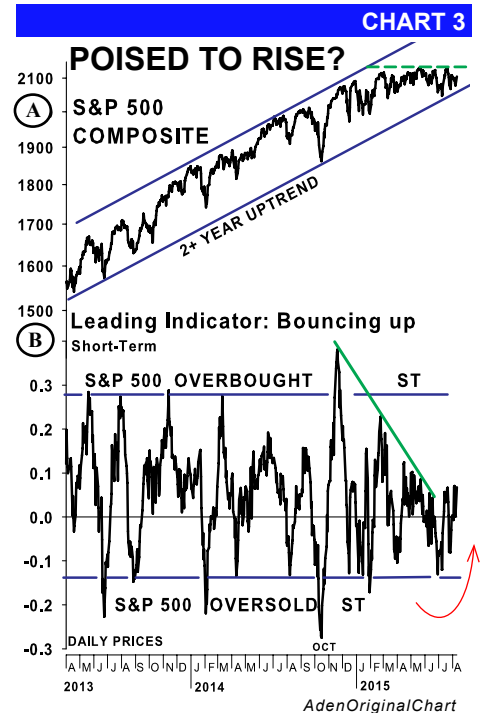
This month the Dow Jones Utility Average also joined the bulls by rising above its moving average. That's another positive sign.

And if these stock indexes now stay above the following levels, the bull market will remain in the driver's seat... 4725 Nasdaq, 1190 Russell 2000, 2030 S&P500 and 579 for the Dow Jones Utilities.

Currently, many investors are also worried about Apple (see **Chart 5**). It's been declining and the fear is that it could take Nasdaq and the rest of the markets with it. Others believe Google will pick up where Apple left off. And that's what appears to be happening.

### GLOBAL EQUITIES UP

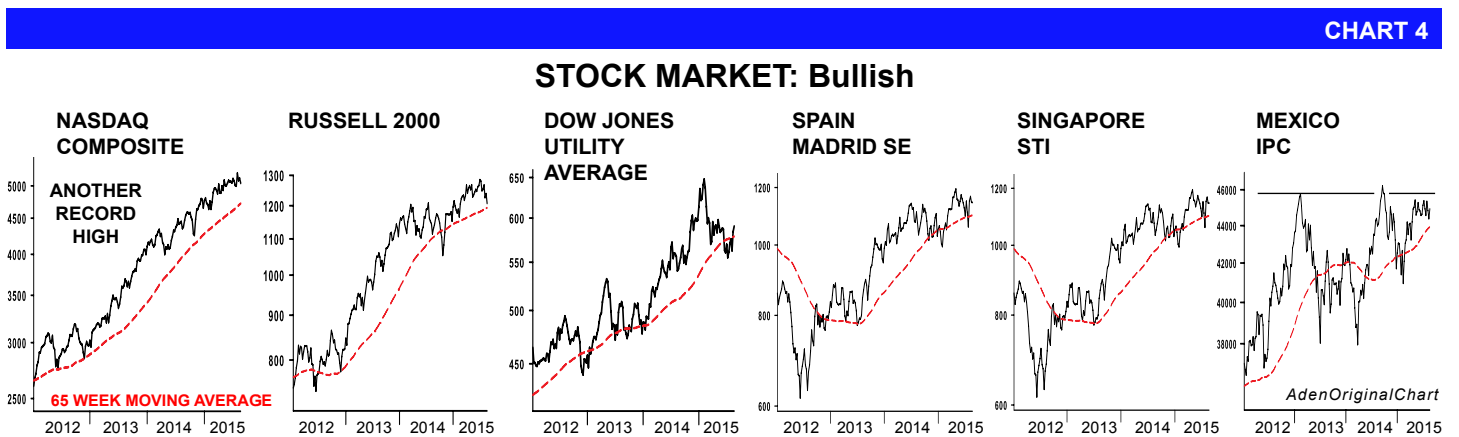
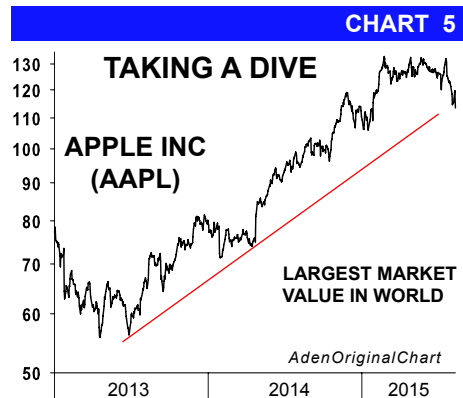
Another positive is that most of the global stock markets are

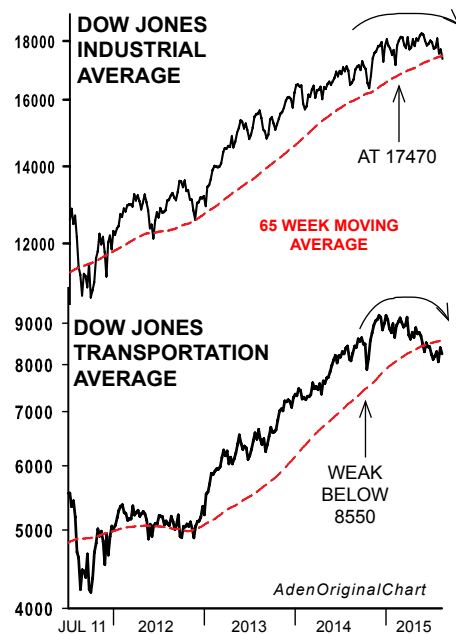


also bullish. Like the U.S. market, they've been chugging, but they've been able to hang in there, at least so far (see **Chart 4** as an example).

As we've mentioned for several months now, the emerging stock markets continue to be the laggards. These countries are generally feeling the pressure from the double hit of a strong U.S. dollar and the steep drop in commodities prices.

This is being reflected in their weaker stock markets, and it's best to avoid these markets for now.



**CHART 6****IS TRANSPORTATIONS LEADING?**

The European stock markets, however, are looking more promising, thanks to better economic signs, economic stimulus and more upbeat sentiment. But for now, we wouldn't buy these.

**IMPROVING ECONOMY**

The U.S. economy is also positive for the U.S. stock market. It's still mixed with lots of crosscurrents, but it is improving.

This month, jobless claims fell to the lowest since 1973. Home sales are surging, prices are rising and the outlook for the real estate sector is good. Plus, since housing tends to lead the economy, that's a good sign.

The leading economic index is also rising. This tells us the economy will likely continue to plug along in the months ahead. But not all is rosy... There are also signs of caution and we're watching these closely.

**CAUTION IS STILL FLASHING**

For now, the biggest caution sign continues to be the divergence between Nasdaq (and most of the

other stock indexes) and the Dow Jones Transportations. This has been going on for most of this year and here's the situation...

The Dow Jones Transportation Average is technically bearish (see **Chart 6**). And now the Dow Industrials is marginal. The other indexes are not.

So are the bullish indexes leading the way up, or is the Transportations leading the way down? That's the big question and until we see it resolved to the upside, we'll have to maintain caution.

Lately, for example, the Transports have been rising. In large part, that's been because of the weak oil price, which lowers transportation costs.

But the true test will come if the Transportations can now rise and stay above 8550 and if the Dow Industrials can stay above 17470.

If so, it would be a very bullish sign and all systems would be go. But if they can't, then the market will remain vulnerable.

**CHINA'S VULNERABLE**

As we previously mentioned, we're also watching the Chinese stock market (see **Chart 7**). As you can see, despite its decline, it's still bullish above its moving average.

**CHART 7****CHINA STOCK MARKET: Approached 2008 highs**

But the biggest problem is the high level of margin debt. That is, money that was borrowed by investors to buy stock.

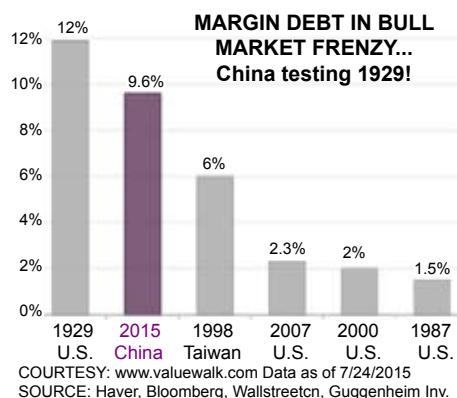
Looking at **Chart 8**, note that China's margin debt is very high compared to bull markets of the past. As Scott Minerd of Guggenheim Investment points out, "margin debt has begun to unwind in the midst of the latest stock selloff, but there is still a great deal of margin debt outstanding, meaning more turbulence could lie ahead for China's stock market."

If that proves to be the case, it would likely affect the global stock markets, at least to some extent.

**KEEP YOUR POSITIONS**

For now, we'll keep our recommended stocks because the stock market is bullish. If it heads higher, then all of our stocks will rise, including the laggards. This will provide an opportunity to sell some of them at a better price.

As for the stronger stocks, we'll keep them as long as this bull market stays in force. We wouldn't short stocks at this time or buy new stock positions. But if the market erodes from here, we'll recommend selling, and we'll keep you posted via a Special Alert or in our weekly updates.

**CHART 8****Editors:**

Mary Anne Aden  
Pamela Aden

www.adenforecast.com  
info@adenforecast.com



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

1-305-395-6141  
In Costa Rica:  
Ph: 506-2271-2293  
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# U.S. INTEREST RATES AND BONDS

## Renewed bond rise underway

The interest rate talk seems never ending. It goes on and on, and we've never seen anything like it.

### MARKETS: Obsessed with Fed

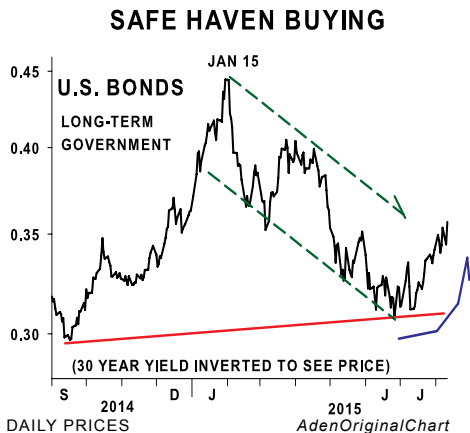
The markets are literally obsessed with what the Fed's going to do, or not do. Any hint of a possible upcoming interest rate hike sends the markets reeling one way. And when it looks like interest rates are not going to rise, the markets swing the other way.

But despite all the gossip and guesses, the bond market has spoken and here's what it's telling us...

Bond prices are on the rise and they're currently at a 3½ month high (see **Chart 9**). And since long-term interest rates move opposite to bond prices, long-term rates are now at a 3½ month low.

Plus, interest rates generally tend to move together. So this current interest rate decline strongly suggests the Fed will unlikely raise

**CHART 9**



interest rates in September, and probably not even later this year.

This also means bond prices are set to rise further, and the bull market will remain intact (see **Chart 10**). The leading indicator is reinforcing this because it has plenty of room to rise further, which is good for bonds.

The market, therefore, is telling us to buy and hold onto the bonds and bond funds we have, and continue riding this bull market as long as it stays in force.

### LAST BOND LEG UP?

This upcoming bond price up-move, however, may end up being the last hurrah for this bull market... But then again it may not...

As our dear friend Chuck Butler reminds us... "Back in 2013, the Fed told us that when unemployment hit 6.2% they would hike interest rates... But that didn't happen.

Then by the end of 2013, the Fed told us there would be a rate hike in 2014... But that didn't happen. Then late in 2014, the Fed said by Spring 2015 they would hike rates... But that didn't happen. Then the rate hike was moved to Summer 2015... Again, that didn't happen.

Why after all these disappointments have the markets swallowed this thought of a rate hike, hook, line and sinker again? Beats me."

So what's going on? The answer is pretty simple...

### SLUGGISH ECONOMY

Despite the positive signs, economic growth remains slow (see **Chart 11**, which shows GDP calculated the new way, reflecting an even weaker economy than previously reported).

In fact, this has been the weakest economic recovery in the last 50 years. GDP growth, for example, has averaged 2.3% per year over the past five years.

And as we've often pointed out, between 1790 to 1999, normal average growth has consistently been about 4%.

So in recent years, growth has been much lower, primarily due to the massive debt.

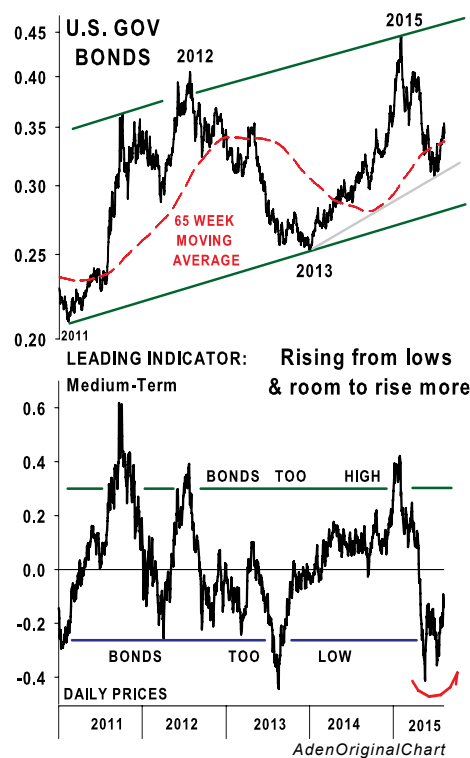
**In other words, even though Janet Yellen would like to raise interest rates and return to a normal monetary policy, she can't...**

Aside from the slow economy, and deflationary pressures, inflation has remained below 2% for over three years and the IMF thinks it's going to stay there until 2018.

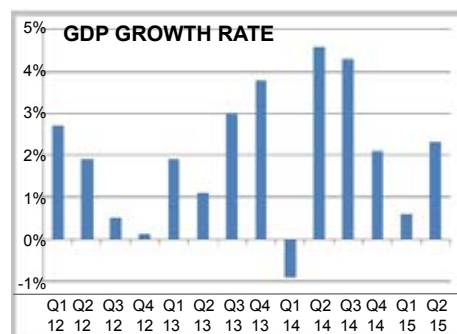
**In addition**, there are serious concerns about China's slower economy and their steep decline in exports, which reflects a slowing global economy. Plus, there's China's wild stock market and yuan devaluation, as well as other global developments, and what this

**CHART 10**

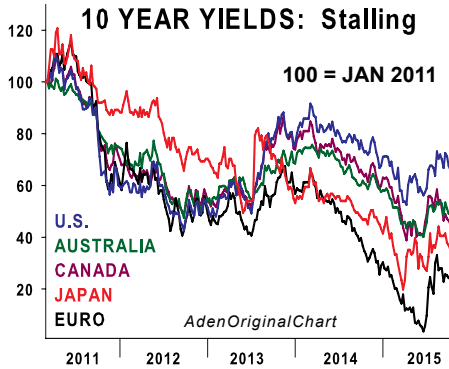
### BONDS: POISED TO TEST HIGHS



**CHART 11**



SOURCE: Federal Reserve Bank of St. Louis

**CHART 12**

all might do to the overall world economy.

This alone has again boosted the appeal of U.S. government bonds as a favorite safe haven, which is why they've been rising.

**The bottom line is this...**

If the Fed raises interest rates too early, it could hurt the U.S. and global economic recovery. This is something no one wants.

On the other hand, if the Fed waits and raises rates too late, it could result in some inflation. And at this point, that would be a welcome relief.

Nevertheless, the biggest problem with keeping interest rates near

zero for the past almost seven years is that it limits the options.

That is, the Fed and the other world's central banks have already used up their ammunition. So if another financial crisis were to hit, they wouldn't be able to take much action to fight it off because they're basically still recovering from the last financial hangover.

**A DELICATE ACT**

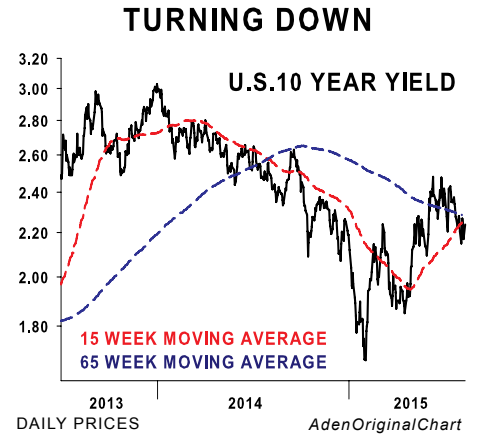
And that's basically Janet Yellen's dilemma. It's also why, despite this "pinned into a corner" situation, we continue to feel that when push comes to shove, the Fed will opt to leave interest rates alone.

This applies not only to Janet Yellen and the Fed, but to the world's other central banks too. They're all basically in the same boat.

As you can see on **Chart 12**, the interest rates of the major world countries all hit extremely low levels a few months ago. They then surged higher, but they're now stalling and/or starting to decline again.

**KEEP BONDS**

And since global interest rates also generally move together, these rates will likely head lower, along

**CHART 13**

with U.S. interest rates.

That is, most global bond prices are set to rise further.

So again, if you're holding bonds, U.S. or otherwise, keep them. They're looking good for the months ahead.

Looking at the 10 year yield, for example, note that it's broken below its two moving averages (see **Chart 13**). This reinforces that the major downtrend for interest rates remains intact.

That'll continue as long as the 10 and 30 year yields stay below 2.27% and 2.97%, respectively.

# CURRENCIES

## U.S. DOLLAR: Still topping

It's been a wild ride for some of the currencies.

The huge drop in the commodities markets has been a big shock for the currency markets. That's especially true of the commodity currencies.

**CRUDE & RESOURCES: Hit hard**

As you know, the oil price has dropped sharply (see **Chart 15**). But oil is not alone.

Nickel, copper, iron ore and other resources have also been hard hit. Copper, for instance, is down 29% since last year and the others have had similar declines. They're basically all in ma-

yor bear markets. This is flashing a warning signal, not only for the commodity currencies but for the global economy too.

As you know, copper is used in just about everything. So historically, it's been a reliable economic

indicator. The fact that it's way down doesn't bode well for the world's economic growth, and it's deflationary.

The same is true of oil. The oil business is suffering and the repercussions are being felt far and wide.

**China's slowdown**

Then there's China... you'll remember that not long ago China was the world's economic locomotive. China's economy was booming and it was buying raw materials, resources and commodities from everyone.

Australia in particular was a huge exporter to China, along with many other

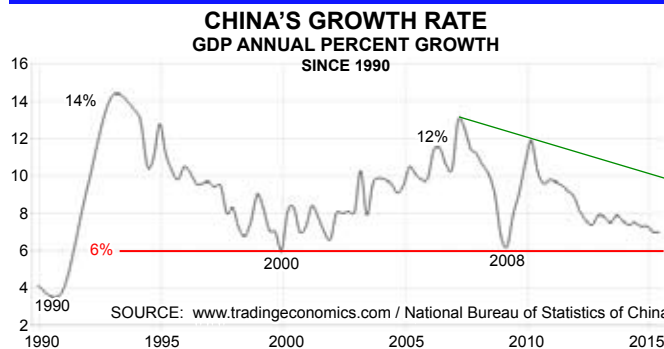
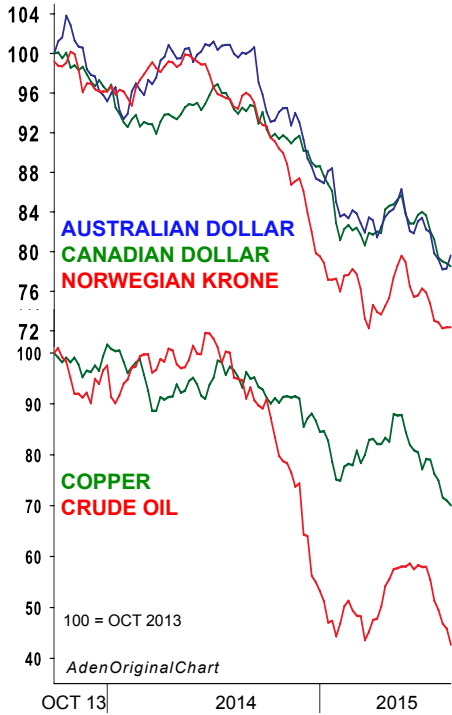
**CHART 14**

CHART 15

TOGETHER WE FALL



countries.

But now that the Chinese economy has slowed down, so has its demand for commodities and natural resources (see **Chart 14**). And that's one important reason why these

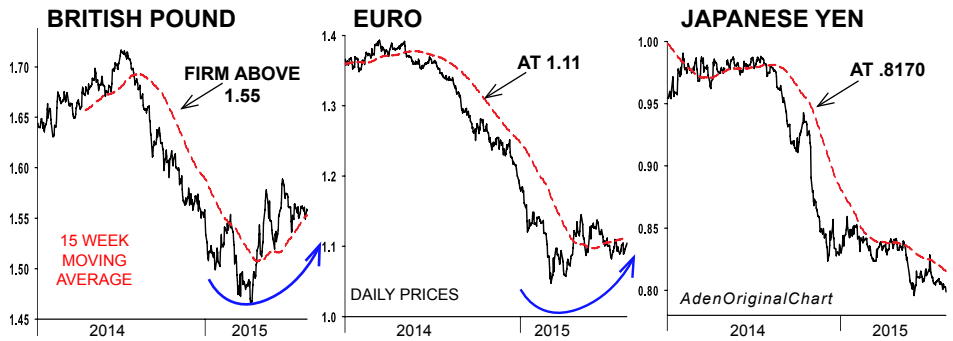
CHART 17

BOTTOMING PROCESS



CHART 16

TRYING TO BOTTOM



markets have been heading South. It's also been a big factor keeping downward pressure on the currencies of countries linked to natural resource exports.

These include the Australian and Canadian dollars, and the Norwegian krone (shown on **Chart 15**).

**One of the worst hit** has been the New Zealand dollar. The currencies of Brazil, Mexico, Russia and So Africa have also suffered from the commodities crash. And all of these currencies will likely stay under downward pressure as long as the commodities and natural resources stay weak and bearish.

As we previously mentioned, the \$40 level is very important for the oil price. It provides super strong support and if oil can stay above that level, then the bear may be nearing an end. If not, it would be negative and an even worse deflationary sign.

CANADIAN DOLLAR: Down, but not out

In recent months we recommended buying a position in the Canadian dollar. Unfortunately, we bought too soon.

With Canada feeling the heat of the weak oil price, its economy is on the verge of a recession. Even interest rate cuts didn't help much and since Canada is so resource dependent, this currency has been under pressure.

At this point, we'll ride it out because it's close to the lows.

For now, the British pound is

the currency with the best potential. Buy the British pound and/or its ETF, which is FXB, and keep the euro as well.

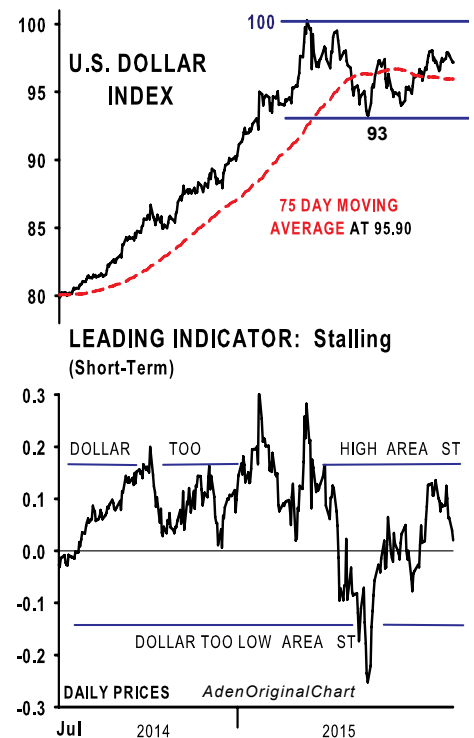
As you can see on **Chart 16**, they still look like they're bottoming. The Eurozone's economy continues showing improvement and the same is true of Britain, which has experienced 10 consecutive quarters of growth.

This tells us these currencies are poised to rise further.

Taking a look at the euro's big picture, for instance, you'll see an extremely oversold situation that

CHART 18

STILL FORMING A TOP



is at a rock bottom low (see **Chart 17**). This too reinforces a stronger euro going forward and when it rises, the other currencies will go along with it.

A full on bull market will be confirmed once the euro and British pound rise and stay above 1.21 and 1.5840, respectively.

### **U.S. DOLLAR: Topping...**

Meanwhile, the U.S. dollar has been biding its time (see **Chart 18**). It's still forming a top, yet it could stay firm for a while longer, especially if the Fed ends up raising interest rates.

But as we've often mentioned, the strong dollar is weighing on the

economy and no one really wants that. So it'll likely soon embark on a renewed decline, which will be confirmed once the U.S. dollar index drops below 93.

That in turn would help boost inflation, ease deflationary pressures, help the U.S. and global economies, as well as the bombed out commodity prices...

**At this point, a weaker U.S. dollar would be a good thing.**

### **...BUT STILL FIRM**

On a side note, the IMF will not be including China in their SDR currency basket, at least for the time being. Currently, it includes the U.S. dollar, euro, British pound

and Japanese yen.

This was likely a big factor in the yuan's devaluation this week. It also added fuel to the currency wars. That is, no one wants a strong currency because it hurts their exports, making them more expensive.

For now, that's keeping the dollar strong, and along with some improving economic signs, it's another reason why we'll continue to keep some cash in U.S. dollars.

### **OUR CURRENCY ACCOUNTS**

With the currencies bottoming, however, we wanted to remind you that we manage currency accounts through Everbank. If you're interested, write to [info@adenforecast.com](mailto:info@adenforecast.com)

## **METALS, NATURAL RESOURCES & ENERGY**

### **The Summer of 2015 plunge**

Gold took a dive this month, reaching a 5 year low. Silver and gold shares fell first, and the resource sector was close behind.

A second leg down in this dreary bear market has been underway, reflecting gold's D decline in its trust form.

It's easy to kick a market when it's down, and that's what happened last month. Gold shares, copper and silver led the way when they started declining to fresh bear market lows in early July.

Then by mid-month the "bear raid" began. China announced its gold holdings for the first time since 2009 on a Friday, and they were less than many expected.

This merely laid the groundwork. Then on Monday July 20, the raid began during a two minute period in an illiquid market when the Shanghai Gold Exchange opened. Between Shanghai and New York, sellers dumped about 33 tones of gold in these markets causing gold to fall to a low of \$1080.

**Gold worth \$1.3 billion changed hands in those two minutes, and about 85% of this were paper trades.**

This clearly showed that someone didn't want gold to rise. Gold slipped below our \$1100 target, and

it's now rising from that level. But **it was a bloodbath.**

And actually, looking at **Chart 19**, you could say... it's been happening over this past year!

It's been a hard hit year indeed. From U.S. dollar strength, to a global slowdown, to a deflationary environment, among other reasons we've already touched on, the precious metals and commodities have been hit very hard.

Is silver lining upcoming? Open interest in silver reached an all time high in mid-July, just before the slaughter. It sure makes you wonder...

### **GOLD ON SALE:**

#### **Lowest price in 5 years**

Think of it as a Summer sale. Let's face it, no one likes investment markets when they're on sale. It's probably the only area where sales look suspicious. Instead, they become a hated market or an outcast.

This is the case for gold, and especially gold shares today. Reinforcing this, hedge funds are net short on gold for the first time since data began in 2006.

And sentiment is lower today than it was in February 2001, at the lows, when gold was around \$260!

So far, the various crises in the world have not moved the gold price up. And perhaps it's because it wasn't the right kind of crisis.

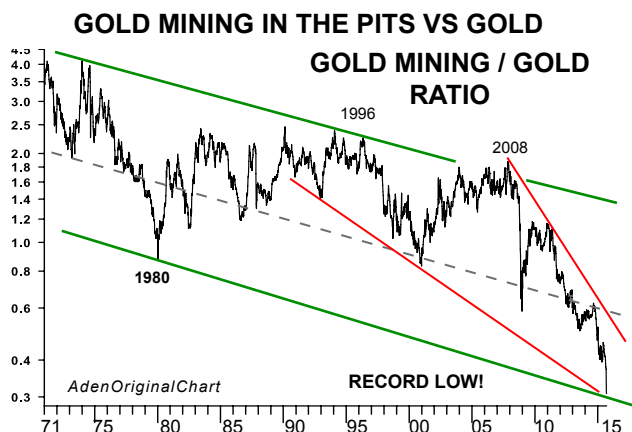
Neither the Greek debt crisis or China's stock market rout has been enough to boost gold's appeal as a haven. The yuan devaluation, however, is finally giving gold a boost. So in the end, it took a monetary crisis and volatile economic conditions to get gold going.

**As a value investor gold and gold shares are a good investment.** We wouldn't back up the truck yet, but we're riding through this with our open positions. And





**CHART 20**



The worst four+ year bear market in gold shares started in 1996 and it ended in 2001. And now, today's bear market is matching this record.

Comparing the two time-periods, you can see the similarities (see **Chart 21**). That is, today's bear market decline since 2011 looks a lot like the terrible 1996 - 2001 gold share decline.

we'll wait to see a gold turnaround before buying more.

But buying during washouts like we've just had is not a bad time to be buying SOME gold and silver. And, as you'll see, we're getting closer to the lows.

**GOLD SHARES: Lows are near**

Many mining companies have fallen by over 90%. The HUI gold bugs index has fallen 83% since its 2011 peak in the second longest bear market in gold shares on record. It's fallen twice as much as gold's bear market loss of 43%.

But looking at the next two charts, both are saying the lows may already be here.

The bear market is not over until it's over, but the gold shares to gold ratio on **Chart 20**, sure looks like a low is near.

Note the sharp spike down to record lows this month.

Its intensity looks similar to 1980 when it spiked down below the mid-channel line.

Interestingly, at that time gold was much stronger than gold shares during the best part of gold's bull market at the blow off peak.

This time the spike is due to gold shares being extremely weaker than gold. It's now at the bottom side of a 44 year down-channel and it's formed a several decade downside wedge.

This big picture shows that gold shares started to become weaker than gold in 1996.

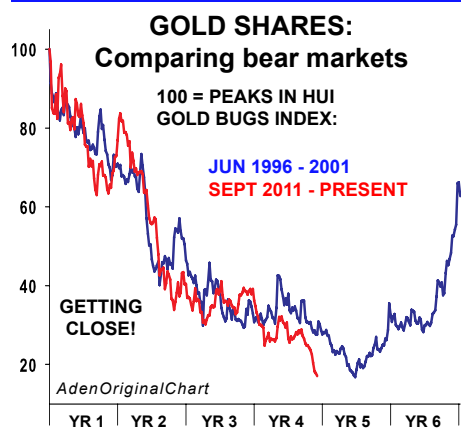
And it also clearly illustrates how cheap this market is today...

The craze then was the tech frenzy. Irrational exuberance went out the window and tech stocks soared, leaving gold shares in the dirt.

**BUT YOU CAN NOW SEE LIGHT AT THE END OF THIS TUNNEL.** Note how closely they both declined. The common thread was sheer bearishness.

Most exciting now is to see how close today's lows are to the worst bear market's lows. This is saying we could well be near the lows in gold shares. For now, the HUI index would start to look good by staying above 120.

**CHART 21**



**GOLD & THE DOLLAR: A key relationship**

One reason why gold has been under pressure is because of the strong U.S. dollar, and that interest rates may be rising soon.

We're showing this relationship closer up over the past year because that's when the dollar really took off. It's interesting to see on **Chart 22** how gold reacted during this nine month dollar rise.

First note that gold fell to last November's lows during the first part of the dollar's rise.

But then both gold and the dollar rose together for several months until last January.

Most interesting was the final dollar rise during the first quarter this year. It rose because of the collapse in the euro. So it was actually due to euro weakness, and not dollar strength. And even though gold declined, it held at its November low in March and this **showed strength.**

Now, most interesting is the gold fall since May. When gold collapsed to a five year low, the dollar index failed to rise to new highs. That is, its rise has been mild.

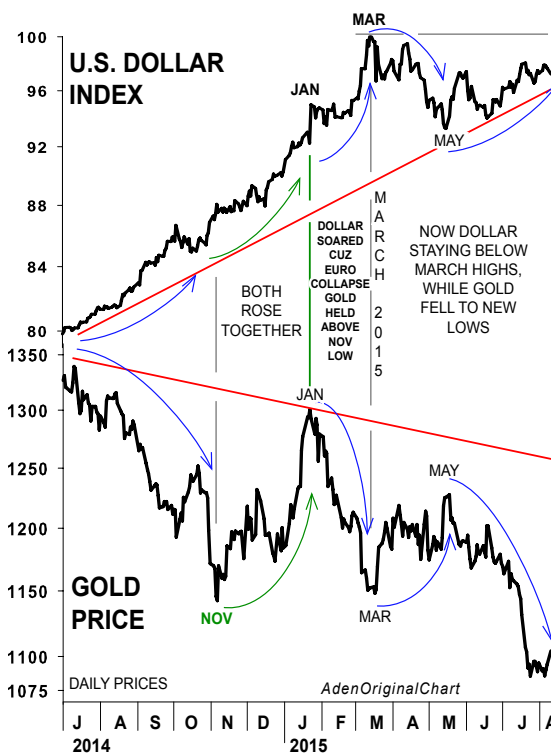
**This means if the Dollar index fails to surpass the March highs, it's indirectly saying the gold sell off was overdone.**

In other words, the Greek crisis this year and the gold manipulation in July has caused distortions in both the dollar and gold.

*And the bottom line favors gold.*

**CHART 22**

**GOLD & DOLLAR: A BALANCING ACT**





**PAPER GOLD IS CHANGING GOLD'S VOLATILITY**

It all started in November 2004 when the ease to buy paper gold began. The gold Exchange Traded Fund, SPDR Gold Shares, GLD, began trading for the first time.

This was a milestone because it allowed investors to buy and sell gold easily like any stock. Its popularity took off like a bandit, and so did the price. Today it's now the second largest ETF with almost \$73 billion in assets.

Do you think it's a coincidence that gold started to soar versus all assets and currencies in 2005, when paper gold became a reality?.

GLD is believed to be the sixth-largest owner of gold in the world, just ahead of China.

The gold sell off in July was the straw that broke the camel's back. And the "camel" was mainly paper.

A surging gold price is the last thing that anybody who's concerned with maintaining the veneer of financial stability wants to see. It seems there's been a great interest in "demarketing" gold and silver. And it's been affecting the paper market.

Plus, the U.S. Mint sold out of its American Eagle silver coins in early July for the second time in nine months on surging demand.

This is similar to 2013 during the

first leg down in the bear market in gold and silver. This fall unleashed a surge in global demand for coins, forcing the mint to ration silver coin sales for 18 months!

**GOLD'S BIG PICTURE: A bullish outlook**

Chart 23 is our favorite big picture of the gold price. It identifies the cyclical nature of gold since the late 1960s, and how well it's performed within these cycles since then.

First, note the lows in red. Ever since gold formed its low in 1969 it's had a low about every eight years. The last eight year low was the November 2008 low during the financial crisis.

Most exciting is the next upcoming eight year low. You can see we're almost there! Seven years from 2008 would take it to this November, and eight years would take it out to November 2016.

**This means we could see a major low in gold**

**just about any time now, but most likely in 2016.**

All we need to see are signs of a major turnaround. And you can bet we'll be watching for this!

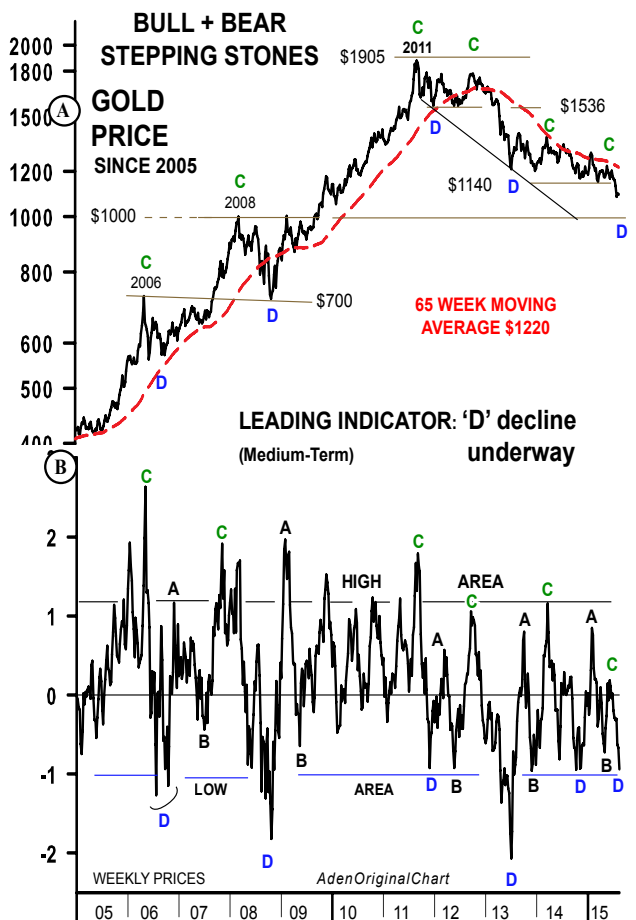
Once the major lows are in, a new bull market will be underway and we'll want all of you to be on board for this rise. You can bet we will be too!

The likely time we could see a major high during the end of that bull run would be in 2020, or possibly later.

You can see the blue lines and how consistent a major peak area occurs every 11 years.

We've now shown you three examples of a bright future for this sector.

Another positive sign is that smart money is now buying gold according to zero hedge.com. Commercial hedgers, for instance, are holding the lowest net short position in gold futures since 2001!



They're more aligned with the bulls than at any point since the bull market began in 2001.

Many factors also indicate a strong demand for physical gold and silver is ongoing now. And it's been accompanied by a swirl of bearish headlines and commentary as we get closer to the lows.

This is pretty typical at the end of bear markets, and it's now happening again. As a contrarian, this alone is a bullish sign.



### GOLD TIMING: Watch the D decline

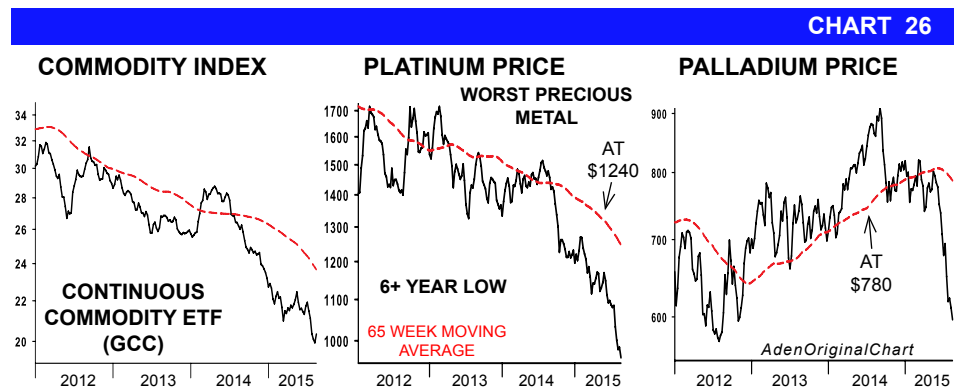
The weak and bearish C rise in May told us the bear market was in control. And it was confirmed when the November lows were clearly broken. It also confirmed the start of a D decline (see **Chart 24A**).

As our older subscribers know, D declines are the worst intermediate declines. And in a bear market, it tends to be the decline that hits new lows.

This fall overshot our \$1100 target, and as we write gold is rising well above \$1080. If gold can now stay above \$1080, the D decline may have already hit its lows...

But if gold takes a further plunge and clearly breaks below this \$1080 level, then we could see the \$1000 area tested. And if so, that would then probably be THE lows.

On the upside, gold will be out of the woods and in a re-



newed rise by rising and staying above the \$1140-\$1150 level.

These are the steps to watch this month.

**Silver has fallen much more than gold**, losing 70% from its April 2011 high to its latest low in July. It's an even better value than gold, and it also has steps to keep an eye on.

**Chart 25** shows the silver decline over the last 2½ years. The 65 week moving average has been a key downtrend and silver will remain bearish below it at \$17.25.

On the downside, silver is now holding above its \$14 support and it's starting to bounce up. If silver can rise back above its prior lows at \$15.40, it'll be the first good start. Above \$17.25 would be a bullish

turnaround sign. If you want to pick up some physical silver at today's prices, we wouldn't argue.

### PLATINUM, PALLADIUM AND COMMODITIES: Bombed out

**Chart 26** shows these two precious metals. Platinum was the worst performing precious metal, and palladium also fell sharply. But here too, they may be near their lows.

### LOWS AT HAND?

Take a look at the crude oil price on **Chart 27A**. It's been in a mega upchannel since the 1970s, and it's been moving in wide platforms. Note the first rise above \$10 in the mid-1970s.

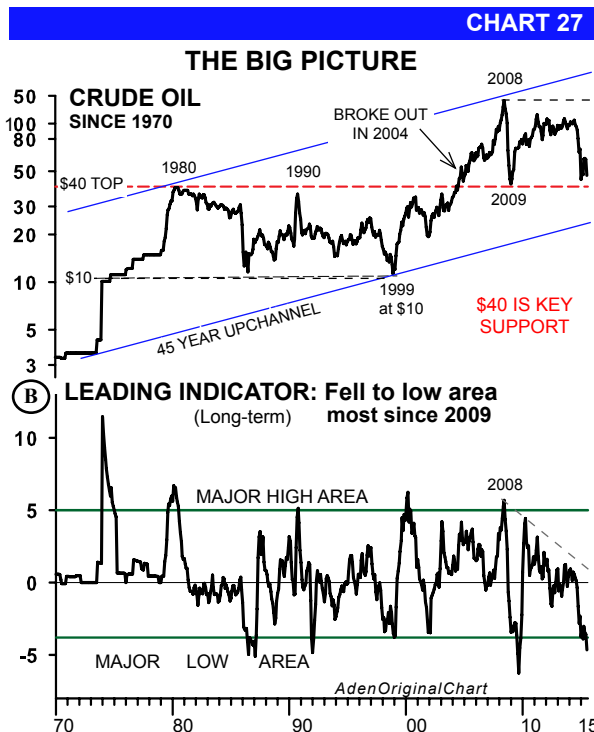
Once oil rose above \$10, it never looked back and it wasn't until 1999 when it was tested once again. This was just prior to a major bull market rise.

It then broke into a higher platform in 2004 above \$40, and once again it never looked back. That was until the 2009 low and now.

This is a major support level for oil, and it's unlikely to be broken. That is, oil is approaching its major platform lows while its leading indicator, **B**, has fallen to a major low area that's coincided with the platform lows of the past.

Once oil rises back above \$48.50, a renewed rise will begin.

It's tempting to pick up some resources (shown in the currency section too), but we'll wait until we see more signs that the bottoms are in.



# OVERALL PORTFOLIO RECOMMENDATION

## PRECIOUS METALS, ENERGY, RESOURCE

Gold fell into another leg down in the bear market, we call a D decline. It's been basing for the last several weeks near \$1080 and it's now bouncing up on safe haven buying. The gold universe is clearly oversold, especially the extreme situation in the gold share market. It now looks like this bounce up could normalize the oversold situation. The market is getting closer to a major low area. In fact, it could occur at any time, or take place in 2016. For this reason we recommend keeping the positions you have now. As for buying, we'd wait until the bottoms are in and new uptrends have started. Once this market turns around, we want you all to be on board for a new bull market.

## U.S. & GLOBAL STOCK MARKETS

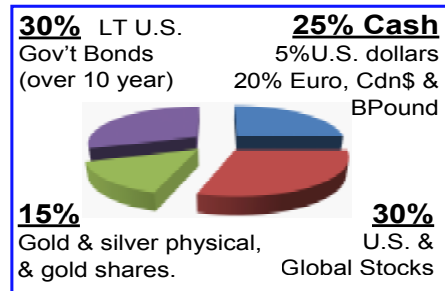
The stock market is volatile and vulnerable, but it remains bullish. It's basically on the fence, so stay cautious. If Nasdaq, S&P 500 and Dow Utilities stay above 4725, 2030 and 579, the market will be looking good. But this will not be reinforced until the Dow Transports and the Industrials rise and stay above 8550 and 17470. Keep the stocks you have but don't buy new positions for now. If the market erodes from here, we'll recommend selling.

## CURRENCIES

The U.S. dollar is still forming a top and the major currencies are bottoming. We continue to advise keeping 5% of your cash in U.S. dollars. Also, buy and keep 20% divided between the euro, Canadian dollar, and now the British pound too, or their ETFs, which are FXE, FXC and FXB.

## INTEREST RATES & BONDS

Bond prices are near a 3½ month high. They're set to rise further, keeping the bull market intact. We recommend buying and holding long-term U.S. government bonds and/or the bond funds listed on the right. Interest rates are poised to decline further and bonds will remain strong if the 10 and 30 year yields stay below 2.27% and 2.97%, respectively.



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

## OUR OPEN POSITIONS in order of strength per section

### GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE		PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
		DATE	PRICE			
iShares Silver Trust	SLV	Jan-15	17.61	14.82	-15.84	Hold
Silver (physical)		Aug-03	4.93	15.47	213.79	Hold
Central Fund of Canada	CEF	Jan-15	13.36	10.96	-17.96	Hold
Gold Miners ETF	GDV	Jan-15	21.74	15.52	-28.61	Hold
Royal Gold	RGLD	Mar-14	66.04	54.65	-17.25	Hold
Gold (physical)		Oct-01	277.25	1123.60	305.27	Hold
Gold Shares SPDR	GLD	Jan-15	125.23	107.77	-13.94	Hold
Silver Wheaton	SLW	Jan-15	23.05	14.14	-38.66	Hold

### STOCKS & ETFs

NAME	SYMBOL	PURCHASE		PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
		DATE	PRICE			
iShares US Med Dv	IHI	Oct-13	86.70	125.18	44.38	Hold
Home Construction	ITB	Feb-15	27.51	28.23	2.62	Hold
Nasdaq Powershares	QQQ	Jun-14	92.82	110.52	19.07	Hold
Consumer Discret Sel	XLY	Feb-15	74.89	77.83	3.93	Hold
Dynamic Software	PSJ	Feb-15	41.58	43.43	4.44	Hold
Nasdaq Biotech	IBB	Nov-14	296.31	370.06	24.89	Hold
Microsoft	MSFT	Feb-13	28.01	46.74	66.87	Hold
S&P Gbl Tech	IXN	May-14	87.75	95.63	8.98	Hold
Apollo Commer	ARI	May-15	17.05	16.99	-0.35	Hold
Russell 2000	IWM	Apr-15	125.65	119.90	-4.58	Hold
Dow Diamonds	DIA	Jun-14	169.08	174.16	3.00	Hold
Global 100	IIO	Oct-13	72.97	75.68	3.71	Hold
DJ US Telecom	IYZ	Sep-12	25.22	29.30	16.18	Hold
Starwood Prop	STWD	May-15	23.92	22.27	-6.90	Hold
iShares Hong Kong	EWK	Jul-14	21.65	21.29	-1.66	Hold
Energy Select SPDR	XLE	Aug-12	72.37	70.59	-2.46	Hold
iShares Mexico	EWX	Jul-14	70.93	54.98	-22.49	Hold
BHP Billiton	BHP	Aug-13	67.68	38.15	-43.63	Hold
iShares Canada	EWC	Jul-14	32.65	25.48	-21.96	Hold
iShares Singapore	EWS	Jul-14	14.04	11.19	-20.30	Hold

### BOND ETFs

NAME	SYMBOL	PURCHASE		PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
		DATE	PRICE			
20+ year Try Bond	TLT	Feb-14	107.78	124.07	15.11	Buy/Hold
10-20 Treasury Bond	TLH	Feb-14	125.73	136.43	8.51	Buy/Hold
Ultra 20+ Treasury	UBT	Feb-14	58.00	78.08	34.62	Buy/Hold

### CURRENCY ETFs

NAME	SYMBOL	PURCHASE		PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
		DATE	PRICE			
British Pound ETF *	FXB	Jul-15	153.18			Buy
Euro ETF	FXE	May-15	110.15	109.65	-0.45	Buy/Hold
Canadian dollar ETF	FXC	May-15	81.78	76.58	-6.36	Buy/Hold

\* New Position