

# 2006 Wrap Up and More

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Most of the markets moved higher in 2006, driven by lots of liquidity. Stocks, commodities, precious metals and currencies... they all rose. Let's now see how they ended the year...

## **LARGE CAPS: THE BEST SECTOR**

As the year drew to a close, the Dow Industrials hit new record highs and the S&P500 ended up gaining 11.78% in 2006. The Dow Transportations rose 8.59% while the Utilities gained 10.44%. The least impressive index was Nasdaq, which was up 7.65%, but the big stock winner was the Dow Industrials. It rose an impressive 14.90%.

Some of the foreign emerging markets did much better than the U.S. and other major international stock markets. Among the best were Mexico, Hong Kong and Singapore, which gained on average 34.5%.

In comparison, U.S. bonds were down slightly in 2006. So stocks were a better investment, strongly outperforming bonds. But what about the currencies and precious metals?

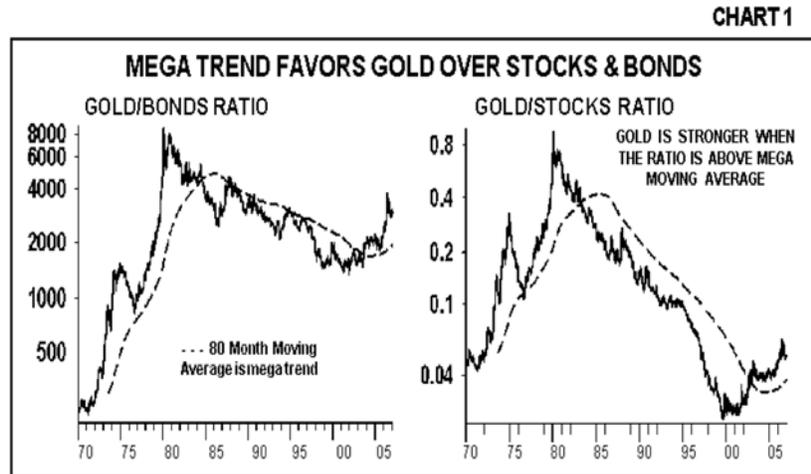
If we take the euro and British pound as examples, which were among the stronger currencies, they gained 9.86% and 12.22%, respectively, averaging 11.04%. Interestingly, this nearly matched the gains in the S&P500, making the stock and currency markets close competitors in 2006.

## **BUT PRECIOUS METALS WERE THE WINNERS**

The precious metals were another story as they strongly outperformed nearly all of the other markets, like they've done over the past six years. Gold rose 19.69% while silver soared 41.06%. Taking the average of these two metals, annual gains amounted to 30.38%, which was slightly more than double the gains in the strongest U.S. stock index, the Dow Industrials at 14.90%.

The HUI gold share index, however, only rose 13.27%, which was in line with the general U.S. stock market. Still, if we average gold, silver and the gold shares, gains were 24.67% and that was 66% better than the Dow.

The point is, even though the stock market had its best year in several years, the gains in precious metals investments continued to be far better. We believe this will continue in 2007 and for years to come.



Looking at **Chart 1**, it tells the story. Here you'll see gold compared to bonds and stocks going back to 1970, along with a very long-term 80 month moving average. Since this moving average is so long-term, it identifies the mega trends and it doesn't change often. But when it does, the new trend tends to last for a decade or more. Note, for example, that the ratios rose strongly in the 1970s, meaning gold was much stronger than stocks or bonds. In other words, the percentage gains were greater in gold throughout that decade.

That wasn't true in the 1980s and 1990s. In both cases, the ratios declined steeply. This meant gold was weaker than stocks and bonds. Stocks and bonds were the better investments, providing superior gains compared to gold.

Most interesting, these mega trends changed in the early 2000s. They're on the rise again, indicating the gains in gold are better than stocks or bonds. So as we've seen in recent years, gold is the better investment and that'll likely continue in the upcoming years.

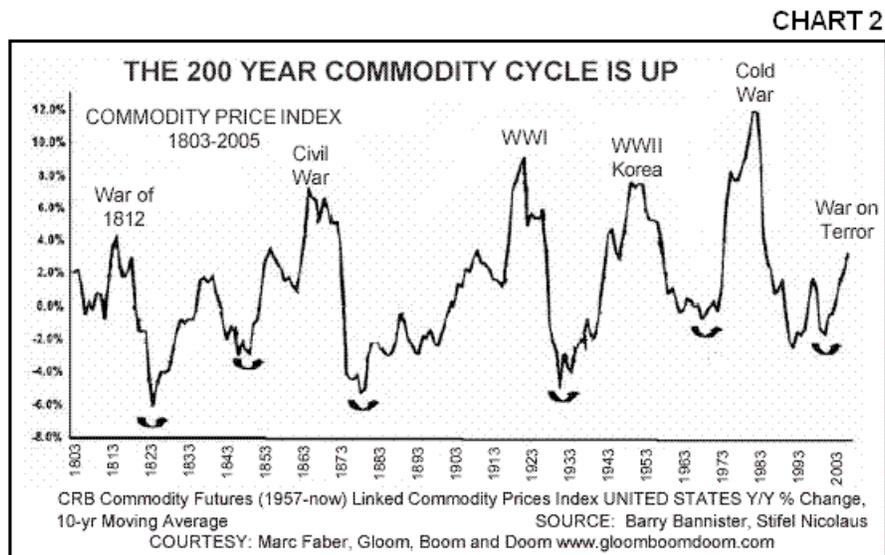
We wouldn't shrug off this chart's importance. In our opinion, this is one of the most interesting charts we have because it's pointing the way. It's not only telling us what lies ahead but also the best way to maximize your investment gains during that time. It truly provides a peek into the future.

## **A MATURING BULL MARKET?**

For now, many worry about the possibility that the gold price is in a maturing bull market. It has already produced gains each year for the past six years and considering the super rises in silver, the base metals, energy, raw materials and some soft commodities, you can understand why.

Granted, there is some excess in the market that will likely be worked off in 2007. But that doesn't take away from the mega uptrend that started in commodities in recent years, which still has years to run.

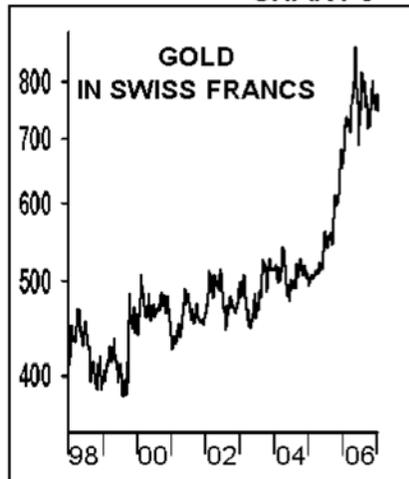
## MEGA RISE UNDERWAY



We've shown the 200 year commodity cycle on **Chart 2** before, but it's worth repeating. Note that commodities have had five mega upmoves in the last 200 years and the sixth one is now underway. On a big picture basis, you can see that the current commodity rise is still young compared to previous upmoves and the upside potential is wide open. Each commodity upmove has also coincided with a war, as is the case today.

The current rise, however, is more powerful due to the massive demand for commodities coming from China, India and the emerging countries, compared to the limited supply. This will surely continue to keep upward pressure on commodities in the years ahead.

CHART 3



Plus, the global financial landscape has changed. Competitive devaluations are the way today as countries compete to sell their goods at the best price. Globalization is in full swing and global imbalances are happening, which is why gold, the ultimate currency, has risen sharply in all currencies over the past year (see **Chart 3** as an example). Gold tends to rise when the U.S. dollar falls. But when gold rises in all currencies, you know the bull market is real and solid.

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Mary Anne & Pamela Aden are well known analysts and editors of The Aden Forecast, a market newsletter providing specific forecasts and recommendations on gold, stocks, interest rates and the other major markets. For more information, go to [www.adenforecast.com](http://www.adenforecast.com)