THE
ADEN FORECAST
MONEY • METALS • MARKETS

JUNE, 2006

Golden Opportunities

CELEBRATING OUR 25th ANNIVERSARY BECAUSE OF YOU

Gold and the other metals fell sharply this month. But considering they'd risen so far and fast this year, it wasn't a surprise. It's basically a normal bump in the road and despite this decline, gold's still looking good. Its parabolic rise remains in force and it's strong.

SIMILARITIES TO THE 1970s...

In previous issues we've often discussed the reasons why gold is headed higher and why this bull market will likely last for years to come. Basically, there are six major factors driving this bull market.

Briefly these are: 1. too much spending, 2. too much money is being produced, 3. inflation, 4. the weak U.S. dollar, 5. international tensions and 6. China's growth and ongoing demand for commodities, which is coinciding with a new upmove in the 200 year commodity cycle.

The last big bull market in gold was in the 1970s and it lasted 12 years. In recent years, we've seen many similarities to the 1970s, suggesting this rise could also be similar.

In the 1970s, for instance, there was big spending on guns and butter as the Vietnam war dragged on. Deficits were large, and inflation, oil and gold were soaring. The dollar was dropping and the president was unpopular.

Today there's even bigger spending as the war on terror continues. Deficits are huge, and oil and gold have been soaring, inflation is picking up, the dollar is declining and the president is also unpopular.

...BUT MORE COMPLEX TODAY...

But there are also differences in today's world compared to the 1970s. These differences suggest the current gold rise could be even bigger than the bull market of the 1970s, and they provide even more fuel for gold's bull market.

Most important, there are nearly 50% more people in today's global economy who weren't there in the 1970s. Aside from China, there's also India and the former Soviet countries. Taken together, this comes to about three billion people.

In the 1970s, these countries were either very poor or closed societies, or both, but that's not the case now.

China's economy has been growing by about 10% annually for the past 15 years, while India's annual growth has been more than 6% since the 1990s. In the most recent quarter, India's economy grew more than 9%. Oil demand in China and India has doubled in the past 10 years and it's expected to double again over the next eight years. So these two countries alone represent a lot of ongoing demand for many items. In comparison, during the last big gold rise, money was primarily focused in the U.S., Canada and Western Europe.

Plus, China and India have historically been interested in gold. India accounts for 23% of consumer gold sales and its gold consumption is expected to rise 33% this year, and China has made it easy for national gold buyers. People in these countries are big savers and if some of these savings keep moving into gold, it'll provide a very strong boost.

When you consider that these and other countries are also adding gold to their reserves, it marks a huge difference in current and future demand for gold compared to the 1970s.

... AND THERE'S MORE

Another difference this time around is that no country wants a strong currency, in order to compete in the global marketplace. The end result is that gold is now rising around the world, hitting records and attracting attention, reinforcing that investors worldwide are putting more faith in gold.

Yet another difference compared to the 1970s is global warming and

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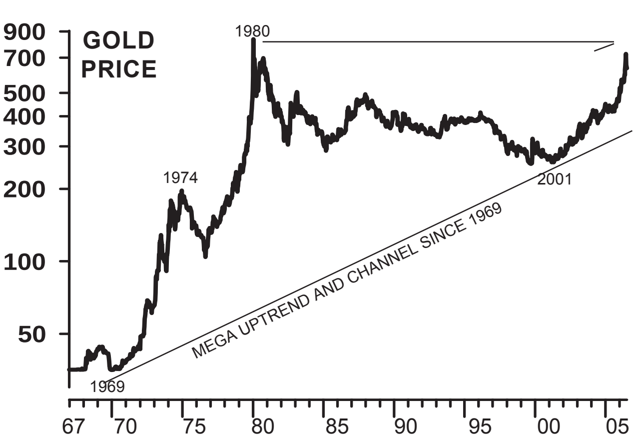
CHART 1



changing weather patterns, which will continue to be a big force affecting the commodity markets. Last year's hurricane season pushed oil up to record highs. With the new hurricane season just starting, it's expected to be similar and this could keep upward pressure on oil, other commodities, inflation and gold.

Adding these factors to the big six, you can see why this bull market in gold has the potential to be more powerful and bigger than the great bull market of the 1970s. So the next question is, how high could gold go in the years ahead?

HOW HIGH IS HIGH?

As we've mentioned before, we're looking at $850, the 1980 high, as the next upside target (see **Chart 1**, which shows gold since 1967). Once that level is broken, gold will be in new uncharted territory, but we can make some reasonable assumptions...

As you know, simply adjusting for inflation, gold would have to reach $2,000 to equal the $850 high in 1980. But since there are major differences now, it's not unreasonable to assume that gold will eventually go higher than $2,000.

Another way of looking at it is in percentage terms. In the 1970s, gold rose 2300% in 12 years, from $35 to $850. So far, it's only risen 189% in the current five year bull market, from $250 to $722. But if this bull market ends up rising 2300% like the one in the 1970s did, then gold would eventually get to $6,000. As wild as this may seem, remember that $6,000 in the future will not be worth the same as $6,000 today.

Considering the mega trend change in the Dow Industrials to gold ratio, it also reinforces that these high figures may not be as wild as they sound. Over the past six years, gold has been stronger than the Dow and the ratio between the two is currently at 17.47 (Dow 10991 ÷ gold $629= 17.47). Once these mega trends are in motion, they tend to last for years and at major lows the ratio has historically dropped to between 1 and 3.

These are just estimates, but let's say the Dow eventually drops to 7000, which is near the level it was at just a few years ago and not quite a 50% correction of the 1980-90s bull market rise. A ratio of 3 would mean gold at $2,300, and if the ratio were to fall to 2, then gold would eventually hit $3,500. But if the ratio dropped to 1 like it did in 1980, 7000 on the Dow would also mean $7,000 for gold.

INGREDIENTS IN PLACE

Obviously, we don't know how this will ultimately end up. But we do know that the ingredients are in place for a 1970s type performance, or better, for gold. Don't forget, gold was a dead market for over 20 years from 1980 to 2001. Commodities dropped about 80% in real terms and since these markets fell for such a long time, there was little exploration for new metals deposits. That too supports the fundamentals for a long lasting and strong bull market in gold, especially once the public joins the party.

But also don't forget that no market goes straight up or down. There will be setbacks and steep corrections along the way and we're currently in one of those periods. These are normal. The gold bull market of the 1970s, for example, was interrupted by a decline that lasted 1½ years before it resumed its stellar rise.

Most important, this is a major, mega trend and it's going to take time, so don't get discouraged or impatient. As long as this major bull market stays in force, plan to stay on board and we think you'll be glad you did.

UPCOMING CONFERENCE

We'll be speaking at the World Gold, PGM & Diamond Investment Conference in Vancouver on June 11-12, 2006. If you can, we'd love to see you there as it's sure to be a good one. For more info go to: www.cambridgehouse.ca

THANKS AGAIN!

Thank you for responding to the possibility of including a question and answer section. Again the results were overwhelming, but this time the vast majority said no. That means we won't be condensing the newsletter to include a Q&A section and we'll keep the current format.

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A FAVORITE

We're often asked which newsletters we like best. One is HSL, written by our dear friend and market veteran Harry Schultz, which provides an interesting perspective you'll unlikely get anywhere else. Not only does he write about gold, other markets, futures, geopolitics, privacy and more, but his results are truly impressive. HSL was named newsletter of the year and it ranked in the top 3 for profits in 2005 and so far this year too. For more info go to: http://www.hsletter.com/hsl_cartoon_intro.html

U.S. & WORLD STOCK MARKETS
Move together

It was a bad month for stocks. Many of the markets suffered their worst declines in eight years as stock markets around the world fell.

Over the past year or so, the foreign and emerging stock markets have been gaining popularity. Since most of these markets have been stronger than the U.S. stock market, that attracted investors and with reason.

TAKING A DIVE FROM HIGHS

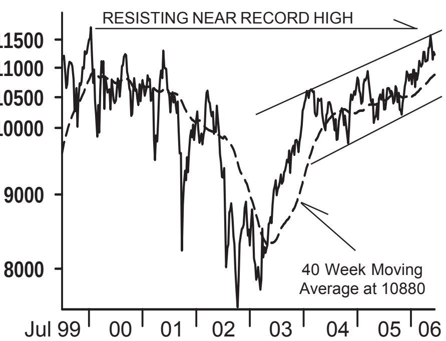
In recent months, some of the Asian stocks hit 17 year highs and markets like Japan, Mexico and Brazil have been among the top performers (see **Chart 2**). Lithuania, Hungary, Romania and Saudi Arabia also did super well.

The Saudi market, for instance, is the biggest in the Arab world and it's been the world's strongest, soaring over 100% last year. Interestingly, it peaked in February and since then, it's been leading the way down for the other world markets, plunging over 50% and losing about $400 billion in less than four months.

Other emerging markets followed with Dubai, Egypt, Russia and India dropping between 64% and 22% from their peaks. The Latin American markets joined in and they're down about 15% on average. The European markets suffered their biggest weekly decline in three years, while the Asian markets experienced their biggest hit in two years, all with double digit losses and eliminating this year's gains, in most cases.

CHART 3

DOW JONES INDUSTRIAL AVERAGE



As we've often said, the world stock markets move together and this global downdraft drove U.S. stocks down too. With the Dow Industrials less than 100 points away from its all time high, it also felt the heat (see **Chart 3**). The Dow experienced its biggest point decline in three years and several stock indices erased their 2006 gains in the biggest sell-off this year.

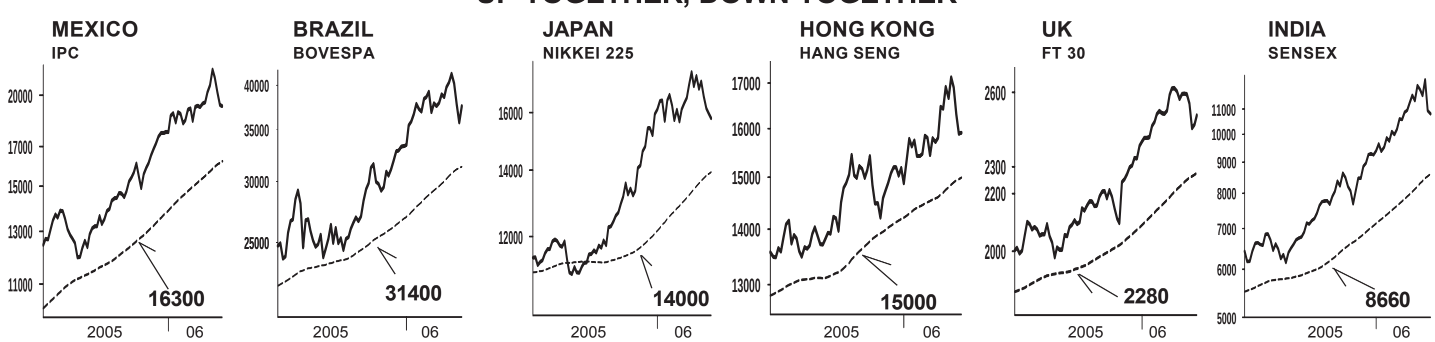
WHAT SPOOKED THE MARKETS?

Basically, we've been seeing a deterioration in the U.S. market's foundation, despite higher prices. More investors where selling than buying and several months ago, for the first time in 10 years, more money went out of hedge funds than went in. There were also fewer new highs, our technical indicators weren't looking good and stocks remained expensive. Plus, the market has been rising for 42 months, which is longer than the average 2½ year rises since World War II, making this a mature upmove.

In all cases, however, the declines this month were triggered by things we've been warning about... inflation, higher interest rates, the rise in gold and oil, the weak dollar and uncertainty about the global economy. In Asia the bird flu added to downward pressure. The markets were ignoring these negative factors before, but they're not now. And while pressure could ease in the

CHART 2

UP TOGETHER, DOWN TOGETHER



- - - 65 Week Moving Average is major support

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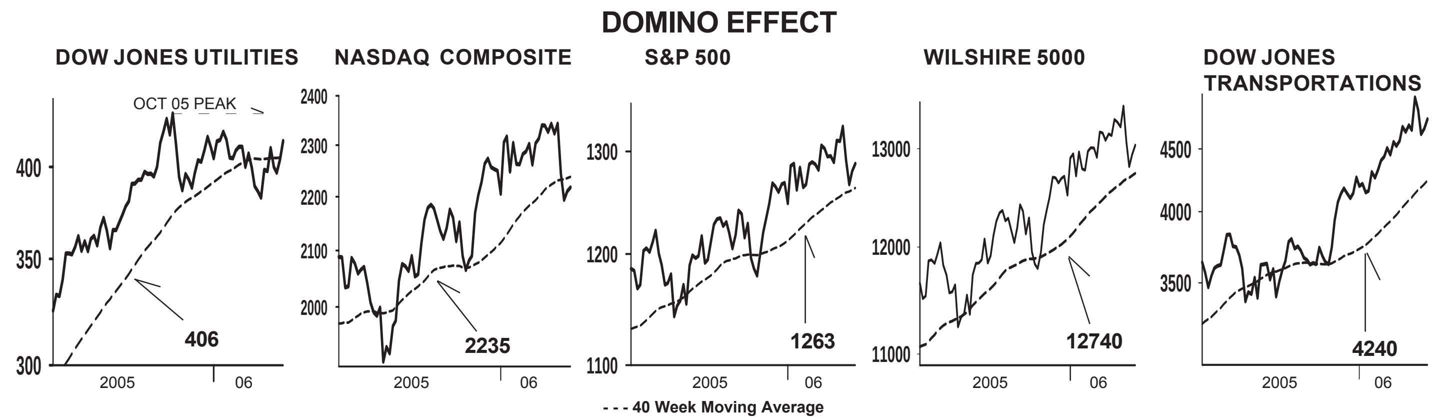
CHART 4



weeks ahead as metals, oil and interest rates decline, and the dollar possibly rises, this will probably just provide some temporary relief.

VULNERABLE YET STILL BULLISH

Investors have been shaken and they're going to be more cautious about stocks. They've seen that foreign and emerging stocks are not a different investment category. In this global world, the major trends in gold, oil, interest rates and the dollar will continue to weigh on all of the world stock markets. And once these major trends again exert themselves, the stock markets will be even more vulnerable than they were this month.

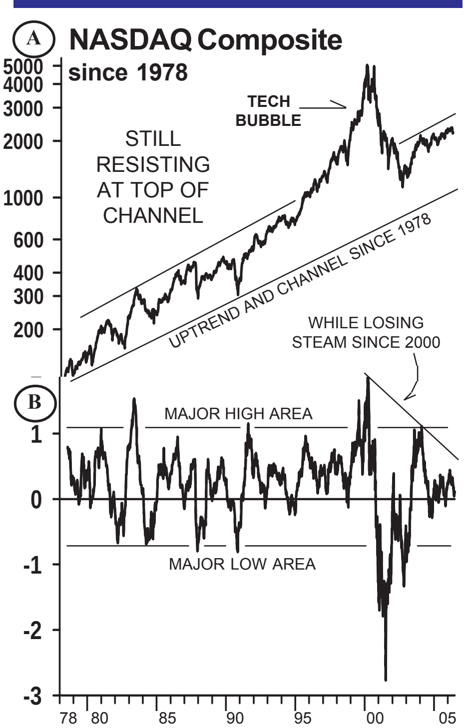
It's also interesting to note that the world is watching Bernanke. Since he's unknown, that too leads to some nervousness because financial scares have often coincided with transitions at the Fed. The last time was when Greenspan stepped in and the 1987 stock market crash followed two months later. That doesn't mean it has to happen again, but along with these other factors it does make you wonder.

In the meantime, despite this month's declines, the stock indices remain technically bullish above their moving averages (see **Chart 4**). Nasdaq is the only exception. It broke below its average, turning bearish this month and if it now stays below 2235 it'll remain bearish, signaling it's going lower.

The S&P500 and Wilshire 5000 are close to their moving averages and these two warrant close attention. Since the Wilshire includes nearly all of the stocks on the NYSE, Nasdaq and Amex, while the S&P equals about 75% of the stock market, if these two indices decline and stay below their averages it'll be a very big deal. It would mean they're following Nasdaq down and all of the U.S. stock market would be in trouble because the major trends would then be down and bearish. That would happen if they break below 1263 for the S&P500 and 12740 on the Wilshire 5000.

Looking at the Nasdaq's big picture since 1978, you can see that it's formed a huge uptrend and channel since then (see **Chart 5A**). It broke out of this channel during the tech bubble in the late 1990s, but otherwise it's been trading within it. It's currently at the top side of the channel but if Nasdaq stays bearish, it could decline to the lower uptrend near 1300.

CHART 5



Nasdaq's leading (long-term) indicator on **Chart 5B** has been in a downtrend since 2000, meaning the market has been losing steam since the tech bubble burst, despite Nasdaq's rise since 2002. In other words, the mega bear market in Nasdaq that started in 2000 isn't over yet.

This indicator is currently neutral at the zero line and with Nasdaq now technically bearish, it'll likely head lower. And since the indicator has plenty of room to fall further before it reaches the major low area, there's a good chance Nasdaq could fall to as low as 1300 as a downside target. That would be reinforced once the indicator declines and stays below the zero line.

WARNING SIGNS

For now, the warning bells are ringing. It started with the emerging markets and the Dow Utilities, which often lead the rest of the U.S. stock market (even though it's now back above its moving average coinciding with the recent strength in bonds). That was followed by the decline in the other foreign stock markets and Nasdaq. It doesn't look good and we've seen this happen before.

So far it looks like a domino effect in motion. If that proves to be the case, since the markets look ahead, it'll mean they don't like what they see coming. So continue to avoid common stocks and if you're in the market, be very cautious and quick to get out if the stock indices technically turn bearish. That goes for the global markets too.

U.S. INTEREST RATES AND BONDS

Bonds: Poised to rise in bear market

Mixed signals are what we saw this month, making the bond market mixed too. The big question is, are interest rates going higher or not? At this point, it's hard to tell because the signals are going both ways.

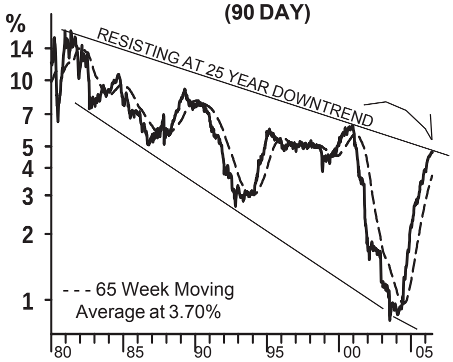
On the one hand, inflation surged at an annual rate of 7.2% to 10.8%. But on the other hand, there were also several signs showing the economy could stumble in the months ahead.

RISING RATES TAKING TOLL

The Fed says their top priority is containing inflation and they've been raising interest rates with that focus in mind. But rising rates are

CHART 7

TREASURY BILLS
(90 DAY)



now beginning to take their toll on consumer confidence and stocks, which are down, and on the economy and the real estate market, which are slowing, while bankruptcies rise.

If the Fed keeps raising interest rates, it runs the risk of pushing real estate and the economy over the edge. Already, the Fed has to be paying attention. The index of leading economic indicators, for instance, declined for the third time this month and in the past that has signaled an upcoming recession.

Plus, oil remains high and polls show that 70% of the U.S. population are worried about the future. This in turn could hurt consumer spending, which has been fueling economic growth.

The same is true of real estate. Since most people have their savings in their homes, what happens to this important market is going to affect consumers and the economy. And so far, worrisome signs are growing. Home sales have been down, defaults are rising, home price gains are the slowest in two years and the inventory of unsold homes has increased to about a six month supply.

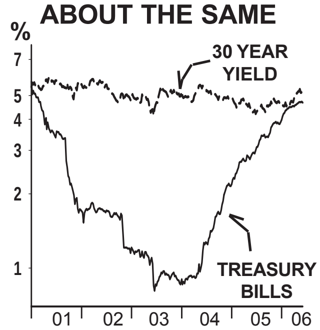
As you can see on **Chart 6**, the housing slowdown is coinciding almost exactly with the rise in long-term interest rates. And if long-term rates rise further, it could mean trouble for the real estate market. The Fed's obviously doesn't want to be responsible for that, so we wouldn't be surprised if they soon cool it on interest rate hikes, even if inflation picks up.

RATES TO SOFTEN

Interestingly, our technical indicators are reinforcing this too. Note that the major trend is up for T-Bills but this rate is resisting at a major 25 year downtrend (see **Chart 7**). Unless T-Bills break clearly above this trend, it'll suggest short-term interest rates are unlikely to go much higher, but the major trend will not turn down unless T-Bills decline and stay below 3.70%.

CHART 8

ABOUT THE SAME



T-Bills and the 30 year yield are also very close to the same level (see **Chart 8**). When T-Bills (a short-term interest rate) rise above a long-term rate like the 30 year yield, the yield curve is inverted and it usually precedes a recession. This is another reason why the Fed's unlikely to push rates much higher.

Then there's the 10 year yield, which is still near a four year high

CHART 6

HOUSING & LONG-TERM YIELDS: Move opposite

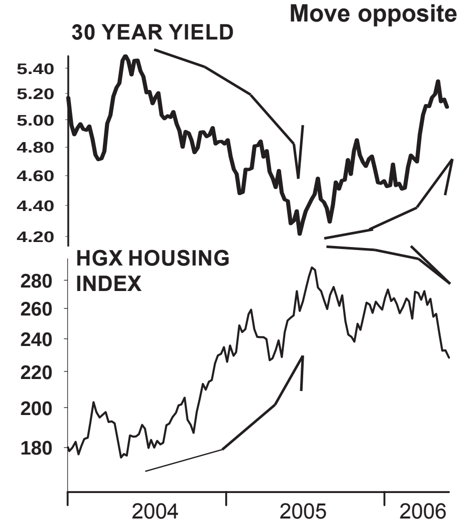
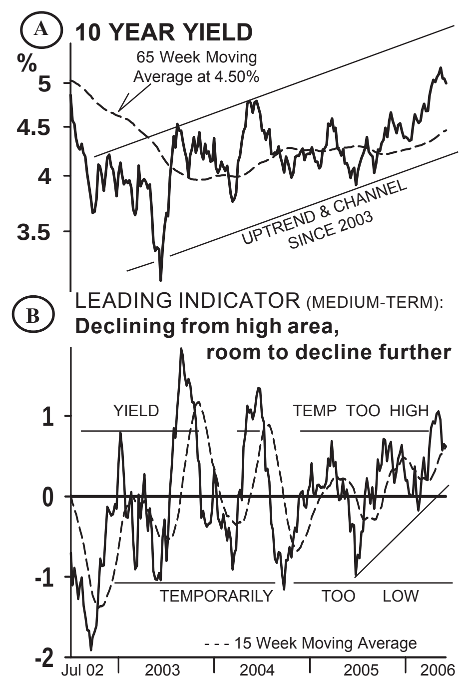


CHART 9

HIGHER YIELDS, POISED TO SOFTEN



but its leading (medium-term) indicator has now turned down (see **Charts 9A** and **B**). This tells us interest rates are headed lower, but as long as the 10 year yield stays above 4.50%, the major trend will remain up and once this upcoming downward correction is over, the yield will again head higher. The same is true of the 30 year yield by staying above 4.65%.

We've often talked about the importance of the 80-month moving average because it identifies the mega interest rate trend. This month the 30 year yield basically resisted near this average, now at 5.21%, and with interest rates now likely headed lower in the weeks ahead, we don't expect to see a mega trend change to the upside any time soon.

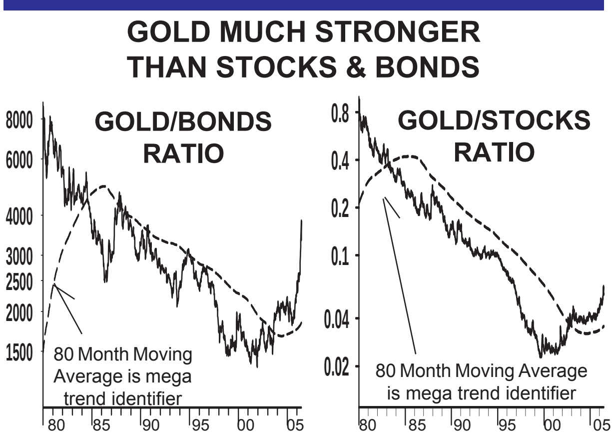
In other words, bond prices will probably hold above this average and the major uptrend, at least for the time being (see **Chart 10A**). That's especially true since the leading indicator appears to be bottoming at a major low area for the first time since 2004, which suggests bond prices could move higher for a while, probably becoming more attractive while stocks and commodities are declining (see **Chart 10B**).

BONDS TELL STORY

If so, then bonds may be starting to signal that an economic slowdown is indeed upcoming. But since bond prices remain bearish, that's not the case yet.

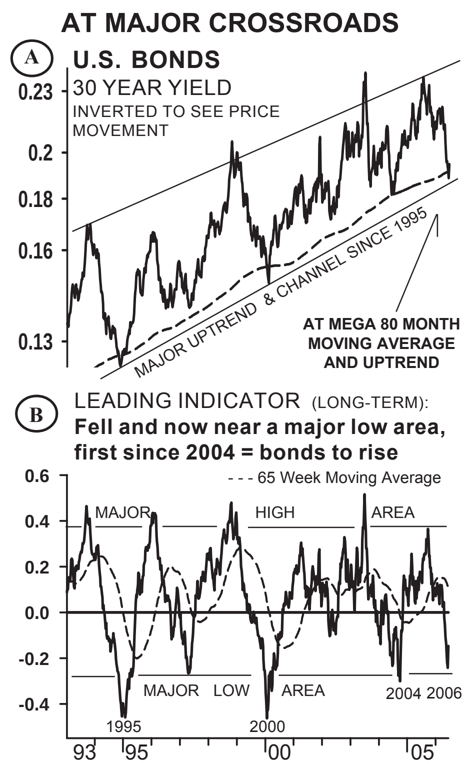
In fact, if we compare gold to bonds, these markets provide a good indication as to what's happening and what's likely coming. Since gold does well during times of inflation and bonds do well when the economy is slow, we call this our inflation/deflation barometer (see **Chart 11**, left).

CHART 11



As you can see, the ratio has been soaring, clearly illustrating that gold is much stronger than bonds. Gold is also stronger than stocks and in both cases, the mega trends are up. This means that gold is the better investment and that'll probably be the case for years to come. It also means inflation is the primary economic force.

CHART 10



But what if the economy slows down? Then we may end up seeing stagflation, which is rising inflation along with a slowing economy. And based on the Fed's options right now and the probable upcoming rise in bond prices, that wouldn't come as a surprise.

For now though, we'd continue to avoid the bond market as long as it remains bearish, even if prices rise in the weeks ahead. But if you're a long-term bond holder, it's okay to hold.

CURRENCIES

U.S. dollar: The long road down

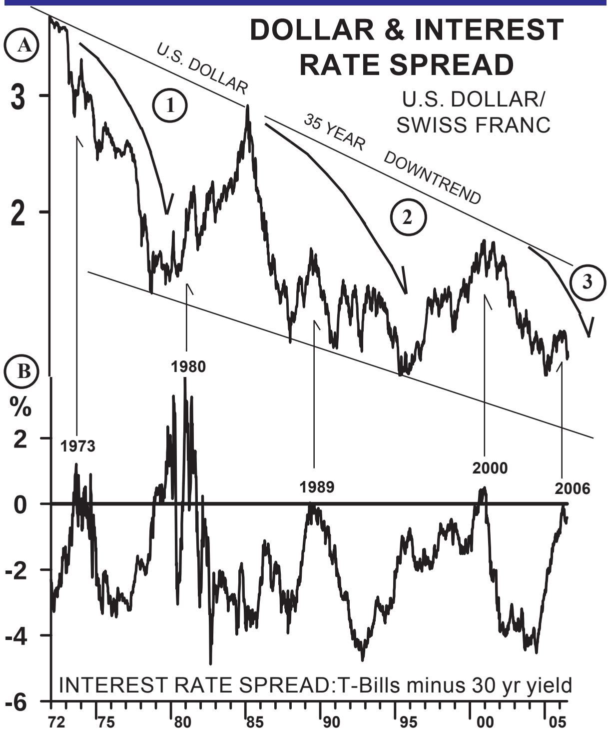
The U.S. dollar fell further this month and interest rates were the main reason why. With the U.S. economy showing signs of slowing, the markets were anticipating the end of interest rate hikes, probably soon. In other countries, however, economies are picking up and interest rates are headed higher, which makes those currencies more attractive.

DOLLAR POISED TO FALL

The dollar remains bearish and it's poised to fall further, perhaps a lot further. As you can see on **Chart 12A**, the dollar's been on the decline for the past 35 years, ever since it broke its last link to gold. Now it's just a paper currency and it's not nearly as sought after as it once was. So it needs higher interest rates to enhance its attraction.

But as you saw on **Chart 8**, T-Bills and the 30 year yield are now close to the same level and the difference, or spread, between these two rates is shown on **Chart 12B**. Note that with the exception of 1980 when interest rates were near 20%,

CHART 12



this spread tends to peak near the zero line, which is where it is now. In three out of four cases, or 75% of the time, these spread peaks preceded sharp declines in the dollar (see vertical lines). And with the dollar now beginning a renewed decline, we believe that's happening again.

In other words, if the Fed stops raising short-term interest rates, and long-term rates remain higher, the spread will turn more negative and the odds show that'll add fuel to the dollar's bear market decline, perhaps taking it down to the lower trendline as major bear markets have in the past. But aside from interest rates, there are deeper concerns.

DEBT & SPENDING CONCERNS

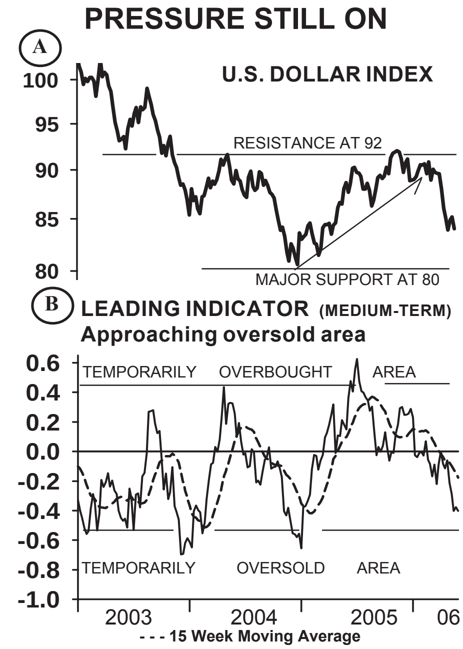
Most important, the world is increasingly concerned about the state of U.S. financial affairs. The wars in Iraq and Afghanistan alone are now costing $10 billion a month. The U.S. military spends more than the next top 14 military spending countries combined, and U.S. debt is now so large that only interest payments are over $1 billion a day.

Bernanke feels deficits aren't a threat to the global economy but the rest of the world disagrees. They see China has contributed more to global growth over the past five years than the U.S. has and they're losing confidence. The U.S. Comptroller General agrees, warning that there's a fiscal hurricane on the horizon and financial conditions are worse than advertised.

So the world is starting to take action. As we've mentioned before, more countries are diversifying out of dollars, primarily into euros and some gold. Russia, Sweden, Arab nations, India and many others have started jumping ship. More important, this month China and Japan, the two countries with the most dollars in the world, hinted they might start jumping too by possibly selling some U.S. Treasuries in Japan's case, while China may want to add more gold to their reserves.

Since these two countries hold trillions of dollars, they obviously don't want to see the dollar drop sharply and they'll tread slowly. But the wheels are already in motion

CHART 13



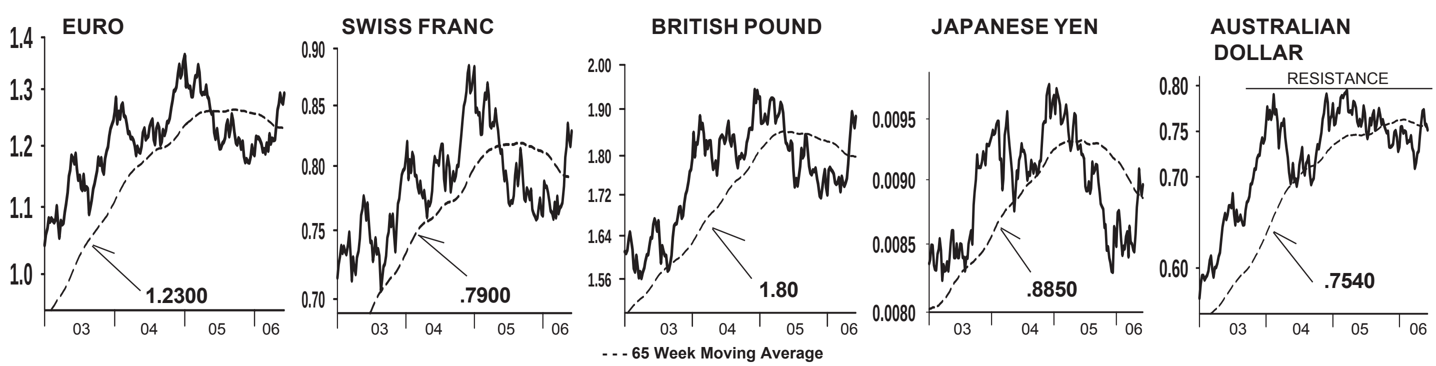
and if the U.S. dollar index declines and stays below its December 2004 record low near 80, then this bear market could turn into a free fall. Since the leading (medium-term) indicator is now approaching an oversold area, however, the dollar may hold at that important 80 level, at least for the time being (see **Charts 13A** and **B**).

For now, the dollar index will remain weak below 88 and even if it rises to 92, it'll remain bearish, meaning it's going lower. In fact, the U.S. has hinted it doesn't mind seeing the dollar gradually weaken because it'll help the trade deficit.

CURRENCIES ON THE RISE

Bad news for the dollar is good news for the currency markets and they've been moving up within their new major bull markets (see **Chart**

CHART 14



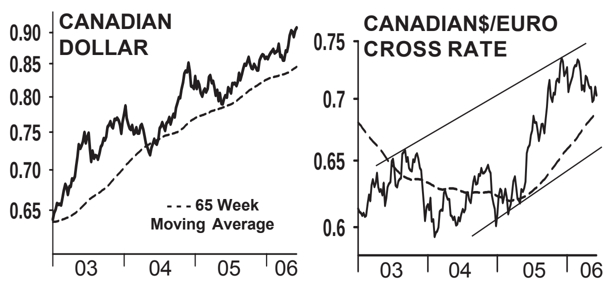
14). Even though no country really wants a strong currency, the weak dollar is going to keep these currencies strong and bullish, and they're headed higher.

That's why we continue to recommend keeping all of your cash in the strongest currencies and avoid holding U.S. dollars for now. The euro and Canadian dollar are still our favorites but the Swiss franc and British pound are looking good too.

Stronger economies, trade surpluses and higher interest rates are propelling these currencies higher. Plus, the euro has the advantage of being the offset reserve currency to the dollar.

CHART 15

CANADIAN DOLLAR IS BEST CURRENCY



Higher metals and commodities prices have also been giving the "commodity currencies" a boost. But the decline in commodities and bird flu scares weighed on the Australian dollar this month, even though it didn't hurt the Canadian dollar. It remains the strongest currency as you can see on **Chart 15**. So it's best to keep the largest portion of your currency holdings in the Canadian dollar and the euro.

If you prefer buying a fund, we've been recommending the Franklin Templeton Hard Currency fund. Also good is the Merk Hard Currency fund or the Euro ETF, which started trading this year. The main point is, try to offset the upcoming dollar decline with positions in the currency markets. Since this decline could be a big one, you'll want to either profit from it or at least protect your purchasing power.

METALS, NATURAL RESOURCES & ENERGY

The golden rule

Gold and silver are coming down from their highs posted last month. Actually, all of the precious metals, base metals and raw materials are correcting. But considering the fast paced rise of recent months, this is normal.

Just the four week $100+ run up in gold from $600 to $722 where it peaked on May 12 is a good example of the fast pace. And while the metals will likely remain under pressure, your focus should be on when to buy more. The end of the current decline, wherever it ends up, will provide a good buying opportunity.

There is concern that a steeper, longer lasting decline could occur this year since gold's current bull market is in its sixth year, outpacing the length of past bull markets. But just because gold declined for 1½ years in the 1970s, doesn't mean it has to happen again.

KEEP FOCUSED ON BIG PICTURE

Now's the time to focus on the big picture because gold still has years to run up before the major rise reaches its maximum potential. Gold is essentially the world's financial policeman. And its rise above $700 last month means it doesn't like what it sees ahead.

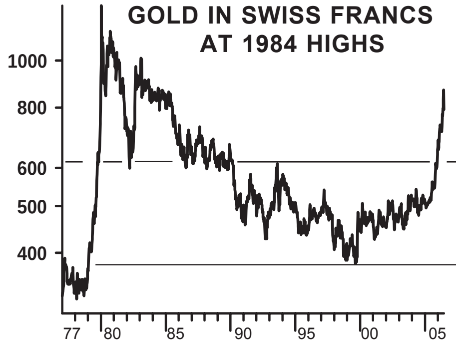
Gold doesn't like the flood of liquidity causing inflation to rise, nor does it like the gross imbalances in the global economy. Gold sees itself slowly working its way into the reserves of growing world powers, like China and India. And it sees how strong it is in all currencies.

Chart 16 shows that gold in Swiss francs, for instance, is at a high last seen in 1984. This is a mega shift based on fundamentals and we urge you to keep your gold and silver, regardless of how steep the correction ends up being.

Gold has maintained its value for thousands of years. It's real money... the ultimate currency... it always has been and it still is. Gold has stood the test of time. This time around is indeed very different than what we've seen before. And it's not only the precious metals, it's also oil, energy alternatives and raw materials. Tangibles are in a major up wave and they're all poised to rise for years to come.

CHART 16

GOLD IN SWISS FRANCS AT 1984 HIGHS



TRACKING THE BULL MARKET

Psychologically, gold is still coming out of a 20 year bear market. You'll remember how negative gold sentiment was back in 2000. Gold was totally tossed aside, so much so that here we are five years later and with gains of 189%, and the public is still out of gold.

Gold buying has mainly been by central banks, the Middle East, China, India, the growing ETF, some mutual funds and sophisticated investors. But most important, there's been buying from around the world. In part, with the global stock markets rising over the last few years, gold hasn't been in the limelight. The gold market today feels like the stock market back

CHART 17

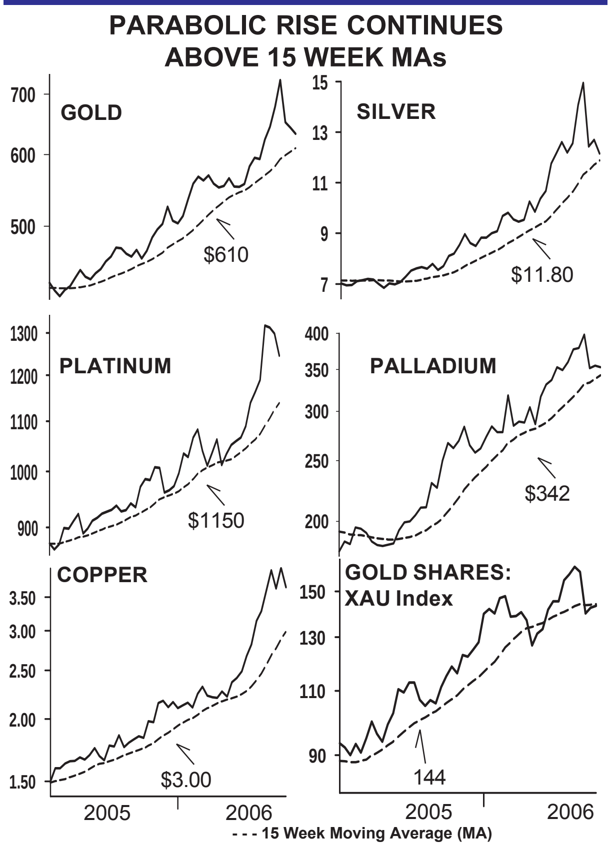
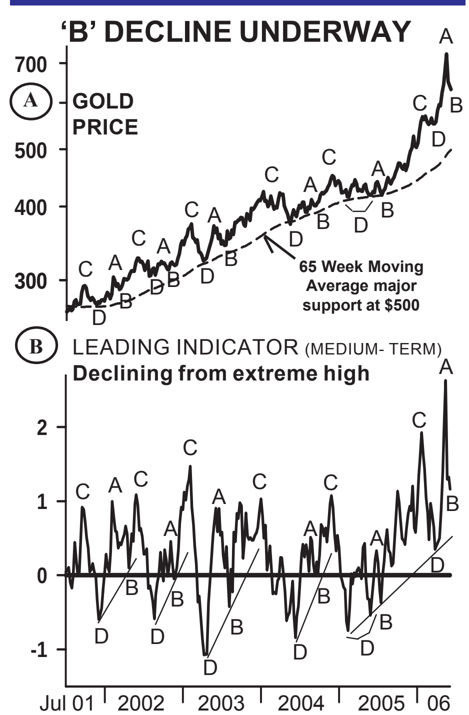


CHART 18



in the 1980s. It had a good rise following a long down period, but the best is still to come.

It takes a long time for a bull market to catch wide attention, which is why it can be put into psychological stages. Gold's first stage was the rise in 2001 to 2003 when few noticed the rise. The second stage is full of worry as doubts are abundant. Producers and investors alike feel the rise may not last, as we're now seeing. The third stage is the mania time when the public gets involved. This is when the most spectacular rise happens.

As you know, we've been tracking this bull market in steps since 2001, which is different than the psychological stages. And as long as the steps continue, the bull market is on track. The fourth step started last December, and it's the last step to be completed before record highs are reached. This will happen when gold closes above the 1980 peak near $850. It'll then be wide open for the public to catch on.

HOW FAR COULD THE CURRENT CORRECTION GO?

This is now the million dollar question. You can see the emotions in the market with the volatile swings. But even so, gold and the other metals are still at high levels (see **Chart 17**). The swings have been nerve-racking for some, especially in gold and silver shares. They have declined the most and the XAU index was the first to break below its 15 week moving average. Even though gold, platinum and copper remain above their moving averages, silver and palladium are also starting to break below their averages, so the 10 month parabolic rise is now starting to change.

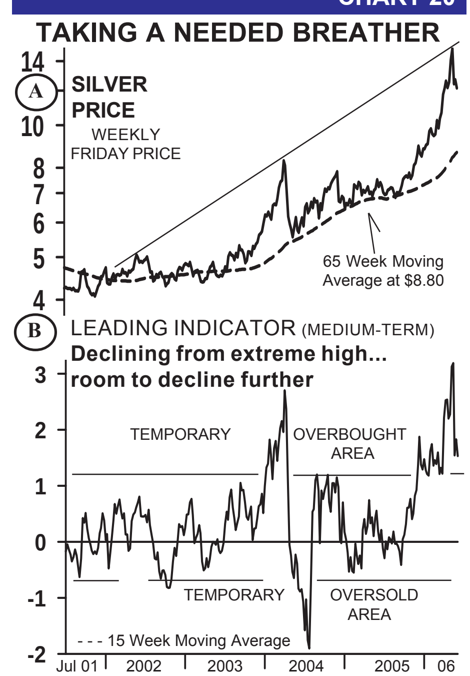
CHART 19

Since all of the metals are currently far from oversold areas, they could stay under pressure for several more months. The decline so far has been mild, and more correcting or consolidation seems to be the normal course for now. But if the metals start up from here, then the heating bull market will be getting even hotter.

Let's look at each one. Starting with gold first, **Chart 18A** shows gold's strength, in spite of the decline so far. It's still well above its 65-week moving average now at $500. This is THE major support for gold and it's also the bottom of the fourth step. It seems low for gold compared to today's level but it was only last December when gold first rose above $500. Perspective can change fast.

The indicator that best identifies gold's intermediate moves is on **Chart 18B**. The As and Cs identify

CHART 20



the intermediate rises while the Ds and Bs show the declines.

In a bull market, the C rises are the best rise in the cycle when gold reaches new highs. This shows a solid bull market. "A" rises don't usually reach new highs but when they do (like gold did in the recent A rise from mid-March to mid-May), then the bull market is hot and very strong.

That was especially good because the D decline prior to this A rise in February to March was mild, which was a first in this bull market. Normally, D declines are the steepest decline when gold tends to test its 65-week average.

Gold has now been in a B decline since mid-May and the indicator is coming down from an extreme high. Since it's still at a high level, however, the B decline has room to fall further. The D-B uptrend is key. Since the last D decline failed to break below this uptrend, let's see if this B decline holds there too. B declines tend to be mild but the past has shown that they can also be steep at times.

For now, keep an eye on the numbers. Gold will remain in a B decline by staying below $670 basis August and it could easily decline to its rising 15-week average at $610. Below $610 would mean a

CHART 22

GOLD SHARES: Resisting

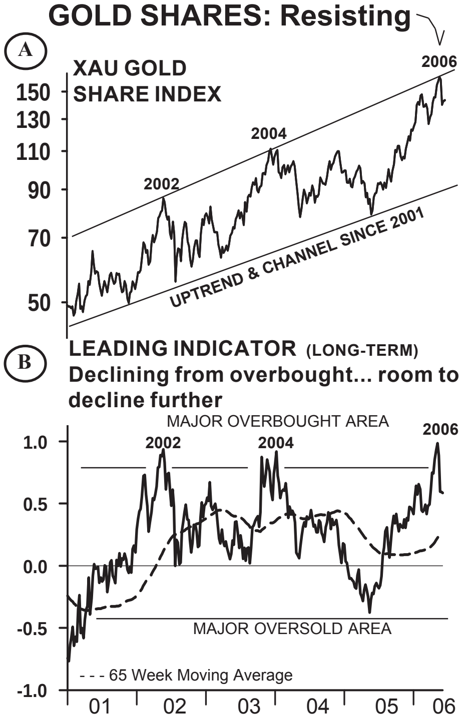
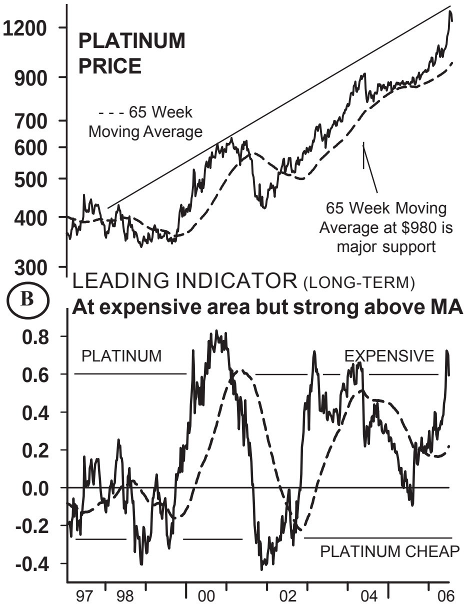


CHART 21

STRONG BUT RISE OVERDONE



steeper B decline is underway and gold could then decline to the $550 level, or possibly to as low as $500.

On the upside, if gold closes back above $670 and stays there, then a C rise will be starting, which would be exciting because it tends to be the strongest rise in a bull market.

Silver better than gold

Silver has gained 120% since last September and it's given back 20% since mid-May. This means silver is still up 100% in nine months. Gold rose 72% in 10 months and so far it's given back 13%. So gold has gained 59% since last July. Both are great, but silver is much better and it'll likely continue to outperform gold simply because its supply/demand picture is better as it's used in industry.

Chart 19 shows silver's mega uptrend and channel since 1968. Last month silver rose to its 1983 high, which is also near the mid-channel line. This alone means silver could take a rest but once it breaks clearly above its 1983 high, it'll be entering the top side of the channel where it could rise sharply.

Using the 50% principle on silver, taking the high in New York in 1980 at $48 and the 2001 low near $4, the halfway mark is $26. This shows how cheap silver is because it hasn't even risen halfway up its previous major bear market, unlike gold which passed its halfway mark at $550. This is saying that once silver breaks above its 1983 high, it could reach the $26 level as its next big picture target.

But first, the decline has further to go. **Chart 20A** shows silver is resisting at a major resistance level while its indicator, which identifies the intermediate moves, is coming down from an extreme overbought area. But the indicator is still at a high level and it has room to decline further before silver is oversold. Like gold, both are still at frothy levels.

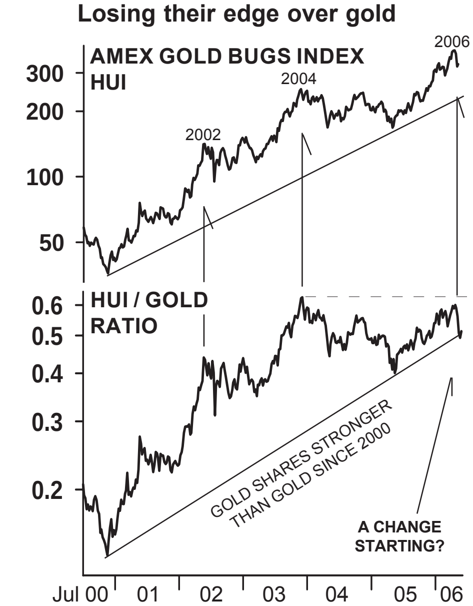
Keep an eye on $13.40. As long as September silver stays below this level, downward pressure will continue. If silver closes and stays below its 15 week moving average at $11.80, a steeper decline will be underway. In that case, it could fall to possibly (but unlikely) as low as $8.80, its major bull market support.

Palladium is also near its 15-week moving average. By staying below this level at $342, it could test its major support at $250.

Platinum was the only precious metal to soar to a record high and it was the last hold out, peaking on May 24. Platinum is in short supply and its 10 month parabolic rise is underway above $1150. **Chart 21A** shows that platinum reached a major low in 1999. Its wonderful

CHART 23

GOLD SHARES:
Losing their edge over gold



rise is overdone as it's resisting at a key level while its indicator is at a high area that coincides with times when platinum is expensive. This means platinum is due for a correction similar to 2001 or 2004. Its major support is at $980. If the 15-week moving average is violated, this level could be tested.

GOLD & SILVER SHARES: Losing their luster

Gold shares, and more so silver shares dropped this past month. They tend to be more volatile than the metals, but there are signs that a further, longer lasting decline could occur this year.

We've been advising not to buy new silver shares for a couple of months and we said traders may want to sell. Silver shares sold off the most because some have mining production in Bolivia, which is why two of our recommended shares, CDE and PAAS, were hard hit.

Considering the growing tendency for countries to nationalize or raise taxes on energy, concerns are growing that mining could be next and we'll be selling the shares that are vulnerable to geopolitical threats. Why take on additional risk when you can stay with the metals or stay in shares that will not be affected by this? Silver shares are currently very oversold and if you have CDE or PAAS, we'll be looking to sell on strength.

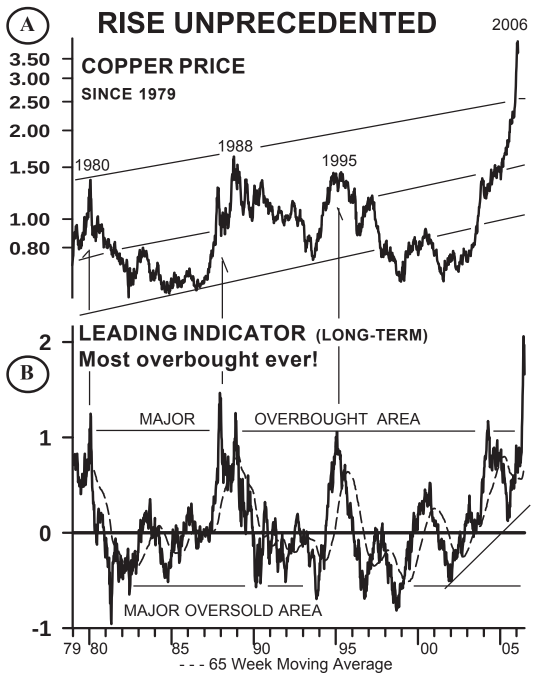
Charts 22 and **23** show what we mean by gold shares in general losing their luster. Gold shares as a group have put in a great performance, but it's time to be cautious and focus on the strong ones. XAU is resisting and coming down from the top of a strong upchannel (**22A**) and its indicator is declining from a major overbought area (**22B**).

The last two strong gold share rises in this bull market took place in 2002 and 2004 and in each case, the highs were followed by a one year sideways market. Gold shares could be starting this pattern again, especially because the gold share to gold ratio is looking vulnerable.

Chart 23B shows that during the strong rises leading up to the 2002 and 2004 highs, gold shares strongly outperformed gold as the ratio rose to new highs (see vertical lines). This time around, while gold shares outperformed gold, the ratio failed to reach new highs, and it's now declining and testing the major uptrend. If this trend is clearly broken, gold shares will be weaker than gold, which ties in with the indicator on **Chart 22B**.

It's best to have a larger position invested in the metals. Plus, if the stock market and gold decline together, then gold shares will have a double negative.

CHART 24



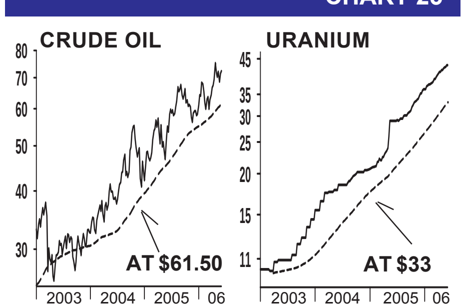
COPPER: Stabilizing

Copper represents the raw materials sector. Its surging rise reflects the growing demand in the world today (see **Chart 24A**). But as strong as demand is, the rise has gone too far. It's overheated and it's due to at least consolidate.

Copper's phenomenal rise overshot its mega upchannel while its leading indicator (B) has surged to an extreme overbought area. So far, copper's decline has been mild and it could fall to the $3 level, but it would still be in a parabolic rise (see **Chart 17**). This level could be tested, but below $3 would mean a sharper decline could take it to possibly its major support.

The resource shares have been declining with copper. They have declined more and they're at or near oversold areas. Nevertheless, it's still premature to buy new positions.

CHART 25



CRUDE OIL: Holding above $70

Oil is the one commodity everyone can relate to. It's the most needed one and it's the one that has the world in a growing turmoil. This is mainly because the two largest consumers in the world, the U.S. and China, are the ones who depend most on outside sources to buy their oil.

President Bush acknowledged that high oil has decreased his power to sway events, and some nations the U.S. relies on for oil are unstable or hostile to the U.S.

China has accounted for more than 40% of growth in global oil demand during the past four years. China is looking out for its interests, just as the U.S. is, which is causing tension between the two countries.

Alternative energy sources have risen sharply as a result. But according to *Business Week* it will take between 5-10 years before alternative fuels, like ethanol and cleaner diesel, become available in reasonable quantities. Hydrogen fuel could take 25 years.

This means oil and gas are our only real energy sources for the coming years, which is basically why oil continues to sit near the highs and why it's important to stay invested in energy stocks and the oil ETF, US Oil Fund, which moves with the price of oil.

Oil reached a high on April 21 and it's been consolidating since then. **Chart 25** shows oil in a major uptrend above $61.50 and it's strong above $68. If the $75.15 high is surpassed, we could then easily see oil at $80. One thing is certain, oil will continue on its upward path in the coming years and the same is true of uranium.

OVERALL PORTFOLIO RECOMMENDATION AND ACTION TO TAKE

Corrections are the order of the day. The precious metals, base metals, their shares, the U.S. and global stock markets are all coming down from their highs posted last month. And they're all poised to decline further. The possibility of further interest rate hikes is stabilizing the dollar and putting pressure on stocks, but our recommended currencies remain firm. Our overall recommendations are listed in the box to the right.

METALS, NATURAL RESOURCES & ENERGY RECOMMENDATION

Continue to keep a 60% position in gold, silver, their shares, as well as in the natural resource and energy shares. Downward pressure and volatility will most likely persist but once the decline is over, it will be a great time to buy more. For now, it's time to be patient.

We've added a separate section in the box to the right which shows our recommended exchange traded funds (ETF). This is a good way to keep gold, silver and oil (and the euro), but we also recommend keeping physical gold and silver. Keep a larger part of your holdings in physical gold and silver, and a smaller part in their shares. Gold and silver shares are weaker than the metals but many are oversold. The first 10 shares and funds in the box are the strongest and new positions (when the time is right) should be focused on these. South African gold shares have been lagging for over a year now but to keep a foot in their door, we like ASA. Sell VGQ as per our May 17 update and we'll be selling AU on strength. SSRI is the best silver share. Otherwise, we're looking for a good exit time to sell CDE and PAAS. Keep your positions.

The **natural resource** shares essentially move with copper and with copper poised to decline further, it will keep pressure on these oversold shares. The shares to the right are a good cross section... BHP is the world's largest raw materials company. CCJ is a uranium play; PD is copper and PSPFX is a raw materials fund. XLB and IGE (new position) are both natural resource indexes. RTP is another giant in mineral resources. Keep your positions but wait to buy more.

Our **energy shares** are holding up better than the resource and metals shares. Many are oversold and it looks like oil is trying to bottom. Buy and keep the oil ETF, USO. Of our energy shares, the first 10 on the list to the right are the strongest. Buy these gradually this month. The last four haven't performed as well. If you have them, keep them but don't buy new positions in these as we'll likely sell on strength.

INTEREST RATE & BOND RECOMMENDATION

Bond prices are at a crossroads. They're poised for a bounce up, which indicates a slowing economy, but as long as the long-term yields stay above 4.65% on the 30 year and 4.50% on the 10 year, the major bond price trend will remain down (yields up). Continue to avoid bonds but if you are a long-term bond holder, it's okay to hold. T-Bills (90 day) remain strongly up above 4.60%.

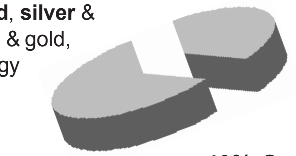
STOCK RECOMMENDATION

Most of the U.S. and world stock markets reached a high in mid-May and they've been coming down since. The emerging markets were harder hit, and they're all poised to decline further. Nasdaq turned bearish while the S&P 500 and Wilshire are close. The Utilities were the exception as they popped up, possibly leading bonds, but they must stay above 406 for this rise to be meaningful. Continue to stay out of the market.

CURRENCIES RECOMMENDATION

The U.S. dollar also reached a low in mid-May, it's still weak and the major trend is down. Continue to buy and hold our recommended currencies, keeping a 40% position in them. The euro and Canadian dollar are the strongest currencies. We also like the Swiss franc, British pound and now the Japanese yen (as per our update). Sell the Australian dollar because it's marginal. Everbank is a good way to buy currencies; 1-800-926-4922. We also like the euro exchange traded fund, FXE, which is a good way to buy the euro, as well as the Merk HD Cur Inv (MERKX) and the Franklin Templeton Hard Curr fund (ICPHX). We also manage currency accounts; for info write info@adenforecast.com.

60% Gold, silver & their ETFs, & gold, silver, energy and natural resource shares



40% Cash:
30% Can dollars & euro or FXE,
10% split between British pound, Swiss franc & Japanese yen or the currency funds

RECOMMENDED GOLD, SILVER, EURO & OIL ETFs

streetTRACKS Gold	GLD-NYSE
iShares Comex Gold	IAU-AMEX
iShares Silver Trust	SLV-AMEX
Euro Currency Tr *	FXE-NYSE
US Oil Fund	USO-AMEX

RECOMMENDED GOLD & SILVER SHARES

Central Fd of Can	CEF-AMEX
Glamis Gold	GLG-NYSE
El Dorado Gold	EGO-AMEX
Newmont Min.	NEM-NYSE
Agnico Eagle	AEM-NYSE
Goldcorp	GG-NYSE
US Glbl Wrld	UNWPX-Fund
Tocqueville Gold	TGLDX-Fund
DWS Gold & Pre Mtl	SGLDX-Fund
DWS Gold & Pre Mtl B	SGDBX-Fund
ASA	ASA-NYSE
Silver Standard	SSRI-NSDQ
AngloGold Ashanti[1]	AU-NYSE
PanAmerican Silver[1]	PAAS-NSDQ
Coeur d'Alene[1]	CDE-NYSE

RECOMMENDED NATURAL RESOURCE STOCKS

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

RECOMMENDED ENERGY SHARES

Arch Coal	ACI-NYSE
Peabody Energy	BTU-NYSE
Suncor Energy	SU-NYSE
Transocean	RIG-NYSE
iShares S&P Gbl Ener	IXC-AMEX
Energy Select SPDR	XLE-AMEX
iShares Dow US Enrgy	IYE-AMEX
Westmoreland Coal	WLB-AMEX
Western Gas Res	WGR-NYSE
Diamond Offshore	DO-NYSE
Noble Corp[1]	NE-NYSE
ConocoPhillips[1]	COP-NYSE
Ultra Petroleum[1]	UPL-AMEX
Newfield Expl[1]	NFX-NYSE

* New position [1] Sell on strength