



The 2011 Gold Season is Just around the Corner

By Frank Holmes
CEO and Chief Investment Officer



The ongoing debate in Washington prompted increased Fear Trade activity in gold this week. The issue over raising the federal borrowing limit caused the yellow metal to remain around its all-time high of \$1,600 per ounce this week.

Gold has now increased for 124 months straight, says Deutsche Bank. The rally is in its 11th year, lasting nearly three times as long as other historical rallies going back to 1971. If the metal rose to \$2,100 an ounce, it would represent the most powerful percentage increase in history, according to Deutsche Bank.

I believe what's happening in the market today is a short-term driver of gold prices spurred by ETF investments. While Deutsche Bank believes a "market friendly resolution to the U.S. debt ceiling may trigger a short-term correction in the gold price," fundamentals seem to be in place to keep gold prices elevated over the long run. Even in many economic scenarios today, Deutsche Bank believes gold prices "appear irreversible."

A more important driver that will keep gold prices elevated over a longer time period is the Love Trade. Marcus Grubb, managing director of investment at the World Gold Council (WGC), highlighted the significant aspects of this trend in his interview with Andrew Bell on the Business News Network (BNN). He says investors need to consider the issues outside of the euro zone, the debt-ridden countries and fiscal deficits.

More important to him is what he calls the "transfer of wealth from west to east" and the accumulation of wealth, particularly in China and India. This is what is driving the longer term strength in the gold price.

He states that the demand for gold is particularly strong in China: The country has a \$3 trillion surplus, with some of it in gold, and he estimates that household wealth will most likely rise by five times. China and India also share a strong cultural affinity for gold as an investment and jewelry. For these reasons, Grubb believes this will drive gold demand.

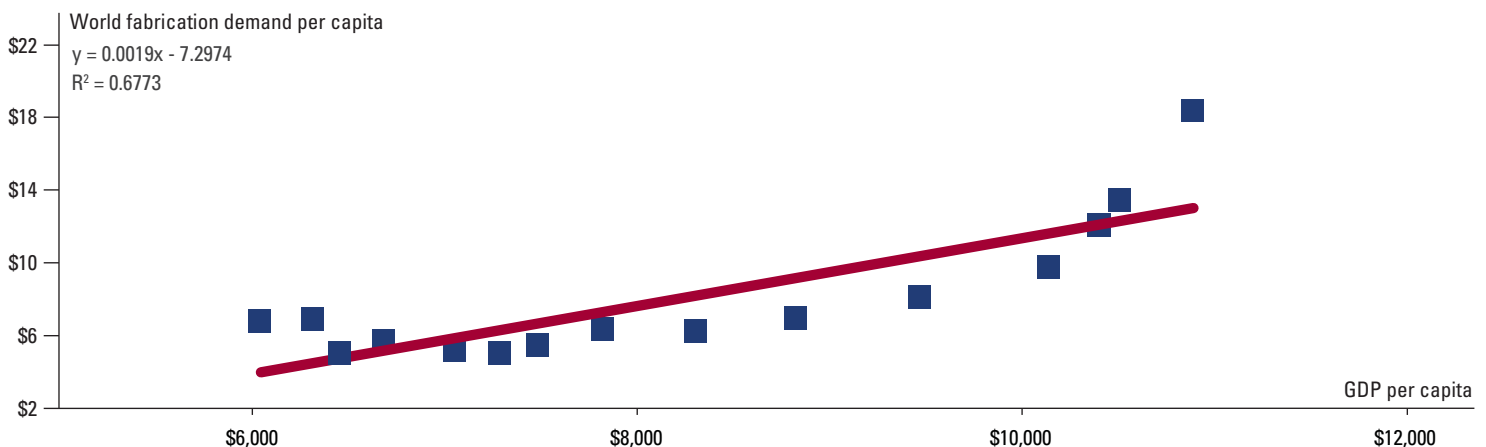
Merrill Lynch has found that there is a positive correlation between gold jewelry demand and rising with increasing wealth. The chart below shows that as the GDP per capital rises so does demand for gold.

September has traditionally been the beginning of the gift-giving season for gold. This is the time of year when gold jewelers are the busiest. The Muslim holy month of Ramadan begins in August and concludes with generous gift-giving in early September. Then it's Diwali, known as "the festival of lights" in India, Christmas in the U.S., and Chinese New Year. The key to this seasonal strength over the past few years has been demand from China and India.

The spending spree has already begun in East Asia. In the WGC's second quarter report, physical gold delivered at the Shanghai Gold Exchange was 14.65 percent higher than the previous year. Gold purchases also remained strong across East Asia, with tourists from mainland China buying gold in Hong Kong. In India, coin stocks, symbols of good fortune, were running low during the Akshaya Tritiya annual holiday in May.

Immediately following Marcus Grubb's interview, I spoke with BNN's Andrew Bell and expanded on the Love Trade season. We also discussed how today's financial worries in the market place

Gold Demand Increases with Wealth

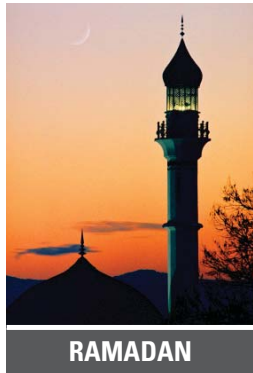


Source: Bloomberg, IMF, BofA Merrill Lynch Global Commodity Research

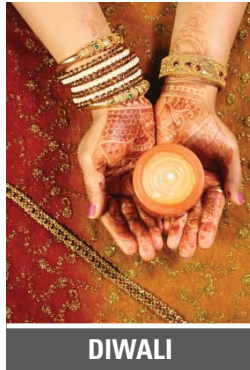


For the Love of Gold

HOLIDAYS



RAMADAN



DIWALI



CHRISTMAS



CHINESE NEW YEAR

AUGUST

SEPTEMBER

OCTOBER

NOVEMBER

DECEMBER

JANUARY

FEBRUARY

have caused a selloff in many equities and gold stocks. I talked about how many of these gold stocks are becoming extremely undervalued relative to the price of gold.

With approximately fifty percent of the world's population controlling the Love Trade, we're in for an exciting period. To kick off gold's season, we invite you to join us on our upcoming gold webcast where we'll discuss the themes above, as well as the opportunity in gold equities which we highlighted a few weeks ago.

Stay tuned for more details.

Want to receive commentary from Frank and analysis from the rest of the U.S. Global Investors team delivered to your inbox every Friday? Sign up to receive our weekly **Investor Alert** at www.usfunds.com.

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