



U.S. Global Investors

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The Silver Lining for Markets and the U.S. Economy

By Frank Holmes

CEO and Chief Investment Officer

U.S. Global Investors

Call it choppy, volatile, fickle or lively, market action continued to disappoint this week. Frightened investors pulled out more than \$40 billion from long-term mutual funds for the week ended August 10, according to the Investment Company Institute.

The eurozone crisis fueled the outflows as economic growth figures for several eurozone countries disappointed—a hard trend to break given the austerity measures being implemented. Relatively, U.S. stocks have only suffered a fraction of the pain (down roughly 5 percent year-to-date as of August 16) felt by investors in the U.K. (down 9.2 percent), Germany (down 13.2 percent), France (down 15.1 percent) and Italy (21.9 percent).

Given this landscape, the International Strategy and Investment Group (ISI) lowered its forecast for global growth to 2.5 percent in 2012. That's down from the 4-5 percent growth level many were estimating.

There is a silver lining: Despite all the negative news out there, the global economy will continue to grow.

In fact, the U.S. economy has had several positive developments recently. The four-week average for unemployment claims dropped to 402,000 during the week ending August 13. There is still a large chunk of America unable to find a job, but that group has shrunk 13 percent since August 2010 and is about 40 percent of peak 2009 levels.

Many S&P 500 companies have leveraged strong economic growth in emerging markets and a weaker U.S. dollar into higher profits. Second-quarter 2011 earnings for companies in the S&P 500 Index have been superb with nearly 71 percent of company earnings beating expectations, per ISI.

According to Citigroup, this continues a trend established in 2010 when year-over-year earnings for the S&P 500 were up more than 38 percent, more than double the historical average during the first full year following a recession.

In addition, the strong earnings report is across all sectors. These companies are also sitting on nearly the largest cash cushions as a percent of market capitalization (about 11 percent) we've seen in 20 years, Citigroup says. Markets have historically bottomed when cash as a percentage of market cap reaches 9 percent.

We've also seen a surge in U.S. money supply (M2). ISI says M2 has surged \$460 billion (about 5 percent—38 percent on an annualized rate) over the past eight weeks. Though the rise is largely due to a plunge in institutional money funds, increased money supply means more funds are available to be lent out, pushing down borrowing rates. Access to this “cheap capital” can increase confidence and entice businesses to put cash to work.

Around the globe, two recent bright spots have been Taiwan and Russia. Taiwan's equity market is technology heavy, says BCA Research, and the market's performance tends to track the global information technology sector, not global markets. BCA says that Taiwan is set to outperform because “after two decades of stagnation, domestic demand has been showing signs of reviving...[and] equity/currency valuations remain attractive.” In Russia, strong cash positions and subdued credit flows since 2008 mean Russia's “equity and credit markets are likely to outperform in the months ahead,” BCA says.

Those investors who have been waiting for a bounce in the markets may not have to wait too long. We mentioned last week that the S&P 500 has historically experienced strong upward moves after the CBOE Volatility Index (VIX) reaches extreme levels. Research from Citigroup backs up this assertion, showing the average return for the S&P 500 is 5.5 percent (three months), 9.4 percent (six months) and 18.9 percent (12 months) following a breach of the 35-40 on the VIX.

The Neverending Story of a "Gold Bubble"

Gold continued to make headlines this week, reaching nearly \$1,900 an ounce on Friday before resting around the \$1,850 level. Gold's 15 percent rise to new nominal highs over the past month has rekindled “gold bubble” talk from many pundits. Long-term gold bulls have been forced to listen to these naysayers since gold reached \$500 an ounce. If you would have joined their groupthink then, you would've missed gold's roughly 270 percent rise since.

That said, gold is due for a correction. It would be a non-event to see a 10 percent drop in gold. This would actually be a healthy development for markets by shaking out the short-term speculators while the long-term story remains on solid ground.

Forty years ago this week, President Richard Nixon “closed the gold window,” ending the gold-backed global monetary system established at the Bretton Woods Conference in 1944 and kicking off a decade

of stagflation for the U.S. economy.

At the time, \$1 would buy 1/35th an ounce of gold. Today, \$1 will net you about 1/1,178th an ounce of gold. Put differently, “One U.S. dollar now buys only 2 cents worth of the gold it could buy in 1971,” says Gold Stock Analyst. This means that consumers have lost roughly 98 percent of their purchasing power compared to gold over the past 40 years.

The U.S. dollar isn't the only asset gold has outperformed during recent decades. The yellow metal has also seen periods of relative strength against the S&P 500. This chart from Gold Stock Analyst pits the performance of gold bullion against the S&P 500 since 1971—you can see that gold immediately rallied following Nixon's announcement before peaking at \$850 an ounce in 1980. At that price, one ounce of gold was 7.6 times greater than the S&P 500, according to Gold Stock Analyst. Gold's relative performance then declined for the next 20 years, with the S&P 500 taking the lead in 1992 and peaking at 5.3 times the value of gold in 1999. Currently, gold's value is roughly 1.6 times greater than the S&P 500.

Charting Gold vs. the S&P 500 Index



Source: Bloomberg

What drove gold's relative underperformance from 1980 to 1999? It was a shift in government policies, which have historically been precursors to change—a key tenant of our investment process here at U.S. Global Investors.

Gold Stock Analyst points out that Federal Reserve Chairman Paul Volcker began steering the U.S. economy toward positive real interest rates in 1980 and Volcker's goal was met in 1992—the same year the S&P 500 overtook gold.

In order for gold's relative value to return to 1979-1980 peak levels of 7.6 times the S&P 500, Gold Stock Analyst's John Doody says gold prices would have to hit the \$10,000 mark. Obviously that scenario is unlikely, but it does put all this “gold bubble” nonsense into perspective.

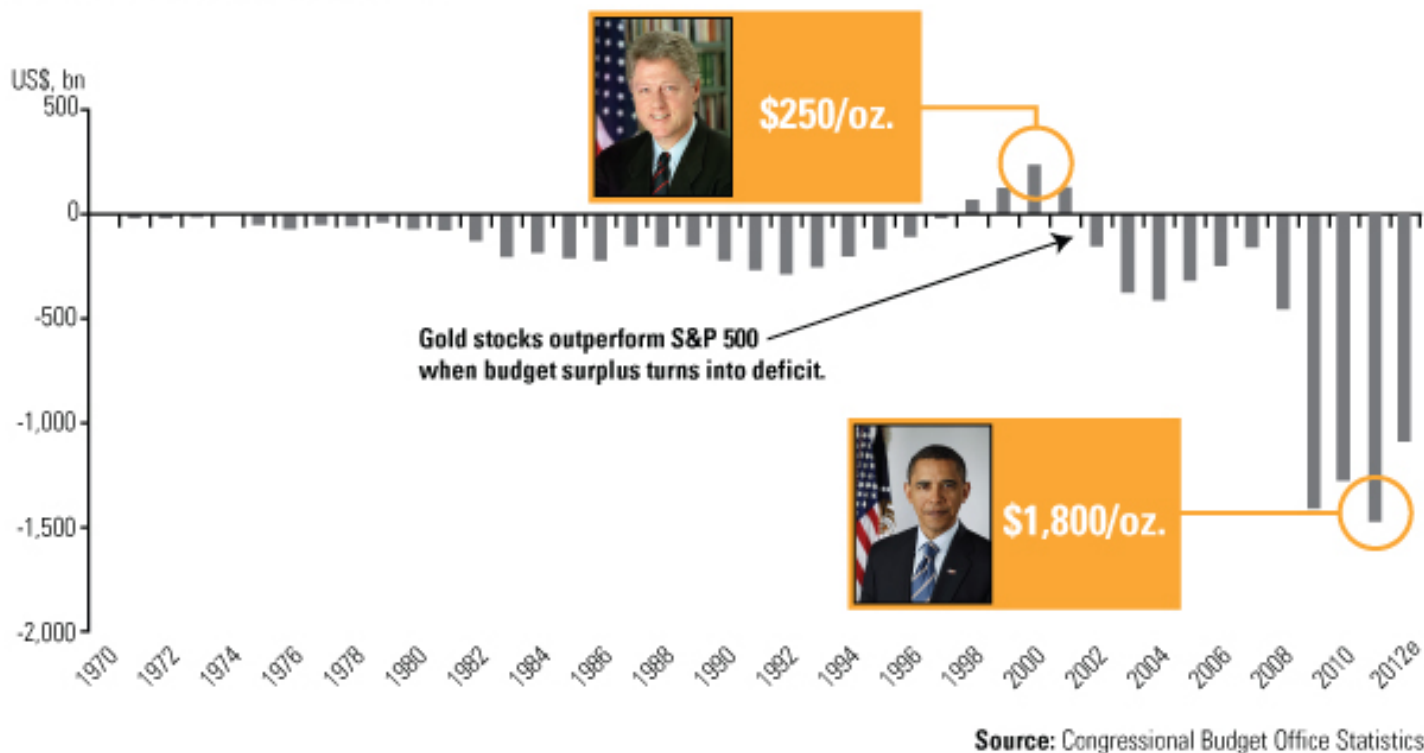
One point to pop the “gold bubble” talk is that negative real interest rates are poised to stick around for a while. We've previously discussed that negative real interest rates—one of the main drivers of the Fear Trade—have historically been a miracle elixir for higher gold prices. The magic number for real interest rates is 2 percent. That's when you can earn more than 2 percent on a U.S. Treasury bill after discounting for inflation. Our research has shown that commodities tend to perform well when rates fall below 2 percent.

Take gold and silver, for example, which have historically appreciated when the real interest rate dips below 2 percent. Additionally, the lower real interest rates drop, the stronger the returns tend to be for gold. On the other hand, once real interest rates rise above the 2 percent mark, you start to see negative year-over-year returns for both gold and silver.

It's important to point out that it's the political policies not political parties that drive this phenomenon. During the 1990s, when President Clinton was in office, there was a budget surplus and investors could earn more on Treasury bills (about 3 percent) than the inflationary rate (about 2). This gave investors little incentive to embrace commodities such as gold, and prices hovered around \$250 an ounce.

It's Not the Political Party, It's the Political Policies

Federal Budget Surplus or Deficit



Since 2001, increased regulation in all aspects of life, negative real interest rates, welfare and entitlement expansion funded with increased deficit spending have created an imbalance in America's economic system. It's this disequilibrium between fiscal and monetary policies that drives gold to outperform in a country's currency. Today, the Fed capped interest rates near zero back in 2008 and the federal budget deficit has ballooned to \$1.4 trillion. In fact, both the deficit as a percentage of GDP (negative 11 percent) and federal government debt as a percentage of GDP (nearly 65 percent) are at the highest levels since 1950, Citigroup research shows. This has helped fuel gold's rise through \$1,000, \$1,500 and now \$1,800 an ounce.

This is only one side of gold's long-term story. Another point to pop the "gold bubble" talk is that we're entering what has historically been gold's strongest period of the year in terms of demand. In the past, gold prices have bottomed in August but recently gold's strong seasonal period has extended into the dog days of summer as the holy Muslim holiday of Ramadan moves forward on the calendar by 10 days each year. This year Ramadan began August 1.

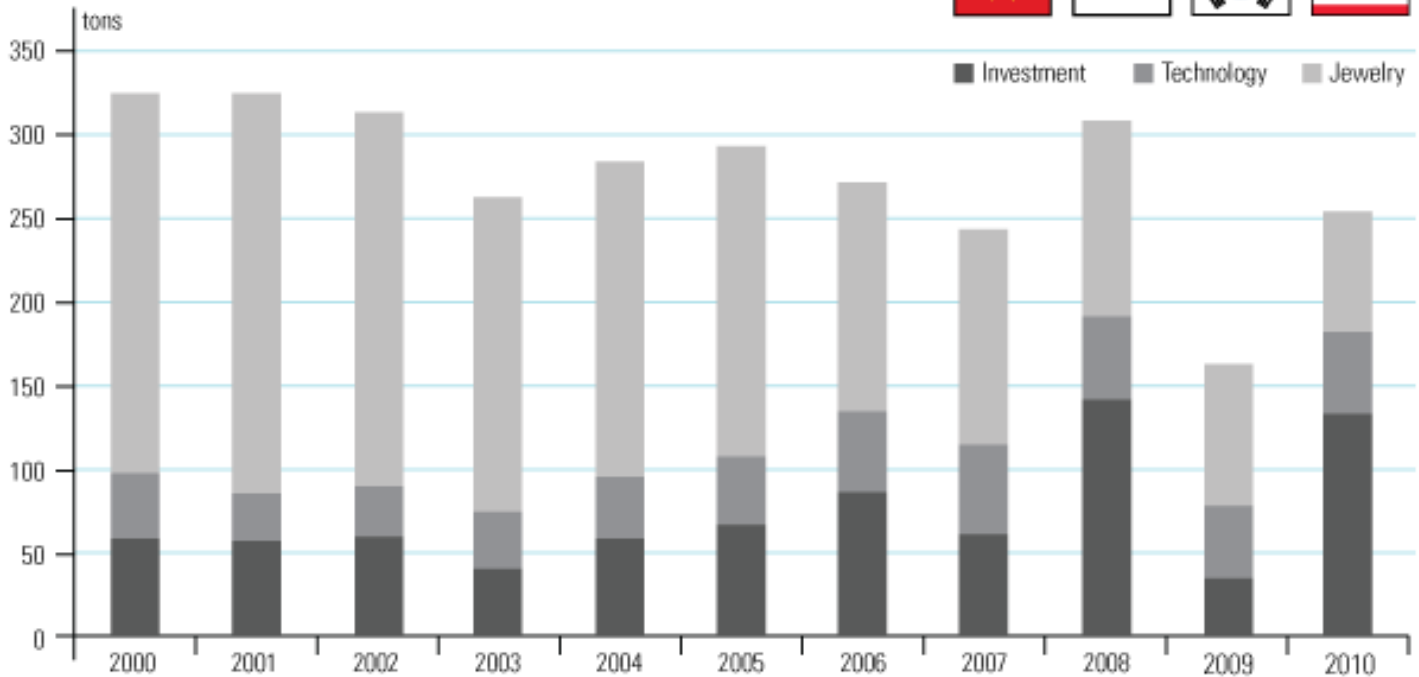
In its latest Gold Demand Trends report, the World Gold Council (WGC) confirmed that the Love Trade is burning bright in Asia. The WGC council said Chinese and Indian buyers continue to be the "predominant drivers" of gold demand, accounting for "52 percent of bars and coins and 55 percent of jewelry demand." China's demand grew 25 percent, while India saw an increase of 38 percent. WGC attributes this growth to "increasing levels of economic prosperity, high levels of inflation and forthcoming key gold purchasing festivals."

But China and India aren't the only emerging markets feeling the love for gold. Vietnam, Indonesia,

South Korea and Thailand – labeled by the WGC as the “VIST” countries – are additional key gold-consuming countries.

The WGC’s chart below shows a potential opportunity in increased demand for gold, especially in jewelry, in the VIST countries. In 2010, demand rose to 253 tons after a sharp drop in 2009. Jewelry demand, however, was historically low while investment demand grew considerably.

Combined Gold Demand in Vietnam, Indonesia, South Korea, Thailand



Source: GFMS, World Gold Council

Similar to China and India, the VIST countries have had a 2,000-year long relationship with gold which is intertwined in their culture, religion and economy. Jewelry and investment demand are one and the same, says the WGC: “The demand for gold as a store or accumulator of wealth, as an auspicious gift or as insurance against unforeseen risks, is to a large extent independent of the form it takes.”

This strong tie to gold means that, as wealth among residents of Vietnam, Indonesia, South Korea and Thailand increases, price is less of a consideration, and gold will continue to be at the top of their shopping lists.

At some point in the future gold prices will fall, that’s for certain. However, don’t expect it to happen soon. We believe the one-two punch of the Fear Trade and Love Trade will keep gold prices at elevated levels for another few years.

Editor’s Note

We received a large number of responses to our “Are you Buying, Selling or Holding?” question last week and these responses ran the spectrum from “going into cash” to “staying the course” to “nibbling”

to “big buy time.” Ideally, every investor is following their personal objectives and keeping their long-term goals in mind when making investment decisions. We hope this weekly Investor Alert offers some good information to formulate those goals and objectives. Special thanks to all those who were kind enough to respond. We welcome your feedback any time.

editor@usfunds.com

All opinions expressed and data provided are subject to change without notice. Some of these opinions may not be appropriate to every investor.

M2 Money Supply is a broad measure of money supply that includes M1 in addition to all time-related deposits, savings deposits, and non-institutional money-market funds. Chicago Board Options Exchange (CBOE) Volatility Index (VIX) shows the market's expectation of 30-day volatility. The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies.

A Case for Investing in Gold

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Index Summary

- The major market indices were lower this week. The Dow Jones Industrial Average lost 4.01 percent. The S&P 500 Stock Index decreased 4.69 percent, while the Nasdaq Composite fell 6.62 percent.
- Barra Growth underperformed Barra Value as Barra Value finished 3.79 percent lower while Barra Growth decreased 5.50 percent. The Russell 2000 closed the week with a loss of 6.57 percent.
- The Hang Seng Composite Index finished lower by 1.56 percent, Taiwan fell 3.85 percent, and the KOSPI declined 2.70 percent.
- The 10-year Treasury bond yield closed 19 basis points lower at 2.07 percent.

All American Equity Fund - GBTFX • Holmes Growth Fund - ACBGX • Global MegaTrends Fund - MEGAX

Domestic Equity Market

Stock market corrections are always difficult but they also create opportunities. One tried and true method which allows investors to compare similar companies is through relative valuation. This same process can be applied to asset classes. The S&P 500 currently yields about 2.27 percent—that's higher than a 10-year Treasury bond which yields roughly 2.07 percent. The choice between the two is obvious for long-term investors: Equities.

If one buys the 10-year Treasury today, you will earn about 2 percent a year and get your principal back (barring disaster) in 10 years. However, by investing in stocks today, you will receive more in annual income plus the potential growth and appreciation over that time. Granted, the latter hasn't always been positive. Just look at the past 10 years of returns for the S&P 500. But that's been one of the worst periods in history for investing in stocks and it is unlikely stocks will suffer the same fate over the next 10 years.

The average annual total return for the S&P 500 during the 20th Century was 10.44 percent—the strongest period coming during the Tech boom in the late 1990s, research from Citigroup shows. Meanwhile, the total return on a 10-year Treasury bond was 4.68 percent over the same time period. Since 1961, there have been 18 years where the S&P 500 rose more than 15 percent compared to only 13 years of declines.

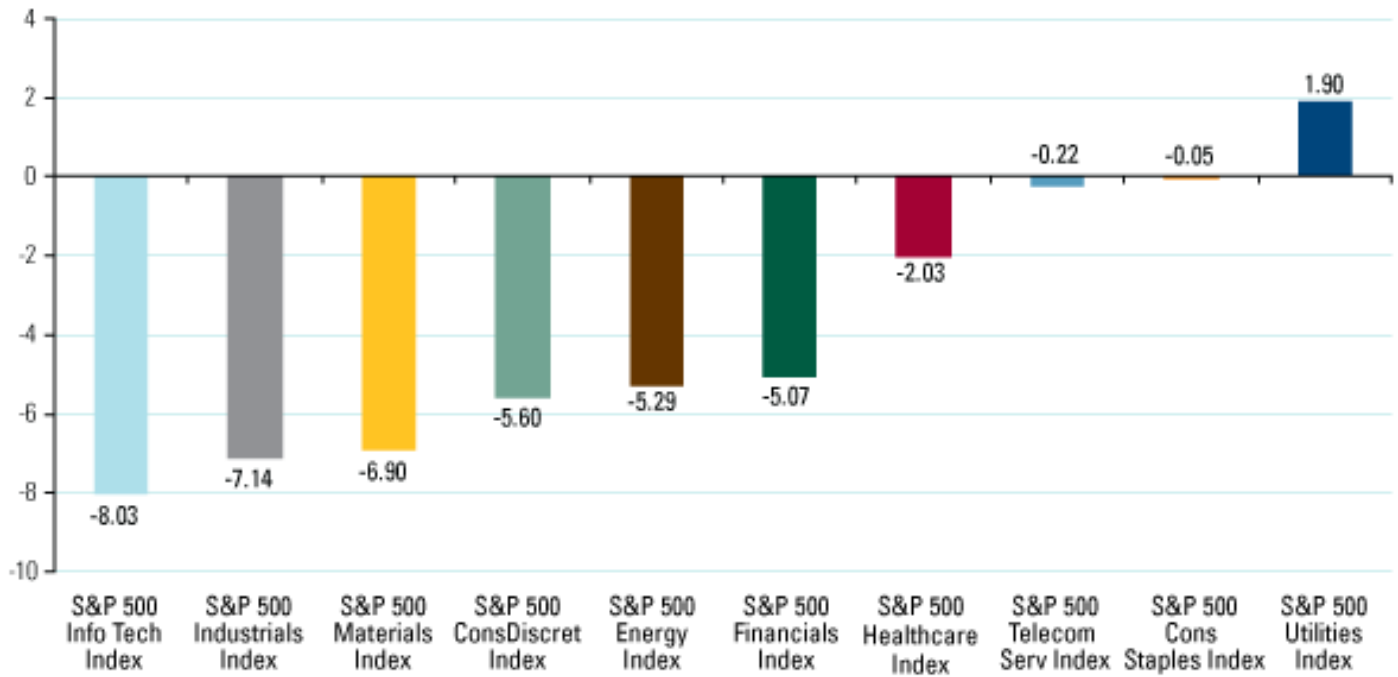
While it is difficult to predict what will happen over the next year, based on history, the next 10 years should be a lot kinder to investors.

The domestic stock market was lower this week with the S&P 500 Index losing 4.69 percent. The figure below shows the performance of each sector in the index for the week. One sector increased and nine sectors declined. The best-performing sector for the week was utilities which increased 1.90 percent. Other top-three sectors were consumer staples and telecom services. Technology was the worst performer, down 8.03 percent. Other bottom-three performers were materials and industrials.

Within the utilities sector the best-performing stock was PPL, which rose 5.00 percent. Other top-five performers were Ameren, American Electric Power, CMS Energy, and PG&E.

S&P 500 Economic Sectors

(Percentage return for each sector group from Friday to Friday, August 12, 2011–August 19, 2011)



Source: Bloomberg, U.S. Global Research

Strengths

- The gold group, represented by its single member Newmont Mining, was the best-performing group for the week, rising 5 percent. The price of gold rose during the week.
- The hypermarkets & supercenters group outperformed, gaining 4 percent for the week, led by its largest member, Wal-Mart Stores. The retailer reported quarterly earnings and revenue above the consensus estimates, and it raised its full-year earnings guidance.
- The tobacco group outperformed, up 3 percent, with the stocks of all four group members increasing. Five tobacco companies are suing the FDA, claiming that the new law requiring graphic warning labels on tobacco products violates their constitutional right to free speech.

Weaknesses

- The tires & rubber group was the worst-performing group, down 19 percent, led by its single member, Goodyear Tire & Rubber. A major brokerage firm downgraded the stock of the tire maker from “Neutral” to “Sell,” saying that it expect the stock to underperform auto peers driven by a second-half moderation in the company’s earnings power.
- The real estate services group underperformed, losing 17 percent on weakness in its single member, CB Richard Ellis Group. The decline was likely caused by investor concern that an economic slow-down would hurt the commercial real estate sales and leasing business.
- The computer storage & peripherals group dropped 14 percent, led by member NetApp. The firm

reported fiscal first quarter sales below the consensus estimate, and it guided fiscal second quarter sales below consensus. The firm saw sales weakness in the Federal government and the financial services sectors.

Opportunities

- There may be an opportunity for gain in merger & acquisitions (M&A) transactions in 2011. Corporate liquidity is high, thereby providing the means to pursue acquisitions.

Threats

- A mid-cycle slowdown in the domestic economy would be negative for stocks.
- An escalation in concerns over sovereign debt obligations in Europe would be negative for stocks.

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The Economy and Bond Market

Treasury bonds rallied for the third week in a row, sending yields sharply lower. European banks remain in the headlines and were a key driver during this week's move. Economic data continues to deteriorate as can be seen in the chart below, which depicts the Philadelphia Fed Business Outlook Survey, commonly known as the Philly Fed Index. The index tracks manufacturing in the Philadelphia region and unexpectedly plunged to the lowest levels in more than two years, back when the economy was in a recession. This raised fears that the economy may already be in recession and fueled a rally in bonds.

Philadelphia-Area Manufacturing Plummet

Federal Reserve Bank of Philadelphia's General Economic Index



Source: Bloomberg

Strengths

- July industrial production rose a surprising 0.9 percent and bucks the recent trend of weak manufacturing data.
- Mortgage rates fell to the lowest levels in more than 50 years, falling to 4.15 percent.
- The Conference Board's Leading Economic Indicators Index rose a greater than expected 0.5 percent in July.

Weaknesses

- Eurozone GDP rose a meager 0.2 percent (not annualized) in the second quarter, driven by weaker-than-expected results from Germany.
- Housing data remains in the doldrums with July housing starts declining, existing home sales falling and home loan applications plunging.
- July inflation data was higher than expected, while not a concern in the current environment, it must be monitored closely.

Opportunities

- With the economy weak and concerns brewing about an additional financial crisis, the Fed will remain accommodative for some time and bonds appear well supported in the current

environment.

Threats

- There is a crisis of confidence in world leaders at the moment and the potential for another financial crisis is rising.

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Gold Market

For the week, spot gold closed at \$1,852.10, up \$105.20 per ounce, or 6.0 percent for the week. Gold equities, as measured by the Philadelphia Gold & Silver Index, rose 1.88 percent. The U.S. Trade-Weighted Dollar Index fell 0.84 percent for the week.

Strengths

- Gold had another strong week, reaching an all-time high of \$1,867.95 an ounce on Thursday with renewed concerns over the European debt crisis. Gold is continuing to find favor among investors for mitigation against falling asset prices. With gold being one of the few assets that is uncorrelated with market returns, it has played a vital role in portfolio diversification.
- The World Gold Council (WGC) published their latest results. The WGC highlighted that strong demand in India and China, coupled with an overall drop in recycling activity this quarter, demonstrates that these regions have adjusted to the current price environment and expect the upward price trend to continue.
- As prices of gold are reaching all-time highs, silver has also experienced a big rise, particularly in the Middle and Far East, as we see a strong trend towards silver purchases as an investment with a number of precious metals dealers reporting much higher demand for silver than for gold at current price levels.

Weaknesses

- Overall, senior and mid-tier gold miners fared about the same in term of relative performance with a gain of roughly 3.4 percent, however the TSX Venture Exchange fell almost 3 percent, putting pressure on the junior mining sector. RBC gold analyst team reported earlier in the week that there is very little appetite for riskier mining assets, including, early stage exploration companies, miners in Africa or Southeast Asia and/or companies with single mine assets outside of North America.
- TD Securities Bark Melek warned investors that “gold is set to continue its short-term correction after its stellar performance.” Investors are questioning how high the price of gold really can go before a mean reversion materializes.
- The WGC noted that overall gold demand fell 17 percent in the second quarter relative to same quarter in 2010 mainly due to a slow down in investment demand in the private sector. Interestingly, Central Banks’ purchases more than quadrupled for this same period.

Opportunities

- With the rise in bullion this week it was a relief to see the majority of the gold stocks buck the down trend in the general equity prices. The huge spread that has developed this year between the performance of gold bullion versus the returns of gold stocks has been a major disappoint for gold equity investors. As we saw the CME raise margin requirements for bullion, the continued run in gold might trigger more margin hikes or simply prompt investors to slow down on gold and buy the undervalued equities.
- Venezuela's President Chavez plans to repatriate the country's gold reserves held overseas. Traders noted this represents one of the largest moves of physical gold in decades. Venezuela noted the move was part of a strategy to shift assets away from European and American custodial institutions to ensure their safety.
- Contrary to silver’s “devil metal” reputation for being extremely volatile, in the past several weeks, while gold has seen some wild fluctuation up to above \$1,800 and back down again, silver has hardly moved, staying firmly in the \$38-39 range. Silver has been one of the least volatile investments during this period, and has lagged gold lately.

Threats

- A Grant Thornton International report warned that government intervention threatens global mining. The three key intervention areas identified by Grant Thornton include taxation, nationalization/indigenization, and environment. The report asserts that these interventions are motivated by financial and political pressure.
- It was confirmed Wednesday that Namibia has withdrawn a proposal to increase the tax on non-diamond miners to 44 percent from 37.5 percent and instead will propose a windfall tax when

international prices are high. Namibia is one of 25 countries globally that was considering increasing its take of the mining industry's profits.

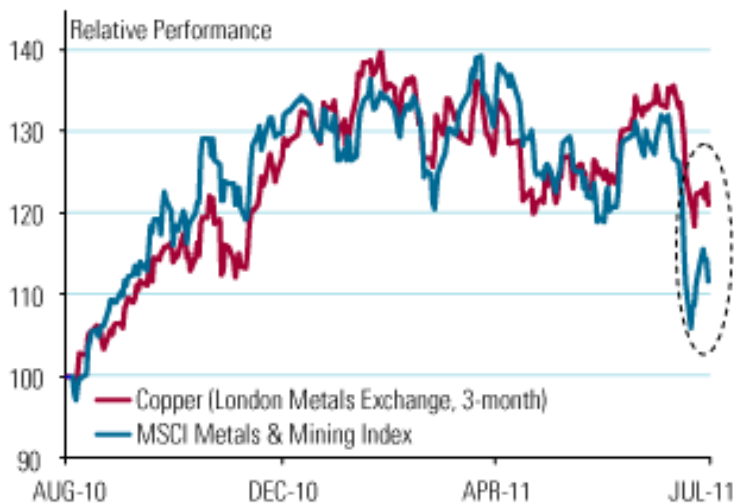
- Papua New Guinea shocked the resource world by proposing to hand over mineral rights to the local landowners. While this may be extremely disruptive in the short-term, this would create a tremendous amount of wealth, free of unencumbered political issues. From an earlier study by Jude Wanniski, author of "The Way the World Works," he noted that roughly 90 percent of all the oil and gas wells ever drilled were done in Canada and U.S. because land-based mineral rights are held in the private sector, not by government.



Global Resources Fund - PSPFX • Global MegaTrends Fund - MEGAX

Energy and Natural Resources Market

Mining Equities Have Underperformed Copper



Source: Bloomberg Finance Deutsche Bank

Strengths

- Despite global economic tensions and overall negative market performance this past week, the Global Resources Fund was able to weather market volatility very well relative to its benchmark and peers. This can be attributed to the Fund's diversified positioning and limited exposure to the main negatively-performing sectors being affected most. The Fund benefited from exposure to precious metals and the food and agriculture sector.

- Macquarie research states that China's electricity consumption increased by 12 percent year-over-year in July, in line with the year-on-year rate for the first seven months of this year as a whole. This data suggests growth in industrial production remains solid.
- Belarus Potash Company (BPC), the international potash trader, announced a new standard potash price for South East Asian markets of \$535 per ton, up 4.9 percent from the previous price of \$510 per ton. The company announced that due to its contractual obligations to supply potash to China and India in the upcoming quarter and the limited availability of producers' inventories, the new price will apply from October 2011.

Weaknesses

- We continued to see the oil tanker stocks and the construction material and steel sectors among the bottom-half performers this week. The overall trend separating the top-half and bottom-half performing sectors continues to remain consistent.
- Colombia's President Juan Manuel Santos has said his administration has prohibited mining in 47 coffee municipalities, according to the DRCO Precious Metals Brief.
- Rising utility prices have become increasingly common. Npower, in the U.K., has become the latest utility company to contribute to rising household bills, announcing that its gas and electricity charges will climb by 15.7 percent and 7.2 percent, respectively. Five of the 'big six' U.K. utility companies have now decided to raise their tariffs since June, all of them citing higher wholesale gas prices, according to the Financial Times.
- Morgan Stanley highlighted that the Architecture Billings Index dropped for the fifth straight month to 45.1. This represents a negative read for construction companies.
- Deutsche Bank reported that Japan's crude oil imports fell 11.2 percent in July to 16.03 million kiloliters from a year earlier.
- Oil prices feel sharply this week as a raft of weak U.S. economic data once again affected sentiment negatively, wiping out the gain prices had managed to build up over the past week.

Opportunities

- Should global economic uncertainties continue, we should see the gold commodity maintain its positive performance relative to other precious metals.
- Macquarie analysts highlighted that one area where iron ore supply continues to fall is India, with only 19 ships departing between August 1 through the 15, equivalent to 742 kilotons of ore. If this rate was maintained for the month, it would be the lowest Indian export volume in recent history, something which is helping to keep spot market fundamentals extremely tight. This in

turn suggests strong pricing for the commodity as supply remains low.

- According to Bloomberg, U.S. crude oil supplies declined to a five-month low as imports fell and refineries ran near the highest rates of the year. Inventories dropped 750,000 barrels, or 0.2 percent, to 349,000 barrels in the seven days ended August 12. This presents encouraging data to promote higher crude oil prices. “Refinery margins are relatively healthy, which will encourage the shift of crude inventories into products,” one Standard Bank commodity strategist said.
- Mineweb reported that “with recession fears weighing on equity markets, resource investors would do well to steer clear of speculative Canadian mining plays and put their cash into producing miners with strong balance sheets. Leading market indicators are pointing to slowing global growth, which will likely lead to lower demand for resources as the construction and manufacturing sectors pull back. Add to this the cost of building and operating a mine is spiraling upward, while recession worries could lead banks and the equity markets to shy away from funding new projects.” Focusing on producing mines could help to reduce negative exposure during these tumultuous times.

Threats

- Researchers at Macquarie published that in the U.S., the Philadelphia area index of economic activity fell to a negative 30.7 in August, from a positive 3.2 in July, which marked its lowest reading since March 2009, suggesting a sharp slow of activity. This index is used as a sentiment indicator to markets.
- According to press reports, it was suggested that physically-backed exchange traded funds (ETFs) are unlikely to come to market as a result of prohibitively high costs and administrative complexity. Macquarie analysts hold deep-seated doubts about physically-backed ETFs in base metals for these reasons.

Frank Talk *Insight for Investors*



August 19, 2011

Is Business Choking on Red Tape?



August 18, 2011

Gold's Sun Also Rises in the East



August 17, 2011

Discussing Gold Equity Performance with The Gold Report

A Blog by Frank Holmes, C.E.O. and Chief Investment Officer

China Region Fund - USCOX • Eastern European Fund - EUROX
Global Emerging Markets Fund - GEMFX

Emerging Markets

Strengths

- In August, Macau gaming revenues tracked at HK\$23 billion, up 45 percent on a year-over-year basis.
- China will look to import \$8 trillion worth of goods over the next 5 years. For the first 7 months, China bought \$973.1 worth of goods from other countries. Chinese imports will bode well for the global economy, particularly Korea and the countries in the Association of Southeast Asian Nations (ASEAN), which run a trade surplus with China. Korea exports 25 percent of its goods to China, while ASEAN exports to China is catching up with that of the U.S., up 25 percent for the first 7 months January through July this year.
- Chile's central bank opted to keep its benchmark interest rate unchanged for a second straight month after consumer prices rose less than expected and economic growth slowed in the second quarter. The highest interest rates in more than two years have helped rein in consumer spending and slow inflation in South America's fifth-biggest economy, giving policy makers leeway to keep borrowing costs unchanged as they weight the threat posed by slowing global growth.
- Roubini Global Economics speculated that Colombia's central bank will leave the monetary policy rate at 4.5 percent amid increased risks to growth globally. In Colombia's central bank's latest minutes, growth was driven by domestic demand, elevated credit growth, low real rates, improved consumer and business confidence, robust retail sales and high consumer reports. The central bank remains bullish on its economy.
- Peruvian GDP growth will likely increase to 6 percent year-over-year in July, following the deceleration in the construction and manufacturing sectors, although it is supported by the strong retail sector.
- The Istanbul Stock exchange closed in the positive territory after volatile trading for the week, bucking the malaise consuming world markets. Even though initial investor response to last week's interest rate cut by the Central Bank was negative, the cut now appears perfectly timed to stem the contagion from global slowdown.

Weaknesses

- In July, Chinese new loans were RMB 492.6 billion, 25.2 billion less than the same period in 2010; M2 went up 14.7 percent, down 1.2 percent month-over-month and 2.9 percent year-over-year. This was consistent with a M2 growth target of 15 percent for the year; RMB total deposit balance at the end of July was 77.97 trillion, down 492.6 billion from the end of June, probably showing the negative effect on deposit due to negative interest rate spread.
- The People's Bank of China (PBOC) on Tuesday sold a one-year note 8 basis points higher than prior sales, and on Thursday, it sold 3-month note also at 8 basis points higher. The market believes the PBOC will raise interest rates again, but many economists dismissed such

speculation because of the adverse global economic environment.

- For the week, Argentina was the worst Latin American performer. The peso is posting its biggest monthly decline in 18 months after President Cristina Fernandez de Kirchner's 51 percent victory in a primary election, confirming her status as the front-runner before elections in October. Capital flight from South America's second-biggest economy is also putting additional pressure on the peso to weaken. Individuals and companies took \$9.8 billion out of the economy in the first half of this year.
- Volkswagen AG cut production in Brazil as car sales fell. The company cancelled three-days of extra production that would have produced 3,000 cars due to a slowdown in car sales.
- Russian Central Banker Ulyukaev expressed caution about giving additional liquidity to the market, to avoid "unwise spending," poor quality investments, and "incorrect budget liabilities." Bank stocks fell in response.

Opportunities

- The month of August was another headwind for China's banking stocks. The HSCI financial index was down 14.32 percent. Stock prices did not react well to China's money supply numbers in July: new loans, M2 growth, and bank deposits were all down on a year-over-year basis. However, bank stocks' valuations are lower than during the 2008 financial crisis. Many in the investment industry believe the cheap valuation is a support for bank stock prices, in addition to higher net interest spread. The table below shows China's banking industry valuation at historical lows. The chart underneath shows low prices are moving up, which benefits the banks' profitability.

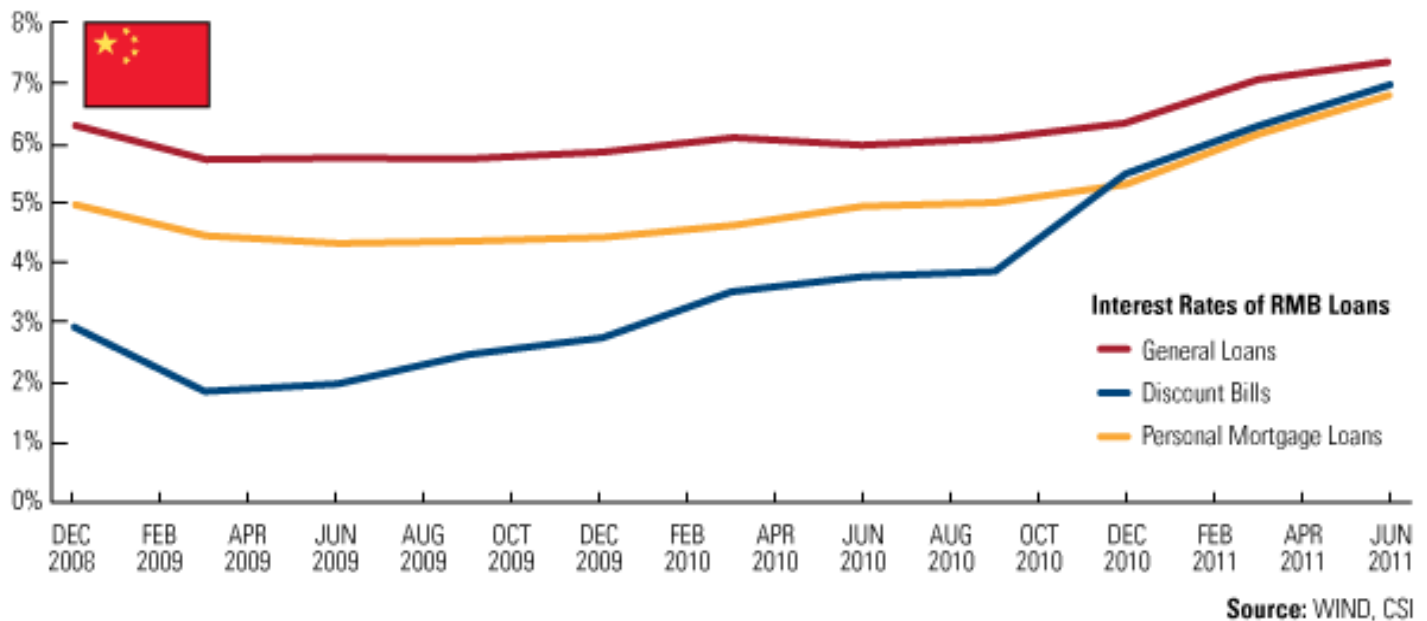
China's Banking Industry Valuation Metrics

Company	Price (HK\$)	Price/Earnings Ratio			PEG (x) 2010-2012E	P/B (x) 2011E	Yield (%) 2011E	RoE (%) 2011E
		2010	2011E	2012E				
<i>Hong Kong - average</i>		8.2	7.1	6.0	0.6	1.3	4.4	20
ICBC (01398.HK)	5.01	8.6	7.2	6.3	0.5	1.5	5.6	23
CCB (00939.HK)	5.45	8.0	6.9	5.9	0.5	1.4	5.8	22
BoC (03988.HK)	3.13	6.6	5.6	4.9	0.4	1.0	6.5	19
ABC (01288.HK)	3.75	9.3	8.5	7.0	0.6	1.6	4.7	20
BoComm (03328.HK)	5.75	7.1	6.0	5.1	0.4	1.1	4.1	20
Minsheng Bank (01988.HK)	6.41	8.0	5.7	4.6	0.3	1.1	2.4	21
CMB (03968.HK)	16.18	10.8	8.9	7.6	0.6	1.8	2.7	22
CQRC Bank (03618.HK)	3.93	7.2	7.7	6.4	1.3	1.1	3.7	16

Source: Respective companies, Bloomberg, CSI
 PEG = (Price/Earnings)/Growth Ratio
 P/B = Price/Book Ratio

- Year-to-date, Colombia has the best performing currency in Latin America, strengthening 8 percent to 1,776.24 per dollar, compared with the Brazilian real's 4.6 percent rise and the Peruvian's sol's 2.5 percent appreciation. Seeking to break the peso's rally, Finance Minister Juan Carlos Echeverry said that the government would create an overseas fund with as much as \$1.2 billion from dollars bought in the local market, and forgo repatriating funds from abroad for the rest of the year. According to Bloomberg, Colombian companies are borrowing the most overseas in at least 12 years, taking advantage of the near-zero benchmark interest rate in the U. S. to borrow more cheaply than in Colombia, where the interbank rate is 4.5 percent.

China's Banking Industry Benefits from Continued Rising Loan Prices



- Honda plans to build a new \$800 million factory to produce cars for the North American market in Mexico. The plant will employ around 3,200 workers, producing up to 200,000 cars per year.
- While U.S. benchmark crude at Cushing, Oklahoma is now barely above \$80 because of excess mid-continent supply, Russian Urals blend still sells well above \$100. At current levels, Russian equities seem to be discounting much lower oil prices.


Threats


- China will extend tightening housing policies to second and third tier cities, which are seeing housing price rise faster than tier one cities this year. The Chinese government is preparing a list of cities that should limit the number of houses that their residents are allowed to purchase. Basically, one family is only permitted to buy one house with 60 percent down payment, among other restrictive measures.
- Venezuelan President Hugo Chavez ordered the central bank to repatriate \$11 billion of gold reserves held in developed nations' institutions in the U.S., the U.K. and Canada.

- Polish Treasury minister said the government may suspend its planned sale of shares in the country's largest lender in light of recent market conditions. The stake sale was supposed to raise an equivalent of 1 percent of the budget and Treasury will have to issue more debt to make up the gap. Constitutionally, Poland is limited to 55 percent net debt to GDP and the country will be close to that limit in 2011.

"The best time to plant a tree is twenty years ago. The second best time is now."
—African Proverb

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Leaders and Laggards

The tables show the performance of major equity and commodity market benchmarks of our family of funds.

Weekly Performance

Index	Close	Weekly Change(\$)	Weekly Change(%)
DJIA	10,817.65	-451.37	-4.01%
S&P 500	1,123.53	-55.28	-4.69%
S&P BARRA Value	512.72	-20.18	-3.79%
S&P BARRA Growth	604.55	-35.18	-5.50%
S&P Energy	469.33	-26.20	-5.29%
S&P Basic Materials	200.64	-14.86	-6.90%
Nasdaq	2,341.84	-166.14	-6.62%
Russell 2000	651.70	-45.80	-6.57%
Hang Seng Composite Index	2,747.23	-43.46	-1.56%
Korean KOSPI Index	1,744.88	-48.43	-2.70%
S&P/TSX Canadian Gold Index	413.45	+12.72	+3.17%
XAU	210.44	+3.89	+1.88%
Gold Futures	1,853.50	+110.90	+6.36%
Oil Futures	82.60	-2.78	-3.26%
Natural Gas Futures	3.93	-0.13	-3.13%
10-Yr Treasury Bond	2.07	-0.19	-8.47%

Monthly Performance

Index	Close	Monthly Change(\$)	Monthly Change(%)
DJIA	10,817.65	-1,754.26	-13.95%
S&P 500	1,123.53	-202.31	-15.26%
S&P BARRA Value	512.72	-96.34	-15.82%
S&P BARRA Growth	604.55	-104.55	-14.74%
S&P Energy	469.33	-106.66	-18.52%
S&P Basic Materials	200.64	-47.30	-19.08%

Nasdaq	2,341.84	-472.39	-16.79%
Russell 2000	651.70	-180.64	-21.70%
Hang Seng Composite Index	2,747.23	-332.01	-14.83%
Korean KOSPI Index	1,744.88	-410.07	-19.03%
S&P/TSX Canadian Gold Index	413.45	+19.62	+4.98%
XAU	210.44	-8.62	-3.93%
Gold Futures	1,853.50	+254.50	+15.92%
Oil Futures	82.60	-15.54	-15.83%
Natural Gas Futures	3.93	-0.57	-12.60%
10-Yr Treasury Bond	2.07	-0.86	-29.47%

Quarterly Performance

Index	Close	Quarterly Change(\$)	Quarterly Change(%)
DJIA	10,817.65	-1,787.67	-14.18%
S&P 500	1,123.53	-220.07	-16.38%
S&P BARRA Value	512.72	-116.61	-18.53%
S&P BARRA Growth	604.55	-101.02	-14.32%
S&P Energy	469.33	-85.44	-15.40%
S&P Basic Materials	200.64	-41.30	-17.07%
Nasdaq	2,341.84	-481.47	-17.05%
Russell 2000	651.70	-183.46	-21.97%
Hang Seng Composite Index	2,747.23	-548.71	-16.65%
Korean KOSPI Index	1,744.88	-435.76	-19.98%
S&P/TSX Canadian Gold Index	413.45	+42.06	+11.33%
XAU	210.44	+11.90	+5.99%
Gold Futures	1,853.50	+357.50	+23.90%
Oil Futures	82.60	-15.84	-16.09%
Natural Gas Futures	3.93	-0.16	-3.93%
10-Yr Treasury Bond	2.07	-1.11	-34.90%

Please consider carefully a fund's investment objectives, risks, charges and expenses. For this and other important information, obtain a fund prospectus by visiting www.usfunds.com or by calling 1-800-US-FUNDS (1-800-873-8637). Read it carefully before investing. Distributed by U.S. Global Brokerage, Inc.

An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

All opinions expressed and data provided are subject to change without notice. Some of these opinions may not be appropriate to every investor.

Foreign and emerging market investing involves special risks such as currency fluctuation and less public disclosure, as well as economic and political risk. By investing in a specific geographic region, a regional fund's returns and share price may be more volatile than those of a less concentrated portfolio.

The Eastern European Fund invests more than 25 percent of its investments in companies principally engaged in the oil & gas or banking industries. The risk of concentrating investments in this group of industries will make the fund more susceptible to risk in these industries than funds which do not concentrate their investments in an industry and may make the fund's performance more volatile.

Because the Global Resources Fund concentrates its investments in a specific industry, the fund may be subject to greater risks and fluctuations than a portfolio representing a broader range of industries.

Gold, precious metals, and precious minerals funds may be susceptible to adverse economic, political or regulatory developments due to

concentrating in a single theme. The prices of gold, precious metals, and precious minerals are subject to substantial price fluctuations over short periods of time and may be affected by unpredicted international monetary and political policies. We suggest investing no more than 5 percent to 10 percent of your portfolio in these sectors. Investing in real estate securities involves risks including the potential loss of principal resulting from changes in property value, interest rates, taxes and changes in regulatory requirements.

Tax-exempt income is federal income tax free. A portion of this income may be subject to state and local income taxes, and if applicable, may subject certain investors to the Alternative Minimum Tax as well. Each tax free fund may invest up to 20 percent of its assets in securities that pay taxable interest. Income or fund distributions attributable to capital gains are usually subject to both state and federal income taxes. Bond funds are subject to interest-rate risk; their value declines as interest rates rise. The tax free funds may be exposed to risks related to a concentration of investments in a particular state or geographic area. These investments present risks resulting from changes in economic conditions of the region or issuer.

Past performance does not guarantee future results.

These market comments were compiled using Bloomberg and Reuters financial news.

Holdings as a percentage of net assets as of 6/30/2011:

Belarus Potash Co.: 0.0%
COSCO Pacific Limited.: China Region Fund: 0.97%; Global MegaTrends Fund: 1.15%
Citigroup, Inc.: All American Fund: 1.05%; Holmes Growth Fund: 1.27%
PPL Corp.: 0.0%
Ameren Corp.: 0.0%
American Electric Power Co.: 0.0%
CMS Energy Corp.: 0.0%
PG&E Corp.: 0.0%
Newmont Mining Corp.: Gold and Precious Metals Fund: 2.01%; Global Resources Fund: 4.14%
Wal-Mart Stores, Inc.: 0.0%
Goodyear Tire & Rubber Co.: 0.0%
CB Richard Ellis Group, Inc.: Holmes Growth Fund: 1.06%; Global MegaTrends Fund: 0.92%
NetApp, Inc.: 0.0%
Volkswagen AG.: 0.0%
Honda Motor Company, Ltd.: 0.0%
RWE Npower.: 0.0%

*The above-mentioned indices are not total returns. These returns reflect simple appreciation only and do not reflect dividend reinvestment.

The Dow Jones Industrial Average is a price-weighted average of 30 blue chip stocks that are generally leaders in their industry.

The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies.

The Nasdaq Composite Index is a capitalization-weighted index of all Nasdaq National Market and SmallCap stocks.

The S&P BARRA Growth Index is a capitalization-weighted index of all stocks in the S&P 500 that have high price-to-book ratios.

The S&P BARRA Value Index is a capitalization-weighted index of all stocks in the S&P 500 that have low price-to-book ratios.

The Russell 2000 Index® is a U.S. equity index measuring the performance of the 2,000 smallest companies in the Russell 3000®, a widely recognized small-cap index.

The Hang Seng Composite Index is a market capitalization-weighted index that comprises the top 200 companies listed on Stock Exchange of Hong Kong, based on average market cap for the 12 months.

The Taiwan Stock Exchange Index is a capitalization-weighted index of all listed common shares traded on the Taiwan Stock Exchange.

The Korea Stock Price Index is a capitalization-weighted index of all common shares and preferred shares on the Korean Stock Exchanges.

The Philadelphia Stock Exchange Gold and Silver Index (XAU) is a capitalization-weighted index that includes the leading companies involved in the mining of gold and silver.

The U.S. Trade Weighted Dollar Index provides a general indication of the international value of the U.S. dollar.

The MSCI Russia Index is a free-float weighted equity index developed in 1994 to track major equities traded in the Russian market.

The S&P/TSX Canadian Gold Capped Sector Index is a modified capitalization-weighted index, whose equity weights are capped 25 percent and index constituents are derived from a subset stock pool of S&P/TSX Composite Index stocks.

The S&P 500 Energy Index is a capitalization-weighted index that tracks the companies in the energy sector as a subset of the S&P 500.

The S&P 500 Materials Index is a capitalization-weighted index that tracks the companies in the material sector as a subset of the S&P 500.

The S&P 500 Financials Index is a capitalization-weighted index. The index was developed with a base level of 10 for the 1941-43 base period.

The S&P 500 Industrials Index is a Materials Index is a capitalization-weighted index that tracks the companies in the industrial sector as a subset of the S&P 500.

The S&P 500 Consumer Discretionary Index is a capitalization-weighted index that tracks the companies in the consumer discretionary sector as a subset of the S&P 500.

The S&P 500 Information Technology Index is a capitalization-weighted index that tracks the companies in the information technology sector as a subset of the S&P 500.

The S&P 500 Consumer Staples Index is a Materials Index is a capitalization-weighted index that tracks the companies in the consumer staples sector as a subset of the S&P 500.

The S&P 500 Utilities Index is a capitalization-weighted index that tracks the companies in the utilities sector as a subset of the S&P 500.
The S&P 500 Healthcare Index is a capitalization-weighted index that tracks the companies in the healthcare sector as a subset of the S&P 500.
The S&P 500 Telecom Index is a Materials Index is a capitalization-weighted index that tracks the companies in the telecom sector as a subset of the S&P 500.

The Philadelphia Federal Index is a regional federal-reserve-bank index measuring changes in business growth. The index is constructed from a survey of participants who voluntarily answer questions regarding the direction of change in their overall business activities. The survey is a measure of regional manufacturing growth. When the index is above 0 it indicates factory-sector growth, and when below 0 indicates contraction. Also known as the "Business Outlook Survey".

The Conference Board Leading Economic Index is an American economic leading indicator intended to forecast future economic activity. It is calculated by The Conference Board, a non-governmental organization, which determines the value of the index from the values of ten key variables.

Chicago Board Options Exchange (CBOE) Volatility Index (VIX) shows the market's expectation of 30-day volatility.

M2 Money Supply is a broad measure of money supply that includes M1 in addition to all time-related deposits, savings deposits, and non-institutional money-market funds.

The Istanbul Stock Exchange National 100 Index (XU100) is a capitalization-weighted index composed of National Market companies except investment trusts.

TSX Venture Exchange- Originally called the Canadian Venture Exchange (CDNX), this was a result of the merger of the Vancouver and Alberta stock exchanges.

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