THE
ADEN FORECAST
MONEY • METALS • MARKETS

APRIL, 2006

in our 25th year!

The evergrowing bull market in the metals

Did you notice something's missing this month? Yes, it's our overall portfolio recommendation box, which we usually put on this page.

CHANGING FOR THE BETTER

This month, we're making a change and if you like it, we'll make it permanent. Basically, what we've done is move all of our market recommendations to page 12. All of the stocks and funds we're recommending are listed there too. The idea is to make this page a one stop, bottom line summary with everything in one place.

We think this will make it easier for you to use it as a reference. But we also know that sometimes changes don't work out as planned. That's why we look forward to your comments and we'd appreciate a note sent to info@adenforecast.com Thank you and we'll let you know the outcome next time.

Meanwhile on the market front, things were moving along pretty much as expected, until recently. Gold, for instance, was resisting its downward correction we call D. It was holding firm but gold then punched up to new bull market highs, following the strong silver rise. Does that mean a renewed rise is now underway? It looks like it is and if so, then gold's bull market is super strong and the parabolic rise continues.

SILVER: The star

Silver has been in a league of its own. It's been soaring as developments move forward on the new silver ETF. Some of the other metals and oil have been very strong too. Gold shares are moving up as well and so are the energy and natural resource shares. And even though some of the leading indicators aren't yet confirming this renewed rise, based on the price action, we're going with it and buying new positions.

The stock market has been showing renewed strength, but the bond market remains weak. The U.S. dollar is also showing signs of weakness, which will make the currencies more attractive.

So what's driving these markets? As you know, it's a combination of financial and geopolitical factors, which you won't usually find in the news in any meaningful way. It's unfortunate but that's the reality, especially in recent years in the U.S.

We're sure you've noticed that the news is barely news anymore and since most people get their news from TV, the average U.S. viewer is becoming increasingly isolated. They rarely see the war as it really is, or hear views from the rest of the world.

NEWS IS NOT REAL NEWS

Instead, viewers are bombarded with consumer and human interest stories, trivial tidbits, local crimes and never ending celebrity news. Years ago a friend of ours, who was a top executive at a major network, called it the dumbing down of America and it's only gotten worse. The networks are concerned about ratings and if the viewers want to hear more about Brad and Angelina than what's happening in the world, then that's what they're going to get.

This means you have to look hard for the real news. Publications like *The Economist*, *National Geographic*, scientific journals, the foreign press, CNN International, BBC, newsletters and so on provide us with a lot of info that's behind the moves in the markets.

This could be anything from news out of China, details on U.S. and international finances, the world oil picture, politics and international affairs, what's happening in the Middle East from a local perspective, world tensions, global warming and so on. Of course, we also rely a great deal on our technical charts because they tend to tell us where the markets are headed, but since they don't tell us why, that's where these other sources come in.

Here's just a couple of examples of what we mean... our flora and fauna is currently being destroyed 1000 times faster than the historical norm and the most since the last

INSIDE

great extinction 65 million years ago when the dinosaurs disappeared. Glaciers are melting, sea levels are rising, weather is changing and experts are predicting more and stronger natural disasters this year. Aside from the obvious results, this will also affect the markets, especially commodities. Look no further than last year's Hurricane Katrina and the record high oil price as one sad example.

One of our favorite writers who knows Middle Eastern history, Richard Maybury, points out a couple of reasons why resentment of the West remains so strong in the Muslim world. Bush, for instance, has said he plans to democratize the Arab world because democracies don't make war. The facts, however, contradict this.

Of the 57 Islamic countries existing today, 49 of these, or 86%, were either conquered, attacked or dominated by Western democracies. For centuries, millions of people were killed and these resentments still fester. That's why millions of Muslims do not want peace or democracy, they want revenge.

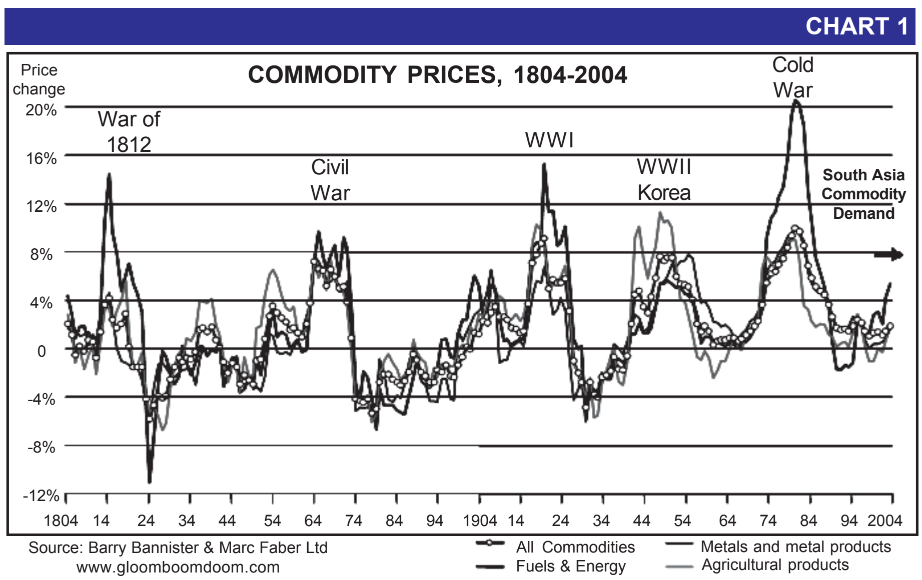
Further, let's look at the numbers... the population of the Greater Middle East is more than double the U.S. population. In the U.S., people are turning off to the war with 66% now saying it was a mistake. In Iraq, thousands of young men are joining the fight, which is one reason why the war is intensifying. Bush has warned the war is going to be long and based on what's happening, it's indeed unlikely to end soon. Again, this is going to affect the markets, especially gold and oil.

THE MEGA COMMODITY CYCLE

Interestingly, these and other factors are coinciding with the mega upmove in tangible assets we've often mentioned in the past.

Our friend Marc Faber writes a great, always informative newsletter and he discusses these cycles in depth, which were studied by the Russian economist, Nikolai Kondratieff and are, therefore, referred to as the Kondratieff waves (see **Chart 1**). These waves last between 45 to 60 years from peak to peak and the rising waves are characterized by rising commodity prices, new innovations, social upheaval, global economic power shifts and wars.

Briefly, new innovations, which tend to occur during the preceding cost cutting down wave, result in new countries competing on the world stage. This increases global tension because the new competitors (like China today) erode the old economic powerhouse's share of world markets. It also creates wealth imbalances at home, leading to possible social unrest, and wars abroad. This recurring pattern has happened throughout history. It's been documented going back to 1780 and it's now happening again.



Previous Kondratieff upmoves, for example, coincided with the following innovations: in the first one there was road, canal and bridge construction; in the second it was railroads; third was electricity, radio, telephone and autos; in the fourth it was electronics and aerospace and now in the fifth upswing it's telecommunications and internet.

These rising waves also coincided with the following wars and revolutions, to name but a few: the U.S. war of Independence, French Revolution, Napoleonic wars, Austro-Hungary Revolution, U.S. Civil war, Spanish-American war, Chinese Revolution, World War I, Russian Revolution, World War II and the Vietnam war.

WHERE ARE WE NOW?

These mega Kondratieff upmoves normally last around 22 years or more and since we're only six years into this mega upmove, it still has many years to go. This means commodity prices will likely be rising for the next 15 years or so. This tells us that you'll want to keep a large portion of your assets in tangible assets like gold, other metals and commodities, and not in paper assets like stocks and bonds.

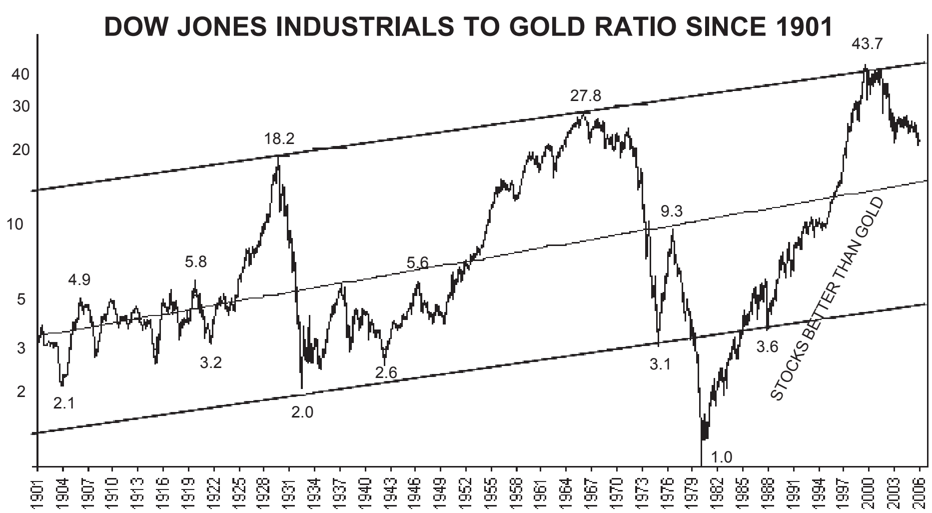
Gold's mega uptrend since 2001 is reinforcing this. The booming rise in oil and the ongoing demand in the face of diminishing supplies in the years ahead is yet another reinforcement of this emerging mega uptrend.

Those who recognize this will profit handsomely. But those who follow the mainstream and keep a large portion of their savings in common stocks, especially those approaching retirement age, will be disappointed. And while we certainly don't have a crystal ball, the markets and history are also telling us we're going to be in for a period of wars and social unrest in the upcoming years. In other words, what we've seen in recent years is going to continue and it'll probably intensify. This too will provide an underlying boost for gold because it tends to rise along with global tension. And considering that gold hit over $2000 an ounce in 1980 at the last Kondratieff peak, adjusted for inflation, it still has a long way to go in the years ahead before it even approaches that previous high.

U.S. & OTHER STOCK MARKETS
Selectively strong, but for long?

The stock market again moved higher this month and its renewed strength continues. The Dow Transportations hit another all time high while the Dow Industrials reached a two year high. The market is looking good and it could go higher.

CHART 3



IGNORING BAD NEWS

This alone is impressive action considering interest rates and the oil price are rising, the housing boom is slowing, geopolitical tensions are brewing, the yield curve is essentially flat, which usually means the economy is going to slow, and the worrisome U.S. debt and deficits situation.

Plus, the general stock market is still lower than it was when Bush took office over five years ago. As Bloomberg reported, that's the worst performance during the same stage of any two year administration in the past half century except for the Nixon years.

But that doesn't seem to matter... consumer confidence recently reached a nearly four year high, reflecting optimism in the economy and this optimism is spilling over to stocks. As long as this continues, the stock indices will likely remain bullish above their moving averages (see **Chart 2**). So why aren't we recommending common stocks?

BETTER INVESTMENTS ELSEWHERE

We hate to be party poopers but as we've mentioned before, there are two important reasons why. One, stocks have not done well over the past six years and the precious metals markets have been far stronger. The profits have been greater and that's where our focus remains. This year has not been an exception.

Despite the rise in the Dow Industrials, it ended the first quarter up only 2.42%. In comparison, gold has risen 9.63%, nearly four times the gains in the Dow, while silver has soared 26.33%. That's nearly

CHART 2

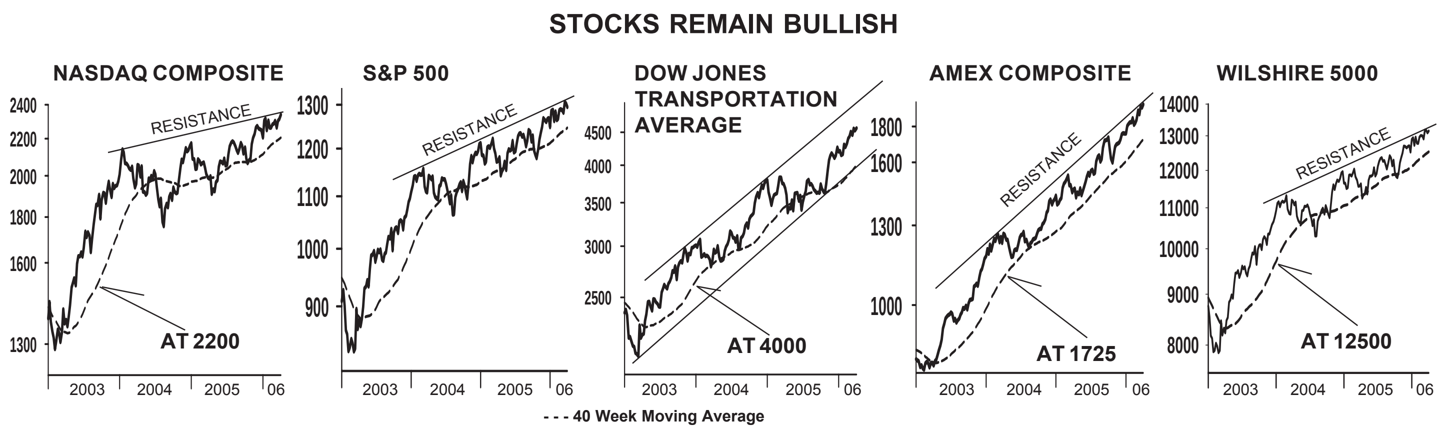


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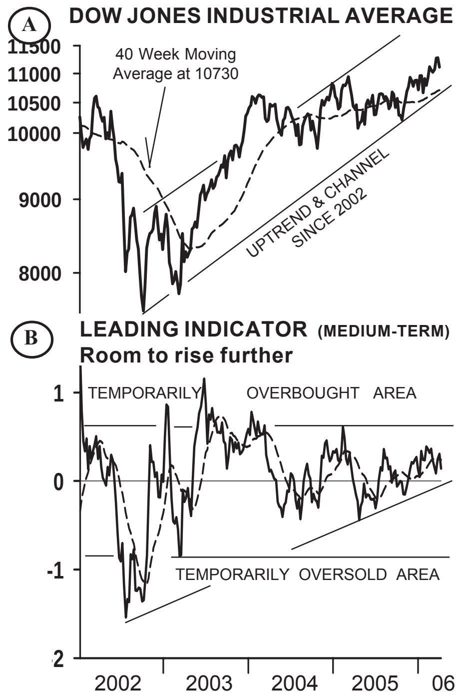
CHART 4

LOOKS GOOD



11 times better than the Dow's performance and triple the gains in the stronger Transportations.

The second reason why we're not recommending traditional stocks is because the trend favors superior strength in the metals, whereas the stock market's strength is limited. **Chart 3** shows the big picture of the Dow Industrials compared to gold going back to 1901 and it illustrates why.

GOLD BETTER THAN STOCKS

When this ratio rises, the Dow is stronger than gold, and that was certainly the case in the 1980s-90s. But when it declines, the Dow is weaker than gold. As you can see, these mega moves tend to last for years, they don't change often, and when the trend is down like it is now, it means gold is going higher and stocks are headed lower in the years ahead.

In fact, the ratio hit an extreme high in 2000 at 43.7 but it recently reached a nine year low. Since it's still at extremely high levels, however, it has a lot further to go on the downside before it reaches the low levels.

Note that at previous major lows, the ratio dropped to between 1 and 3. What would that mean if it happens again this time around? These are guesstimates, but let's say the Dow were to eventually drop to 6000, which would be a 46% drop from current levels. A ratio of 3 means gold would reach $2000 (6000÷2000=3). If the ratio were to decline to 4 ½, the lower uptrend line, that could mean the Dow eventually reaches 8000 and gold goes to $1800.

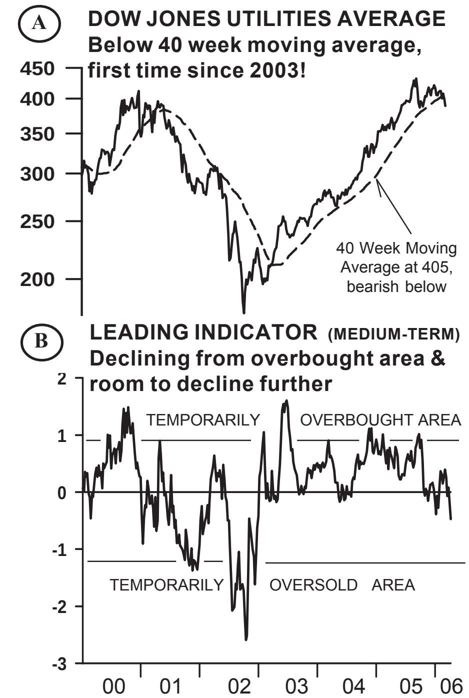
The point is, we don't know where the numbers will end up but this chart is telling us that gold will be higher and the Dow will be lower whenever this ratio eventually hits bottom.

This is important because many investors believe stocks are good for the long-term. While that's generally true, you can see there are periods when they are not, and these can last for up to 15 years. And if you don't have 15 years to waste, why bother?

As our dear friend Richard Russell says… primary bull markets tend to end in upside madness. Primary bear markets tend to end in fear and feelings of hopelessness. Both of these opposites lie ahead for the bear market in stocks and the bull market in gold… and we agree.

CHART 5

TURNING BEARISH



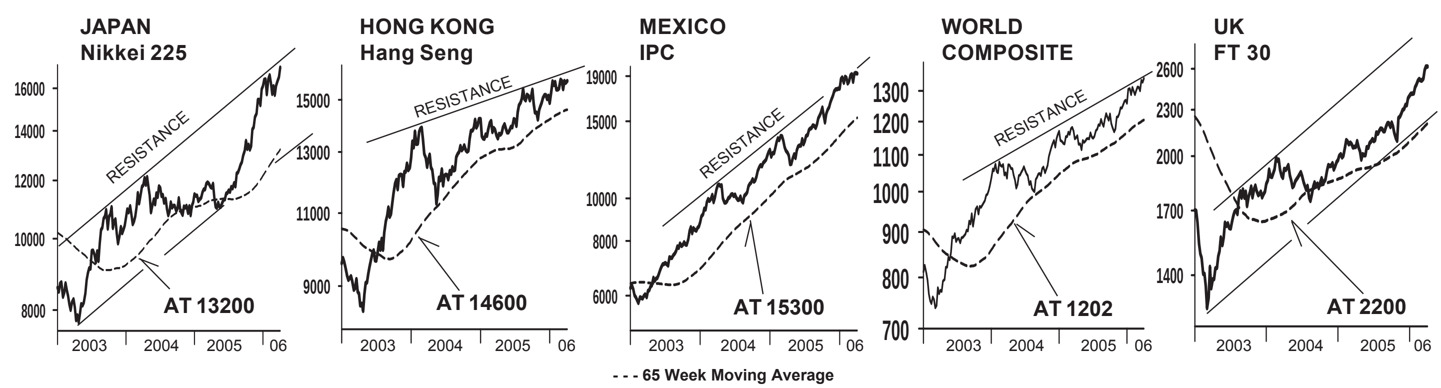
MEANWHILE...

For now though, the Dow looks good (see **Chart 4A**). It'll remain technically bullish above 10730 and since its leading indicator has room to rise further it could continue up to 11722, the 2000 high.

The Dow Utilities, however, remains a concern because it often leads the rest of the stock market. It's now near a five month low and it's below its moving average at 405, signaling it has turned bearish for the first time in three years (see **Chart 5A**). This is not good news.

The Utilities are interest rate sensitive and since rising interest rates are bad for stocks, the Utilities have been the first to feel the pinch.

CHART 6



This also reinforces what the bond market's telling us and with the Utilities now poised to decline further, this is a warning for other stocks, despite the market's recent strength. So caution is still warranted.

IT'S A GLOBAL THING

That goes for the foreign stock markets too. Even though these markets have been stronger than the U.S. market and they've been attracting investors, if the U.S. market heads down, these markets will too (see **Chart 6**).

As we've said many times, the international stock markets generally move together. Some of the emerging stock markets, which had been the strongest, have recently declined significantly. They don't like rising U.S. interest rates and that, combined with the Utilities turning bearish, is signaling caution too.

The metals, natural resource and energy stocks are the big exceptions because they're driven by strong, underlying markets and fundamentals. That makes their potential greater and they should continue to be among the top performers.

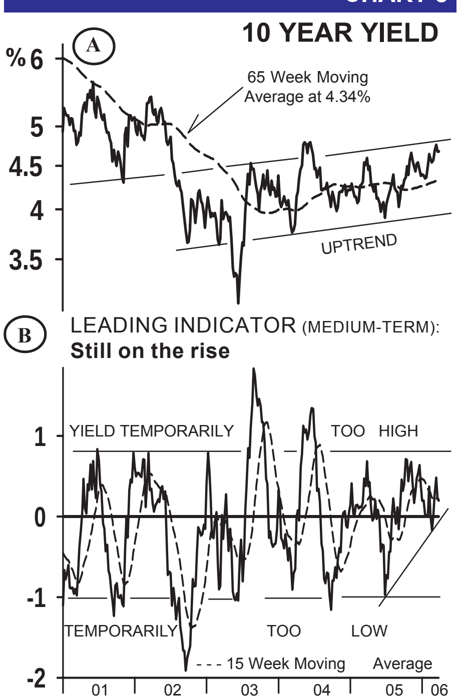
U.S. INTEREST RATES AND BONDS

Bearish bonds at nearly two year low

The Fed raised interest rates for the 15th time at Bernanke's first meeting as the new Fed head. He also indicated more rate hikes are coming.

There's a lot of debate whether this will be good or bad for the economy. And since the economy is showing mixed signals, there's good reason for this debate. Time will tell but this rate hike pushed bond prices down, reinforcing the new bearish trend which has so far resulted in the biggest quarterly decline in almost two years. We continue to recommend avoiding bonds as long as they are bearish

CHART 8

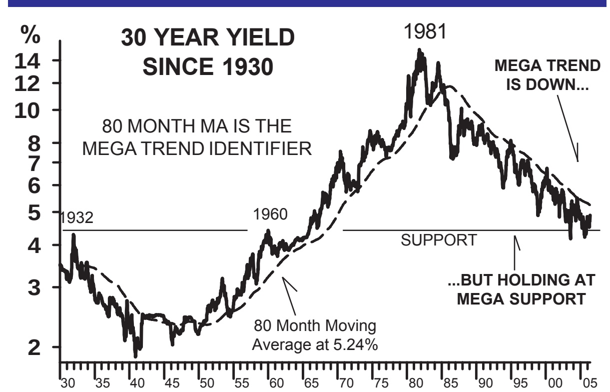


because they're headed even lower.

BIG PICTURE

As we've said before, the only exception would be for long-term bond holders who are planning to hold their bonds until maturity. But there's an exception to this case too. It's important, we've discussed it before and it still warrants close attention. Even though it hasn't happened yet, it could and if it does, all bond investors would want to be out of the market. Here's why...

CHART 7



The 30 year bond is very sensitive to inflation and if we look at the 30 year yield going back to 1930, you can see that it doesn't change its mega trend direction often (see **Chart 7**). The 80 month moving average, which is a very long-term average, identifies this mega trend.

Note that once the yield rises above this average, the 30 year yield continues rising for years. The same is true on the downside. A decline below the moving average signals the 30 year yield will be declining for years to come, usually decades in both cases.

As you can see, the mega trend has been down ever since it peaked in 1981, 25 years ago. Interestingly, that peak also coincided with the last major Kondratieff top. So with a relatively new Kondratieff upmove now underway, and gold and commodities rising, it's not unreasonable to assume that this mega trend will probably turn up too, especially if inflation keeps rising. That would happen if the 30 year yield rises and stays above 5.24%.

Should this occur, it would mean that long-term interest rates are going much higher in the years ahead and the rise could last for decades. That is, bond prices would continue to fall in a mega bear market decline and this is something you would not want to ride through. That's why we'd then recommend that all bond investors sell.

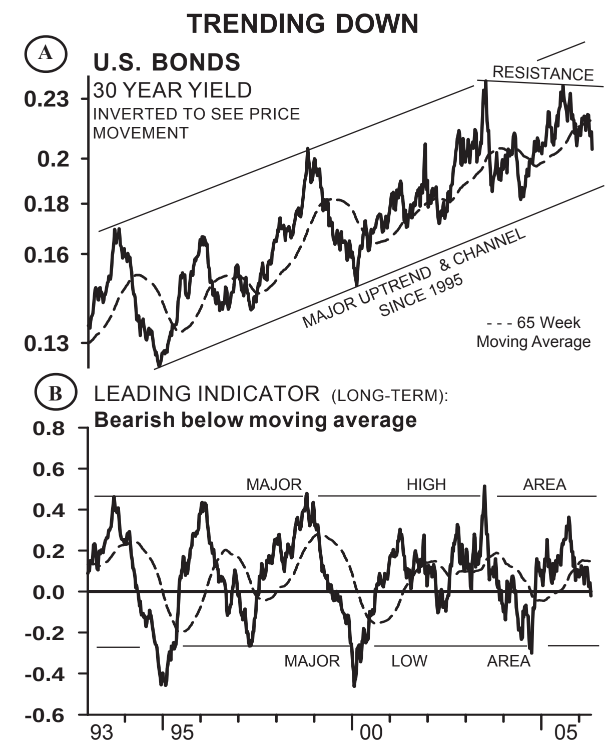
RISING LONG RATES

So 5.24% on the 30 year yield is the number to watch. Currently, the yield is at 4.91% and it's still far from that level, but rates have been moving up and this month the 30 year yield reached a 15 month high. The 10 year yield hit a nearly two year high and the major trends will remain up with the yields above 4.58% and 4.34%, respectively, meaning they're going higher.

Looking at the 10 year yield, for example, it's been moving up steadily and once it clearly breaks out of its trading range, it could rise significantly (see **Chart 8A**). With the leading indicator still on the rise, this could happen soon since the 10 year yield is currently at important resistance at 4.86%, the 2004 high. If it stays above that level, long-term rates will clearly be on their way up.

This is being reinforced by the bond price index as well (see **Chart 9A**). It's below its moving average, indicating the major trend is down and as long as it is, bond prices are going lower. The leading (long-term) indicator is weak too, telling us to stay out of the market.

CHART 9



DEPENDENT BOND MARKET

What could drive long-term rates higher? Any number of factors like inflation, a weak dollar, investors demanding higher returns and so on. One important factor is simply that foreign investors are holding billions in U.S. Treasury bonds.

China, for instance, will soon have reserves of $1 trillion, mostly in U.S. bonds. To give you an idea of how much money that is… if you spent a million dollars every day, it would take you 2,739 years to spend $1 trillion. Japan has nearly the same amount and many Muslim countries have large holdings too, thanks to their oil sales. And some of these countries aren't happy with the U.S. these days.

China bashing continues and Saudi newspapers are advising to think twice about investing in the U.S. The United Arab Emirates is obviously unhappy about the outcome over the ports situation and they're saying U.S. investments should now be handled differently. In fact, it was recently reported that most Arab nations are moving some of their dollar reserves into euros. If this continues and these sentiments grow, demand for U.S. bonds could decline, which would result in higher long-term interest rates to attract foreign buyers, and we all know the U.S. depends on these buyers to finance its spending.

MARKET CONTROLS LONG RATES

Long-term interest rates are not controlled by the Fed, but by the market place. Short-term interest rates are another story. The Fed decides if they're going higher or lower based on economic needs or perceptions.

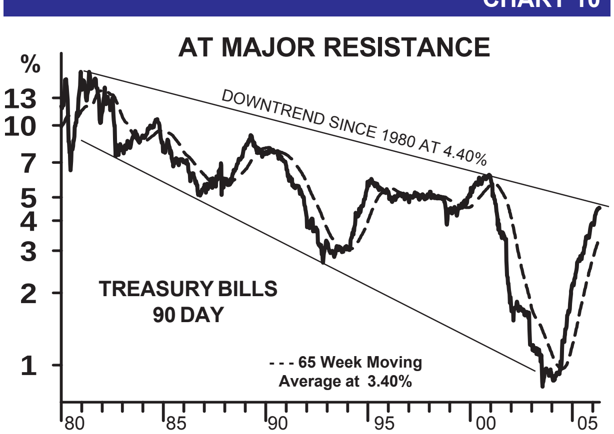
So far, the Fed feels the economy is doing fine and it can withstand higher interest rates. The fact that it may raise rates further suggests the Fed's more concerned about inflation than an economic slowdown, despite the biggest drop in new home sales in nine years, in large part due to higher mortgage rates.

Housing often leads the economy and if it continues to soften, our guess is that the Fed will stop raising short-term interest rates. It simply won't want to risk driving the economy into recession. Technically, the T-Bill rate is currently near a strong resistance area that goes back to 1980 (see **Chart 10**). It's going to have a hard time staying clearly above that level at 4.40% and this too suggests the Fed is unlikely to raise short-term rates much further.

In reality, the Fed is raising rates on the one hand, but it also keeps pouring money into the system on the other. At last count, the Fed had added nearly $1 trillion to the broad money supply over the past year and you just saw how much money that is. So the Fed isn't really tightening, it's loose. You could say it's just going through the motions, raising interest rates to give the appearance it's tightening and to help offset this massive influx of money. But since the Fed will no longer be disclosing the money figures, we won't know by how much it's inflating from now on.

The bond market, however, will provide us with a good clue. The major trend is down for bond prices and for now, bonds are telling us inflation is the more likely future outcome. Gold is signaling the same thing. In other words, we could end up seeing long-term interest rates head higher while short-term rates eventually stall out. It'll be interesting to see how this all plays out and how Bernanke handles this huge responsibility, balancing the debt ridden U.S. economy that's been handed to him.

CHART 10



CURRENCIES

U.S. dollar: Lifeless

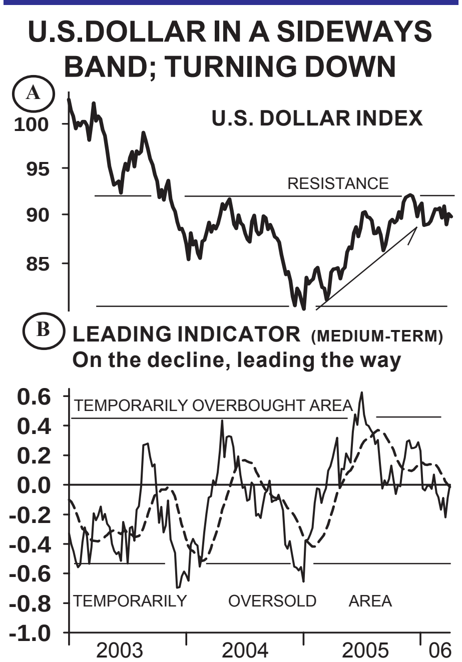
It looks like the U.S. dollar is on borrowed time. It's been showing signs of renewed weakness for the first time since last year. If this continues, we may be buying some of the foreign currencies soon.

EVERGROWING DEFICITS

The rise in the metals has been putting some downward pressure on the dollar but more important is the evergrowing trade deficit (see **Chart 11**). It ended the year at over $800 billion and there's simply no end in sight. The bottom line: U.S. exports need to grow almost twice as fast as imports just to keep the trade deficit constant and it's not happening. China keeps producing low priced goods, the U.S. keeps buying and it's losing its manufacturing base. We hear low priced Chinese cars will be next to hit big. So the deficit keeps growing and this is going to hurt the dollar, despite rising interest rates.

Then there's the budget deficit, which recently hit another all time monthly record at nearly $120 billion. It's estimated that military spending in Iraq and Afghanistan alone will reach about $10 billion a month this year and this ongoing deficit spending is also going to keep downward pressure on the dollar.

CHART 12

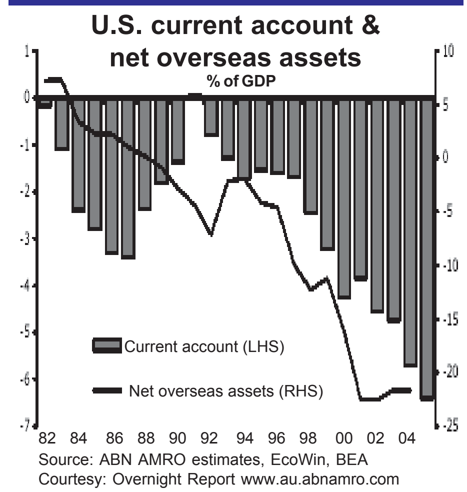


ERODING U.S. DOLLAR

It's important to remember that in any country, the more paper currency that's printed, the more worthless the currency becomes. That's what's been happening in the U.S., which is why the dollar has been falling for the past 35 years. And with paper money now being produced like mad to pay for all these growing, unprecedented expenses, the dollar will continue to fall.

For now, the dollar index has been resisting but it's beginning to break below its one year uptrend. The leading indicator is also down, suggesting the dollar is headed lower (see **Charts 12A** and **B**). But a significant renewed dollar decline will not be confirmed until the dollar index declines and stays below 87.70.

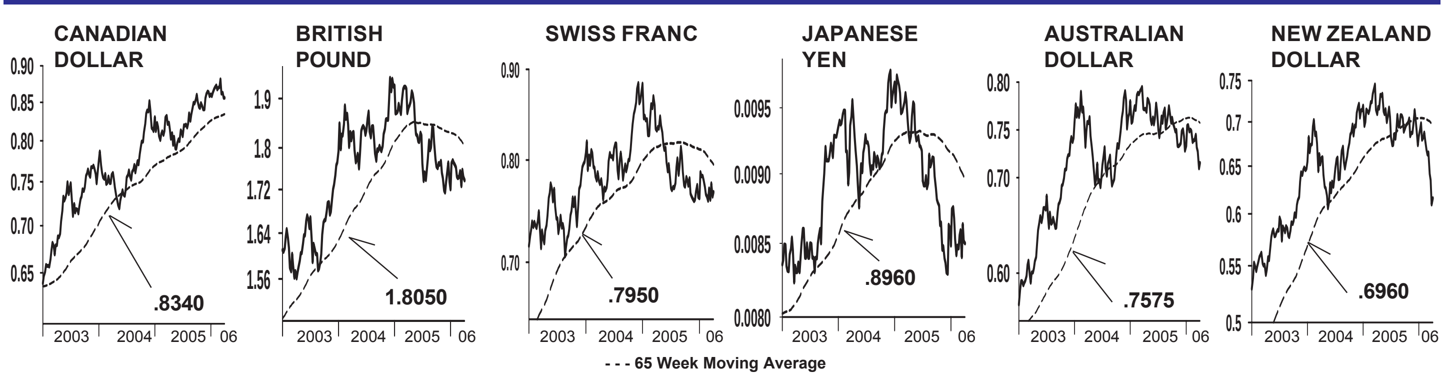
CHART 11



Once that happens, the currencies will become more attractive, some more than others. Currently, for example, the currencies remain technically bearish below their moving averages (listed on **Chart 13**). The Canadian dollar is the only exception and even though it's been correcting downward this month, it remains bullish. But now that gold and oil are again on the rise, it'll likely give the Canadian dollar a boost since Canada is a large producer.

The other two "commodity currencies," the Australian and New Zealand dollars, have been down strongly. Poor economic fundamentals have overpowered the positive

CHART 13



commodity rises and they've now become the weakest currencies.

YEN POTENTIAL

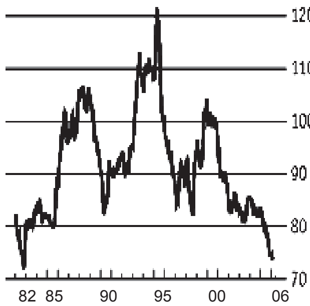
One currency we're currently watching is the Japanese yen because it has good potential. After years of deflation, Japan is looking up and it's currently the fastest growing rich country economy. Plus, the yen is very undervalued, the most since 1982 on a real trade weighted basis (see **Chart 14**). The yen would turn bullish above .8960 and if it does, we'll probably recommend buying it.

We also like the euro for upcoming potential (see **Chart 15A**). It's been holding at a five year uptrend,

CHART 14

Cheap money

The yen, real trade-weighted exchange rate, 2000=100

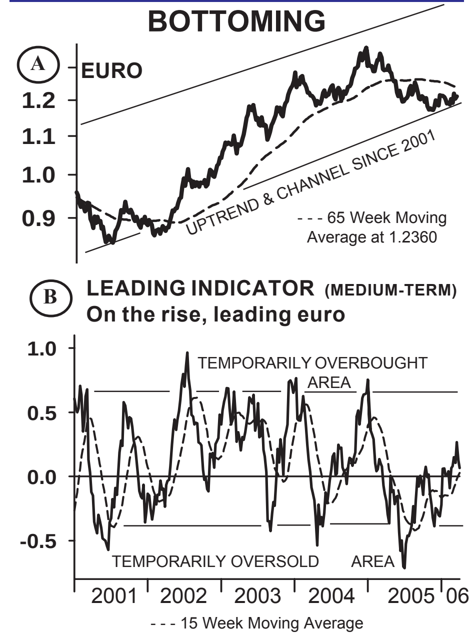


Source: JP Morgan Chase
Courtesy: The Economist
www.economist.com

its leading indicator is rising, suggesting the euro is going higher, and if it rises and stays above 1.2360 it'll turn bullish. At that point, we'll also likely buy.

The euro is increasingly becoming the offset currency to the U.S. dollar and it should do well in the years ahead. But let's see how it goes. Until the currencies rise and stay above their moving averages, they're still technically bearish and it's best to wait. Once that changes, we'll buy into the strongest ones. In the meantime, continue to keep most of your cash in U.S. dollars since it remains technically bullish.

CHART 15



But we don't expect that to be the case for long.

METALS, NATURAL RESOURCES & ENERGY

Up, up and away

The parabolic rise continues. The bull market is exuberant as gold's 36% rise since July only gave back a mere 6% in the five weeks between February and March, only to rise again.

Silver and copper, the stars, barely declined as they continue to surge while gold shares took most of the heat. Even so, the XAU gold share index declined 19%, which wasn't bad considering its 95% gain from May to February (see bottom of **Chart 17**).

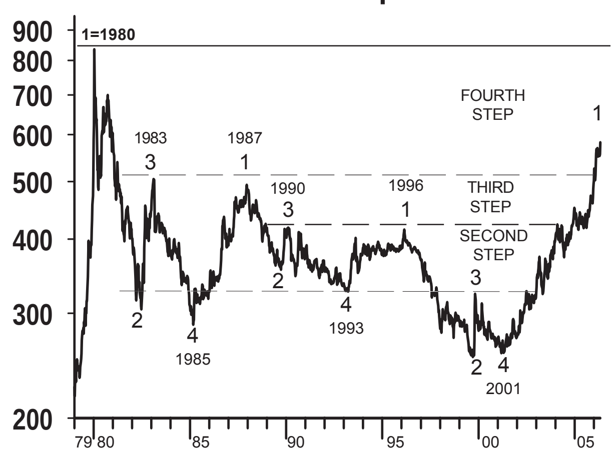
The question now is, is another leg up in the evergrowing bull market truly underway? If it is, the bull market has turned into a stronger more forceful one. It's changing its normal characteristics. But what if the recent run up ends up being an overshoot? After all, silver could be in a squeeze right now and its strength has spilled over to the other metals.

PRIMARY TREND MOST IMPORTANT...

In the end, this question is not as important as the primary trend. The major bull market is most important and this is where your focus should be. When the major trend is up, you should stay on board until it's over. The risk of getting left behind is far greater than a short-term loss. We want you to stay invested and ride the bull for as long as it lasts. And considering the major crosscurrents in the world today, we believe the bull market still has years to go before it fully express itself.

CHART 16

BIG PICTURE: Gold steps on track



... AND IT'S CLEARLY UP

As you saw on **Chart 1**, the mega commodity cycle goes hand in hand with the war cycle. Both are fascinating because war and war tensions generally grow with rising commodities, as countries fight to protect their interests. We're already seeing some of this with nationalism growing during a time of globalization. Producers of key commodities are gaining power as we've also seen in Iran and Venezuela. They have the oil and they're essentially doing what they want. If the U.S. were to invade Iran, it would result in chaos in the Middle East and the U.S. can barely keep up with their growing problems in Iraq.

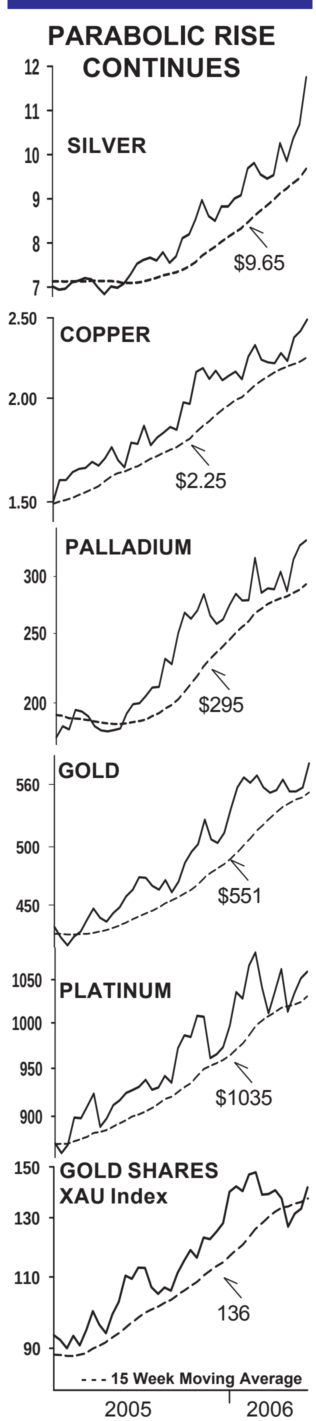
As Richard Maybury says, “war is the most expensive thing humans can do and by adding Fed chief Bernanke to the mix, you can see why gold and silver are up.” That’s also why the U.S. dollar will continue its bear market decline.

Then we have China and India as the other major crosscurrents, not to mention other Asian nations. They are on their way to world super power status, which has and will continue to have a great impact on commodity prices as they keep building their infrastructure. This alone tells us the commodity rise is still in its infancy and we’ll see many more years of rising commodities (and shortages) before this levels off.

Remember, the world hasn’t seen anything like this since the Industrial Revolution. This concept is hard to grasp because economic power changes hands slowly. China’s reserves, for instance, have now surpassed Japan’s, and China and especially India know the value of building a gold reserve. Plus, as their citizens prosper, they too will buy gold as an investment, just as investors around the world have been doing.

The same is happening in other countries. Germany recently stated that they will not sell their gold. The trend has been changing from central bankers selling gold in the 1990s to not selling gold. More important, some are starting to build their gold reserves, like in Russia for example.

CHART 17



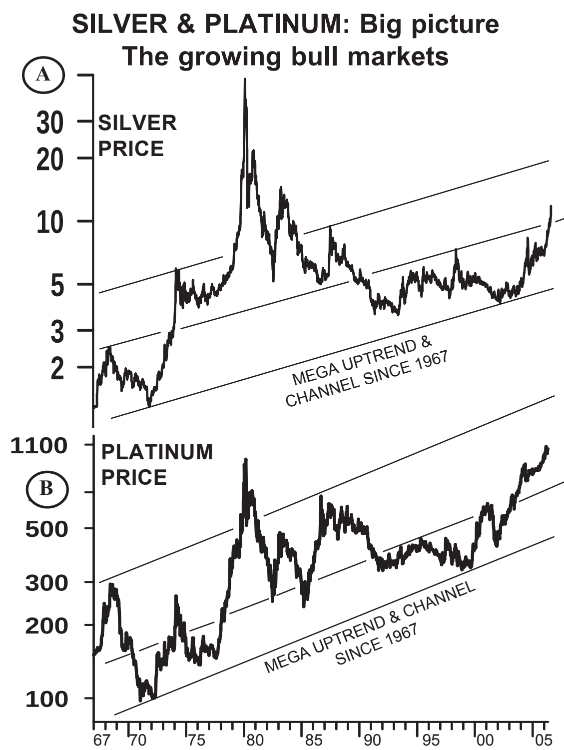
Overall, this commodity move has the expense and uncertainty of war, together with growing economic giants. The latest jump in copper (as well as zinc and aluminum) shows that global economic activity continues to boom. The statistics coming out of China remain strong.

Plus, the unprecedented use of oil in the world is causing concern that there’s not enough oil to go around (the two biggest consumers alone, the U.S. and China import a huge amount of oil). This is why oil sits above $60 and why the Canadian oil sands are growing in popularity, as well as other sources of fuel like gas, uranium, sugar and coal.

Climate change is another crosscurrent that will affect commodities and perhaps it’s the one factor that will cause agricultural commodities to rise and “catch up” to the booming metals.

As an investor, it’s important to understand the potential the commodities have and to invest accordingly. That’s why we strongly believe the primary trend is most important and why we don’t want you to miss the big move if you’re busy trading the intermediate moves. In fact, what could be less stressful than to just buy and hold?

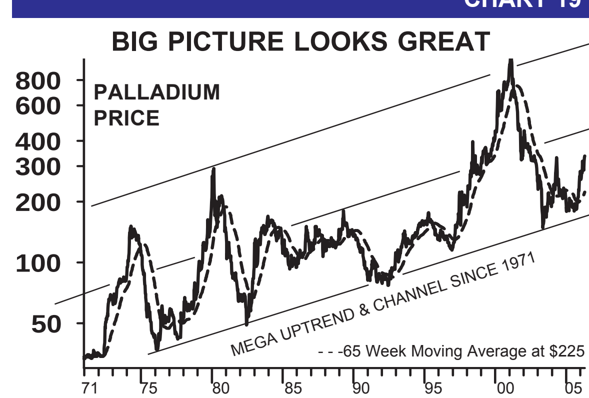
CHART 18



BIG PICTURE: Very bullish for metals & energy

Charts 16, 18A and **B**, **19**, **20** and **21** all show the big pictures for **gold**, **silver**, **platinum**, **palladium**, **copper** and **oil**. You can see that silver and platinum are entering the

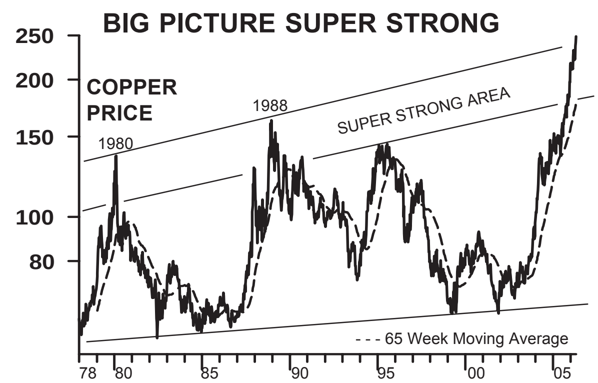
CHART 19



strong side of their mega upchannels, while palladium is just getting started, yet copper is at its top side (see **Charts 18A** and **B, 19** and **20**). So some of the metals have led, some have lagged, but they're all showing great strength.

Gold entered its fourth step of the current bull market last December when it punched above $500 (see **Chart 16**). Gold's been showing exceptional strength since then because it has not gone back to test $500 again. This means the fourth step is alive and well. Gold is strong in the bull market above $500 and

CHART 20



its next big stop is to test the 1980 highs. When this will happen is another story. This just says the potential is there. Looking at gold adjusted for inflation on **Chart 22**, however, you can see that gold has still a long way to rise. It's essentially still forming a base.

The **oil** price on **Chart 21** is fascinating. As you can see, it's been in a massive upchannel since 1946! And oil is now in the upper side of the channel. Technically, this means $80 oil will eventually be reached, the top of the mega channel. If oil overshoots it like it did in 1980, then $100+ oil is possible.

Oil is strong above $63 and it would be very strong above $68.50. If oil closes at a new record high above $69.80, these upside targets could be attained. We've been recommending new energy positions this past month. They look great and oil's major support is at $58.10.

GOLD'S INTERMEDIATE MOVES

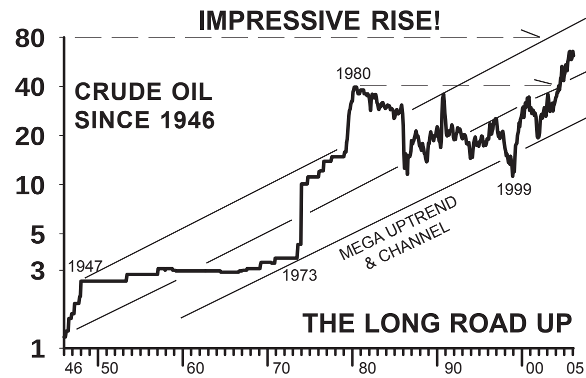
Gold's mega uptrend has power. Granted, the intermediate rises (legs up) are what make the bull market and intermediate declines are basically insignificant when compared to the major trend. Their best use is for buying new positions (see **Chart 23A**).

Many of our subscribers want us to tell them when an intermediate top or bottom is at hand, which we try to do, but at times it isn't clear. As the bull market heats up, so far the rises have been stronger and the declines have been milder. For example, the peak last February was fairly clear but the mild decline last month was the first in this bull market. Since 2001, all the D declines have been sharp until now.

What does this mean? The strong C rise that ended in February was by far the best in this bull market and the D decline was the mildest. This means the bull market is getting stronger, its parabolic rise since last July has taken over and as long as gold stays above its 15-week moving average, now at $551, this will continue.

On the face of it, that is what the market action is saying. Keep in mind, the A through D pattern on gold is a guide. In a bull market,

CHART 21



the C rises reach new bull market highs and the D decline lows are higher than the previous low, while gold stays above its 65-week moving average. This is the basic principal of a bull market. When A rises also reach new highs and the D declines are moderate, then the bull market is heating up. Gold's recent new high is telling us this and we have to go with it, even though the leading indicator has not yet confirmed this new A rise (see **Chart 23B**).

This illustrates how a heating bull market can leave you behind if you wait for a steeper decline to buy new positions. To give you an example, back in 1979, gold had been rising for a couple of years (since 1976) and the As and Cs were reaching new highs leading up to 1979. The two D declines in 1979 were mild while gold was reaching these highs. Toward the end of 1979, gold's D decline was so mild that the indicator started shooting up to its famous 1980 peak when it was still near a high area. The D decline didn't break down in its normal fashion and if you had waited for a steeper decline at the time, you would've been left behind in the most spectacular rise of gold's bull market.

It wasn't until gold's second peak in 1980, when that C rise failed to reach a new high for the first time since 1976... the first sign of THE peak at the time. Gold then turned bearish before 1980 was over as a sharper D decline caused gold to break below its 65-week moving average. That would've

CHART 22

been the time to sell.

The point is, a mild D decline is extremely bullish. But you may be wondering (there are always "buts"), what if the recent jump to new highs is an overshoot caused by the enthusiasm over silver? This is a possibility but for now we are going with the flow. An A rise has begun and by reaching a new high, it's a very bullish A rise. If that changes, you'll be the first to know. But for now, the parabolic rises will continue as long as the metals stay above their 15-week moving averages (see **Chart 17** for the numbers).

SILVER & COPPER: The stars

Silver's upcoming exchange traded fund (ETF) has been boosting silver and as it rises, shorts are being covered, boosting it even more. But the anxiety probably lies with supply. Barclay's initial listing of 13 million shares will be backed by 129 million ounces. This means that about 20% of annual world silver production will be bought and taken off the market so silver could be in a squeeze.

Silver has the characteristic of staying quiet for good lengths of

CHART 23

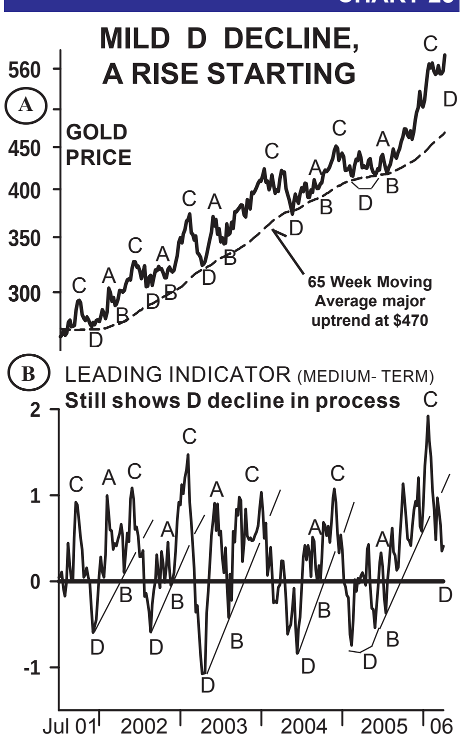
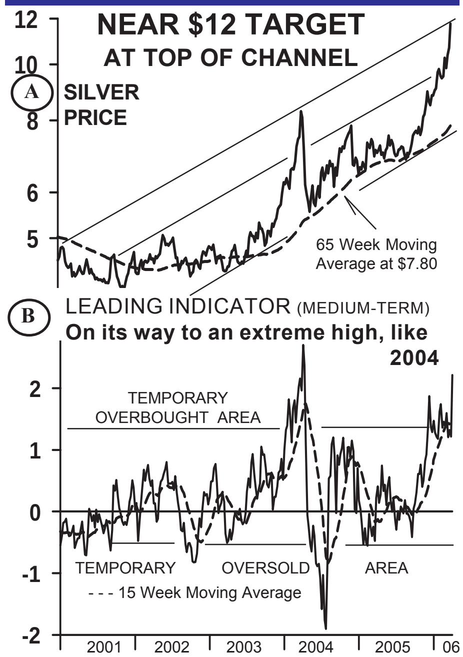


CHART 24



time but once a rise starts, it tends to really take off. **Chart 24A** shows that silver is now near its $12 intermediate target level, which is a strong resistance area. Plus, the leading indicator is on its way to the extreme high area, similar to what happened in 2004, suggesting the upside is limited for now (see **Chart 24B**).

Silver's parabolic rise will continue above $9.65 and it will remain super strong above $10.50. Once silver's ETF starts trading, we'll add it to our portfolio. Silver shares have also been soaring but CDE and SSRI are now overbought. Keep your shares but don't buy new positions yet.

Copper's record highs have become commonplace. Inventories have been down, which signals strengthening demand from China, the largest consumer. Considering that demand will remain high, copper's parabolic rise will likely continue and even if it declines to $2.25, it'll remain super strong. Our recommended natural resources shares are rising in a renewed rise. As we've been saying in our weekly updates, buy these. BHP, PD, RTP, PSPFX and XLB are at new highs, while CCJ is headed in that direction.

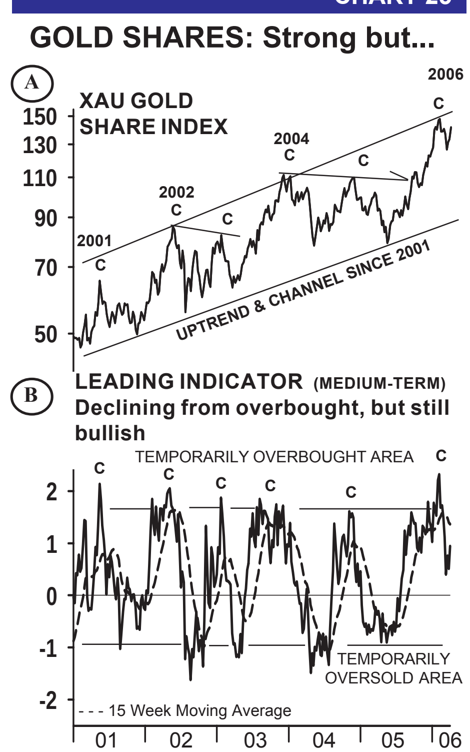
GOLD SHARES: Renewed rise

Gold shares are rising in a renewed rise. The gold shares that fell the most are now rising from clear oversold levels but the firm gold shares are not. Also interesting, the junior mines are finally starting to take off after lagging the seniors.

Chart 25A shows the XAU gold share index. Even though gold shares were hit the most last month, the decline was mild compared to prior declines, which is reflected in the indicator. This means the indicator will now fall further or it'll continue to give a bullish reading by staying above the zero line. The XAU is back above its 15-week moving average and its indicator is now starting to rise, which means the latter is more likely and XAU is strong above 136. A new high above 154.20 would confirm this.

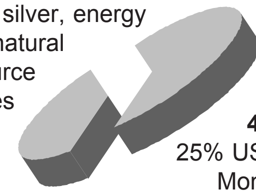
Platinum and **palladium** are both strong in a parabolic rise above $1035 and $295, respectively. North American Palladium (PAL-Amex) and Stillwater Mining (SWC-NYSE) are good shares as proxies for these metals. SWC is clearly overbought like the silver shares, but PAL is fine to buy.

CHART 25



OVERALL PORTFOLIO RECOMMENDATION AND ACTION TO TAKE

The parabolic rise continues as silver and copper's ongoing strength spilled over to the other precious metals. Gold jumped up to a new bull market high and oil is also rising. The shares in all these sectors are rising as well with several at new highs. Long-term yields continue their climb and the stock market has also stayed strong. But the falling Utility average has turned bearish, which is a bad sign for the general market. Plus, rising rates and rising oil will put pressure on the market. Meanwhile, the U.S. dollar is sluggish. Our overall recommendation has been adjusted, as you can see on the box to the right. We are raising the metals sector to 60% from 50% of our total portfolio and lowering our U.S. dollar cash position to 25%.



METALS, NATURAL RESOURCES & ENERGY RECOMMENDATION

Silver and our recommended silver shares rose to new highs. They led **gold** and gold shares as the first 11 gold and gold shares listed to the right reached new highs. A renewed rise we call A is underway and we continue to recommend buying and holding our recommended positions also but don't buy new silver share positions yet. Wait for weakness. We are also adding two new shares, North America Palladium and Virginia Gold Mines. The primary trend is up and this is where your focus should be.

As for our **natural resource** shares, most are at new highs. As we've been saying in our weekly updates, buy new positions and keep the ones you have.

Our recommended **energy stocks** are rising in a renewed rise. We've been recommending new positions over the past month, but if you haven't bought yet, it's not too late. Keep your positions listed on the right.

We recommend raising your position to 60% (up from 50%) and keep this in gold, silver, their shares, as well as in the natural resource and energy shares. Also keep your physical metals. To buy gold and silver coins call Dana Samuelson at 1-800-613-9323.

INTEREST RATE & BOND RECOMMENDATION

Bond prices are bearish as they fell to nearly a two year low this month. Long rates are on the rise as bond prices decline. We recommend staying out of bonds. If you're planning to hold bonds to maturity or for the very long term, it's okay to hold unless the 30 year yield rises and stays above its mega downtrend now at 5.24%. Short-term rates are at or near the highs. The trend is strongly up with 90 day T-Bills above 4.35%.

STOCK RECOMMENDATION

The Transportations hit another record high while the Industrials reached a two year high. Even the sluggish Nasdaq is looking better. Yet the bearish Utilities, together with further rising rates and oil, could put an end to the rise. This goes for the global equity markets as well. The exceptions are the metals, natural resource and energy shares which have been the best performers, far outperforming the Industrials. We recommend buying and holding these, but avoid common stocks.

CURRENCIES RECOMMENDATION

The U.S. dollar is showing signs of weakness. It's still in a neutral range but since the currencies look poised to rise, we may be buying the euro and yen soon, but not yet. The exception is the Canadian dollar, it's been the best performer even though it's been coming down from 14 year highs this month. The major trend is up and we continue to recommend keeping 15% of your cash portfolio in Canadian dollars. Buy new positions gradually this month. We are now keeping a 25% cash position in U.S. dollar T-Bills or a money market fund for the time being. The dollar index will remain bullish above 87.70, but if it declines and stays below that level, we'll advise selling and moving into the stronger currencies.

RECOMMENDED GOLD AND GOLD SHARES

streetTRACKS Gd	GLD-NYSE
iShares Comex Gold	IAU-AMEX
Agnico Eagle	AEM-NYSE
Glamis Gold	GLG-NYSE
Goldcorp	GG-NYSE
US Glbl Wrld	UNWPX-Fund
Tocqueville Gold	TGLDX-Fund
Central Fd of Can	CEF-AMEX
Virginia Gld Min*	VIA-TSX
DWS Gold & Pre Mtl	SGLDX-Fund
DWS Gold & Pre Mtl B	SGDBX-Fund
ASA	ASA-NYSE
El Dorado Gold	EGO-AMEX
Royal Gold	RGLD-NSDQ
AngloGold Ashanti	AU-NYSE
Newmont Min.	NEM-NYSE
Nor Amer Pall *	PAL-AMEX

RECOMMENDED SILVER SHARES

Silver Standard	SSRI-NSDQ
PanAmerican Silver	PAAS-NSDQ
Coeur d'Alene	CDE-NYSE

RECOMMENDED NATURAL RESOURCE STOCKS

BHP Billiton	BHP-NYSE
Phelps Dodge	PD-NYSE
US Global Res	PSPFX-Fund
Rio Tinto	RTP-NYSE
Sel Sec Matris SPDR *	XLB-AMEX
Cameco	CCJ-NYSE

RECOMMENDED ENERGY SHARES

Diamond Offshore	DO-NYSE
Peabody Energy	BTU-NYSE
Noble Corp	NE-NYSE
Transocean	RIG-NYSE
Suncor Energy	SU-NYSE
Ultra Petroleum	UPL-AMEX
Energy Select SPDR	XLE-AMEX
iShares S&P Gbl Ener	IXC-AMEX
iShares Dow US Energy	IYE-NYSE
ConocoPhillips	COP-NYSE
Newfield Expl	NFX-NYSE
Devon Energy	DVN-NYSE
Arch Coal	ACI-NYSE

*New position