



U.S. Global Investors

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Explore and Discover the Winners When Gas Prices Fall

By Frank Holmes

CEO and Chief Investment Officer

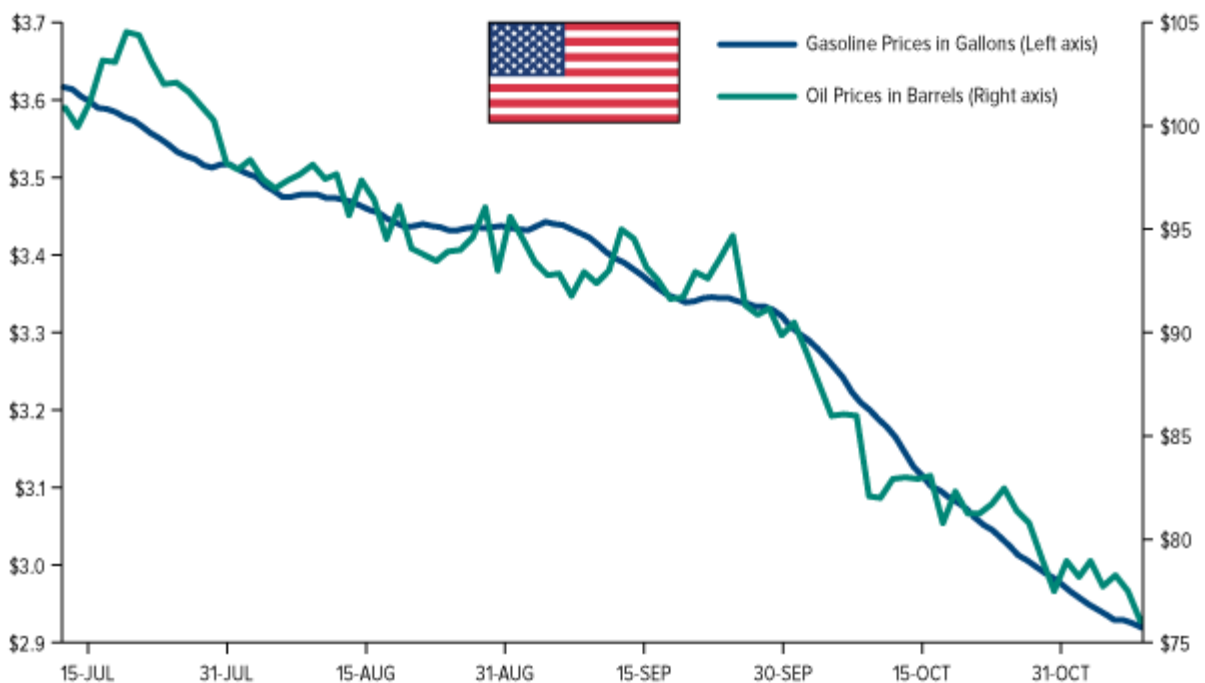
U.S. Global Investors

West Texas Intermediate (WTI) oil for December delivery is currently priced at \$75 per barrel, Brent for January delivery at \$78 per barrel. Many investors, publications and news sources focus only on the drawbacks to falling oil and gas prices—don't get me wrong, there are many—but today we're going to give the spotlight to the biggest winners and beneficiaries.

Starting with your pocketbook.

Oil has slipped 30 percent since July, but the only place in the world where retail gas has fallen as much is Iran. In most countries, gas is down between 10 and 15 percent. Here in the U.S., ground zero of the recent energy boom, the national average has fallen close to 20 percent. As I [said last week](#), American consumers have been treated to an unexpected tax break because of this slump, just in time for the holiday shopping season.

Retail Gasoline Prices Fall Below \$3 as Crude Oil Prices Drop



Source: Bloomberg, U.S. Global Investors

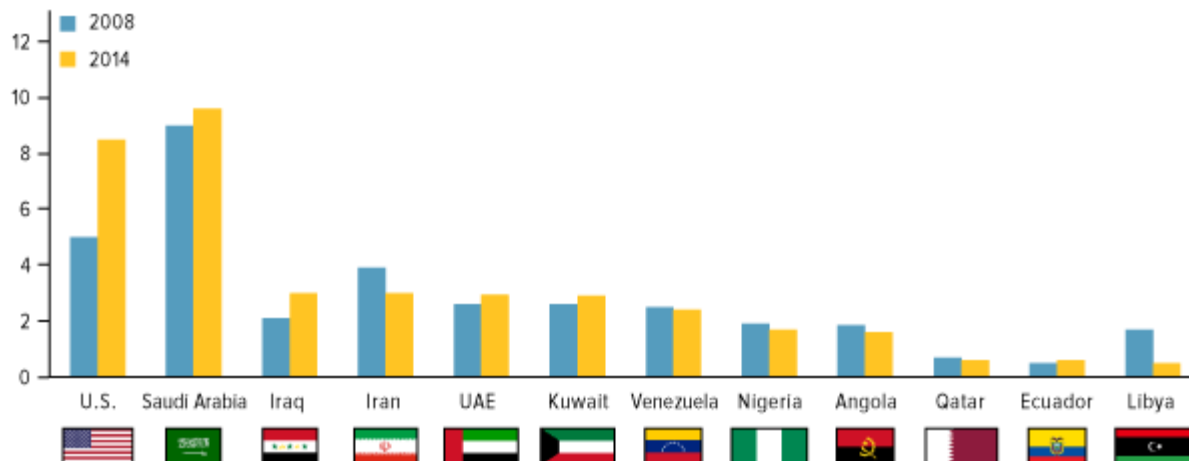
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Three of the main contributors to oil's decline are the strong U.S. dollar, which has put pressure not only on oil but other commodities as well; geopolitics, specifically tensions with Russia and the Saudis' currency war; and the acceleration of American oil production. The hydraulic fracturing boom has flooded the market with shale oil, which in turn has driven prices down. As you can see below, there's a wider spread between 2008 and 2014

oil production levels in the U.S. than in any other oil-producing country shown here.

Accelerating U.S. Oil Production Is a Key Cause of Declining Oil Prices

Millions of Barrels Per Day



Source: CLSA, Energy Information Administration, Organization of the Petroleum Exporting Countries, U.S. Global Investors
[click to enlarge](#)

Which Countries Benefit?

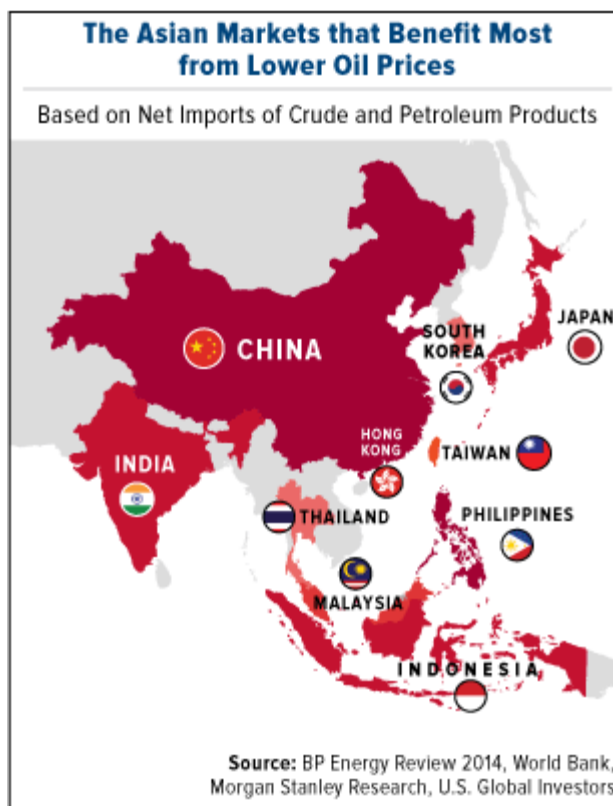
Last month I briefly discussed how low crude prices [benefit Asian markets the most](#) because they tend to be net importers of oil and petroleum. On top of that, a large portion of the population in these countries spends a significant amount of their weekly income on gas—in the case of India, as much as 30 percent. The biggest winners, then, are Asian countries such as India, Philippines, Thailand and Indonesia

China, the world's largest net importer of oil, second only to the entire continent of Europe, also benefits. For every dollar that the price of oil drops, its economy saves about \$2 billion annually. Even though it just signed a multibillion-dollar, multiyear gas supply deal with Russia, China plans on tapping into its own shale gas resources, estimated to be the largest in the world.

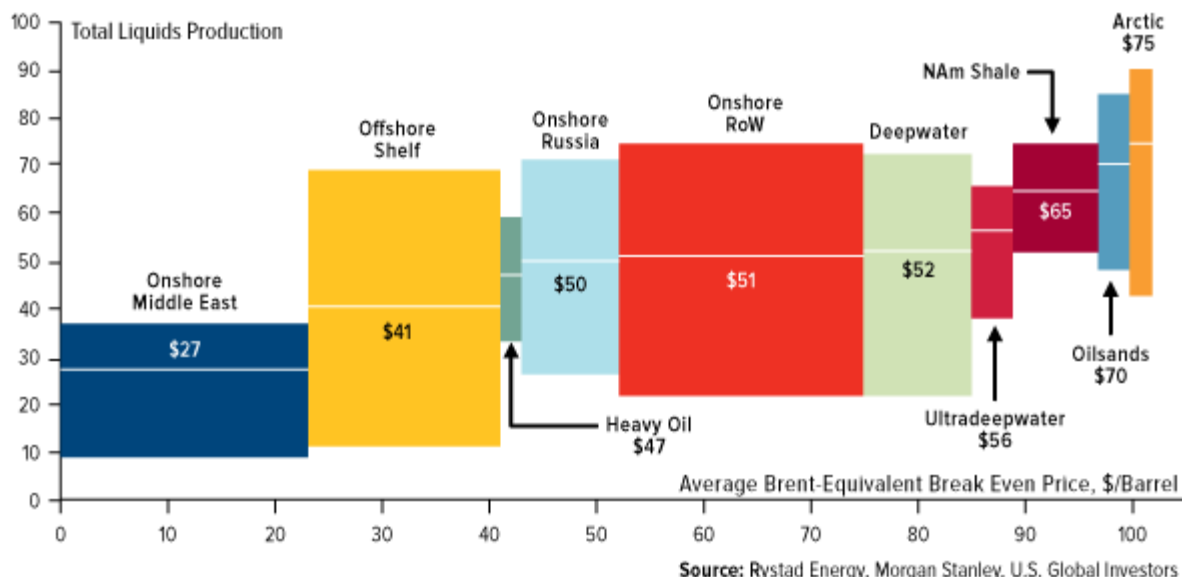
One notable exception to the Asian market is Singapore. Although the city-state is a net importer of crude, bringing in around 1.3 million barrels a day, it depends heavily on oil exports to grow its economy. According to Bloomberg, in fact, [Singapore ranks second](#) in the world for a reliance on crude, based on a change in oil exports as a percentage of GDP from 1993 to 2018. Only Libya's economy is more dependent.

Because the United States continues to be a net importer of crude and petroleum—it imports around 6.5 million barrels a day, according to CLSA—it has benefited as well, but its dependence on foreign oil is falling fast.

In the chart below you can see how breakeven prices increase as both global oil demand grows and the geological formation requires more sophisticated—and expensive—extraction methods.



Crude Cost of Production Rises as Demand Grows



[click to enlarge](#)




Which Industries and Companies Have Benefited?

To answer this question, Strategic International Securities Research (SISR) ran a correlation coefficient between the retail price of gas and 72 global industry classification standard (GICS) sectors, focusing on the years 2000 through 2014. Below are the top three sectors that ended up benefiting the most from falling gas prices. They all have a negative correlation coefficient, meaning that their performance has historically gone in the opposite direction as the price of gas, similar to a seesaw.

What this data shows is that U.S. manufacturing industry has regained the cost benefit advantage to Chinese manufacturers. It's becoming more and more attractive to build and create here in the U.S. because the cost of energy is relatively low.

Leading the list is automakers, suggesting that when gas prices have dropped, consumers have felt more confident purchasing new cars and trucks. Today consumers are even returning to vehicles that are known to guzzle rather than sip

gas, such as SUVs, pickup trucks and crossovers. Ford's F-Series continues to blow away its competition. Since mid-October, General Motors has delivered 7 percent, Ford 11 percent and Tesla, which we own in our [All American Equity Fund \(GBTFX\)](#) and [Holmes Macro Trends Fund \(MEGAX\)](#), 12 percent.

Rank	Sector	
1	Automobile Manufacturers	
2	Airlines	
3	Aluminum	

It makes sense that airlines would perform better, since fuel is typically their largest single expenditure. In 2012, when the average price of a barrel of oil was \$110, fuel accounted for 30 percent of airlines' annual operating costs. Low fuel costs are cited as the main reason why Virgin America, which went public today, reported third-quarter profits of \$41.6 million, an increase of 24 percent year-over-year. The NYSE Arca Airline Index has flown up 110 percent since the beginning of 2013, hitting 13-year highs, and Morgan Stanley recently took a bullish position toward airline stocks, showing that company balance sheets are "structurally



Sir Richard Branson's Virgin America is the first airline to go public since Spirit Airlines in 2011.

sound enough to make 'events' in the next five years unlikely" and that the industry as a whole is now growth-oriented.

It also makes sense that aluminum would benefit, given that the metal requires a

notoriously large amount of energy to produce.

SISR highlights a few industries that surprisingly have had a positive correlation coefficient: department stores, apparel retail and luxury goods. You'd think it would be safe to assume that the retail sector benefits when consumers have been given relief from high gas prices. This is certainly the case now: Walmart, a bellwether for general market sentiment, is hitting new highs, and Tiffany & Co., which we own in our [Gold and Precious Metals Fund \(USERX\)](#), Gold and Precious Metals Fund (USERX), is also thriving. But in the past, low oil and gas prices have been reflections of a weak domestic economy. The average price per barrel of crude in 2009 was \$62, a sharp decrease of nearly 40 percent from the average in 2008. Today, gas is inexpensive not because the economy is weak but because frackers are simply too good at what they do. They're victims of their own success. What has hurt them has helped American consumers build more disposable cash flows, which can now be spent on fast food, retail, home improvement and other goods and services.



When gas prices are low, consumers have more money to spend on retail items and luxury goods.

OPEC Unlikely to Make Production Cuts, Consensus Says

Members of the Organization of the Petroleum Exporting Countries (OPEC) will be meeting on the 27th, and no doubt the discussion will center on whether to curb production to help oil prices recover. However, a new poll shows that commodity and energy investors do not believe such a cut will occur. According to BMO Capital Markets, 87 percent of those polled believed that no cut would be agreed on. Even those who said a cut would happen believed it would be no more than a million barrels a day, an insignificant amount.

Of course, this is merely a poll, but we might be looking at cheap oil and gas for an indefinite amount of time, with a bottom possibly reached sometime between now and February.

In the meantime, American producers will continue to pour out record levels of oil, and President Vladimir Putin's antics in Ukraine will continue to stir up geopolitical tension. Saudi Arabia appears to be more aligned with Europe and the U.S. against Russia, Syria and Iran.



All of this short-term activity might be bad for the fracking industry, but the big winners are consumers and investors. We're in a steady, modest expansion of our economy and this is good for investing in domestic stocks.

President Putin says the Russian economy, already pummeled by sanctions and a collapsing rouble, is bracing for a "catastrophic" slump in oil prices.



**NEED A
NO DRAMA
FUND?** 

Index Summary

- Major market indices finished higher this week. The Dow Jones Industrial Average rose 0.35 percent. The S&P 500 Stock Index gained 0.39 percent, while the Nasdaq Composite advanced 1.21 percent. The Russell 2000 small capitalization index rose 0.06 percent this week.
- The Hang Seng Composite rose 2.42 percent; Taiwan rose 0.79 percent and the KOSPI rose 0.27 percent.
- The 10-year Treasury bond yield rose this week to 0.96 percent.



What's gold's
touchdown pass this week?

Watch the replay of Kitco's **Gold Game Film**
with Frank Holmes to find out! 

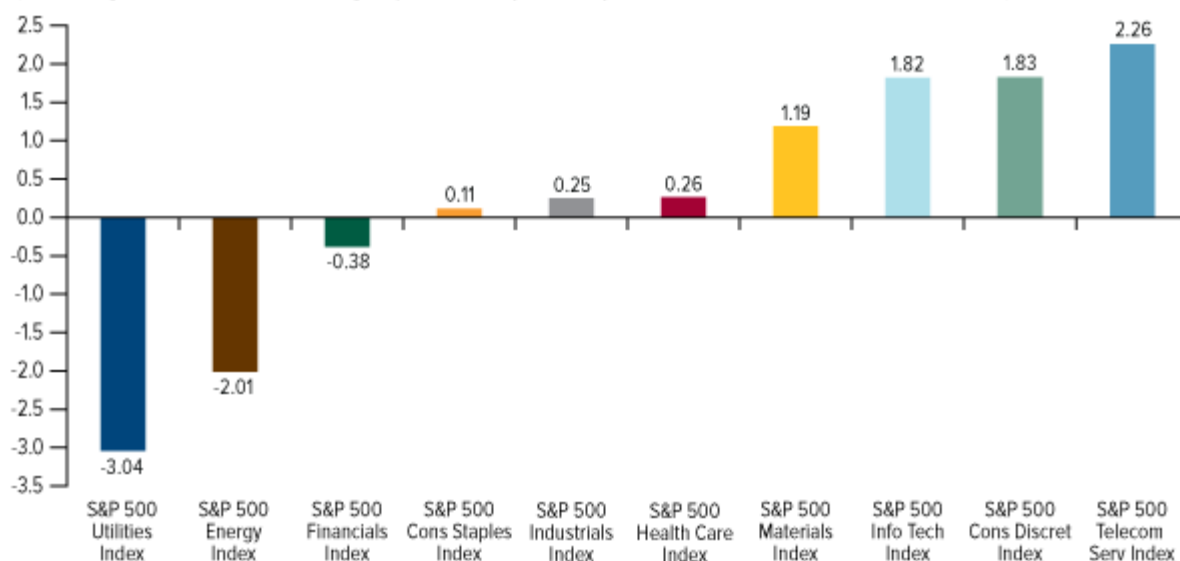
All American Equity Fund - GBTFX • Holmes Macro Trends Fund - MEGAX

Domestic Equity Market

The S&P 500 was positive again this week, rising 0.39 percent. After two weeks without quantitative easing (QE) assistance from the Federal Reserve, it seems as though the short-term trend remains positive overall.

S&P 500 Economic Sectors

(Percentage return for each sector group from Friday to Friday, November 7, 2014 – November 14, 2014)



Source: Bloomberg, U.S. Global Research

[click to enlarge](#)**Strengths**

- The telecommunications sector performed the strongest this week, with AT&T and Verizon both top performers, up over 2.81 percent and 1.24 percent, respectively. This comes on the heels of president Obama's comments of a desire for "net neutrality," as AT&T ceased construction of its high-speed data network until net neutrality has been ruled out.
- Consumer discretionary also performed well, up over 1.7 percent for the week. Amazon led the group up 9.32 percent, followed by Priceline up 7.16 percent. Also included in the sector was Fossil Group which was up 5.15 percent. A key driver in this sector is falling energy costs which help put money in the pockets of consumers. Consumers spent their new savings on desired as well as needed items, or on vacations.
- Baker Hughes was the best performing stock in the S&P 500 this week, rising 14.61 percent. The company announced its discussions with Halliburton for a potential acquisition. Halliburton also rose on the news, up 2.30 percent this week.

Weaknesses

- The utilities sector was the worst performer this week, following 15 days of strong performance. Nearly all of its constituents were negative, with the worst performer NRG Energy down 7.5 percent.
- Another area of weakness was energy, affected by companies such as Helmerich & Payne, down 8.9 percent on poor earnings and falling commodity prices. Southwestern Energy was down 7.53 percent, mostly due to falling oil and natural gas prices.
- The worst performing company this week was Transocean, which fell 12.25 percent as the company missed expectations, took large one-time charges, and was affected by falling oil prices as well.

Opportunities

- The G20 Summit is this weekend in Australia and could provide the market with some encouraging comments from member nations to help spur growth.
- Next week a few important economic data points will be released including New York state manufacturing, which is expected to be double the previous months, as well as consumer price index (CPI) numbers and October home sales.
- The largest European countries (Germany, France and the United Kingdom) narrowly missed a recession this week, which may help bolster market confidence in the region.

Threats

- Market momentum seems to be flattening, and possibly not to the consensus of recovery expectations, therefore causing fear amongst investors.
- After Russia stole the spotlight at the Asia Summit this week, one can only imagine what the country might attempt to do at the G20 Summit to help bolster its fledgling commodity-driven economy.
- With the tensions in Ukraine on the rise again, and constant saber-rattling from current, future and former superpowers, one can speculate the tightrope that politicians must tiptoe across to keep the global economy in recovery mode.

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U.S. Government Securities Ultra-Short Bond Fund - UGSDX • Near-Term Tax Free Fund - NEARX

The Economy and Bond Market

U.S. Treasury bond yields rose modestly this week as the stock market reached new highs. Economic data was not the big market driver this week. The market sold off on treasury supply concerns earlier in the week as the three-year note auction came in weaker than expected. Yields declined as the week moved forward, ending just a basis point or two higher than last week.

Two-Year Treasury Yield



Source: Bloomberg, U.S. Global Investors

[click to enlarge](#)

Strengths

- October retail sales rose 0.3 percent this week, and excluding automobiles and gasoline rose 0.6 percent. Falling gasoline prices should provide a lift for the consumer going into the holidays, making this a good start to the fourth quarter.
- According to Challenger, a placement firm, retailers hired at a record pace in October, adding 180,600 workers. This is up 13 percent from 2013 and comes in as the strongest number since records began in 1939.
- The U.S. Department of Labor reported that gross hiring rose to 5.03 million in September, the most since 2007, while “quits” rose to a six-year high on improving confidence in the job market.

Weaknesses

- A slew of economic indicators in China disappointed this week as industrial production and retail sales both rose less than expected.
- The U.S. dollar has been strong for months and is likely poised for some retracement in the next few weeks.
- Economic data out of Europe was encouraging, but the absolute level of growth remains very meager.

Opportunities

- Global central banks are easing again, offsetting the incremental Federal Reserve tightening and remaining positive for fixed income globally.
- Short-term Treasury yields were relatively flat week-over-week but remain near the top end of the recent range. This may be an opportunity as yields could reverse course. The catalyst could be weak housing starts or industrial production data scheduled for release next week.
- Municipal bonds continue to look like an attractive alternative in the broad fixed-income universe.

Threats

- There was a fair amount of noise recently with regard to internal grumblings at the European Central Bank (ECB). If the ECB can't or won't follow through with additional policy measures, the market will not like that instability.
- Quantitative easing has ended and the next logical step would be an interest rate hike. While estimates of when that may occur remain fluid, the Fed's relatively hawkish tone increases the risk to the bond market.
- The geopolitical situations in Ukraine heated up again this week and the potential for a misstep remains high. Potential fallout is difficult to predict.

In the News



November 12, 2014

**Gold, Oil and the
Currency War**



November 12, 2014

**Sit Back and Stay
Balanced**



November 11, 2014

**Is Gold Clawing for a
Bottom?**

[World Precious Minerals Fund - UNWPX](#) • [Gold and Precious Metals Fund - USERX](#)

Gold Market

For the week, spot gold closed at \$1,189.01 up \$11.03 per ounce, or 0.94 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, rose 2.94 percent. The U.S. Trade-Weighted Dollar Index fell 0.13 percent for the week.

Date	Event	Survey	Actual	Prior
Nov 13	China Retail Sales YoY	11.6%	11.5%	11.6%
Nov 13	Germany CPI YoY	0.8%	0.8%	0.8%
Nov 14	US Initial Jobless Claims	280K	290K	278K
Nov 14	Eurozone Core CPI YoY	0.7%	0.7%	0.7%
Nov 18	US PPI Final Demand YoY	1.2%	--	1.6%
Nov 19	US Housing Starts	1025K	--	1017K
Nov 19	HSBC China Manufacturing PMI	50.2	--	50.4
Nov 20	US CPI YoY	1.6%	--	1.7%
Nov 20	US Initial Jobless Claims	284K	--	290K

Strengths

- Gold traders turned bullish for the first time in three weeks as prices neared four-year lows. Additionally, this month U.S. Mint gold coin sales are already more than half of what they were in October, which was the strongest month since January. Austria Mint sales are up 40 percent from October.
- Gold prices rallied on Friday as more than 10,000 contracts for December delivery were traded, pushing the gold price up 1.5 percent within six minutes. Moreover, the one-, two-, three- and six-month gold forward offered rates turned negative, signaling increased physical demand in a tightening market. Robin Winkler of Deutsche Bank wrote that current polling on the referendum in Switzerland (to require its national bank to hold 20 percent of its reserves in gold) was now leading in the polls.
- On Tuesday, gold futures jumped higher after a report showed that U.S. jobless claims increased more than forecast last week.

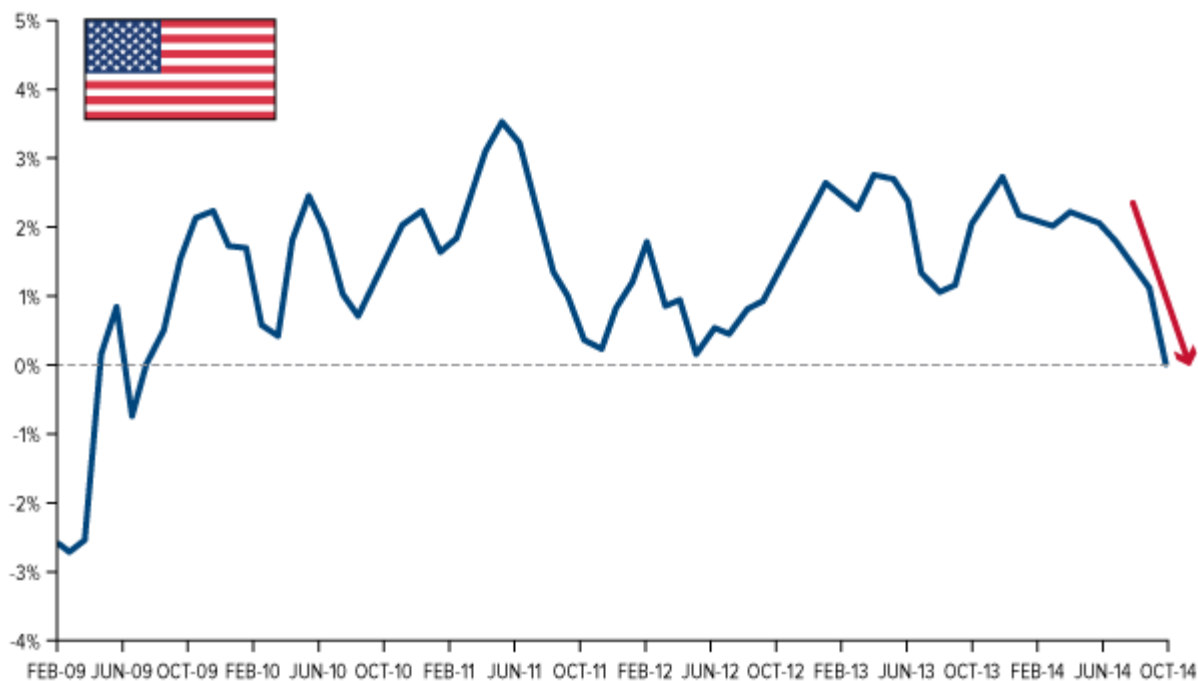
Weaknesses

- The World Gold Council announced that gold demand fell to the lowest level in almost five years in the third quarter as bar, coin and jewelry purchases slowed.
- Silver shorts are at record highs as the market remains negative on the precious metals sector due to the strong U.S. dollar. Fund shorts account for 39 percent and 54 percent of total open interest for Comex silver and Nymex platinum, respectively.
- Switzerland's regulator charged UBS AG employees with front-running in precious metals trading, particularly in silver, as part of its review of the bank's foreign-exchange business. The Swiss regulator and those in the U.S. and the U.K. ordered UBS and four other banks to pay about \$3.3 billion to settle a probe into the rigging of foreign-exchange rates.

Opportunities

Will Liquidity Run Dry Before the Fed Raises Rates?

UBS Proprietary U.S. Liquidity Indicator



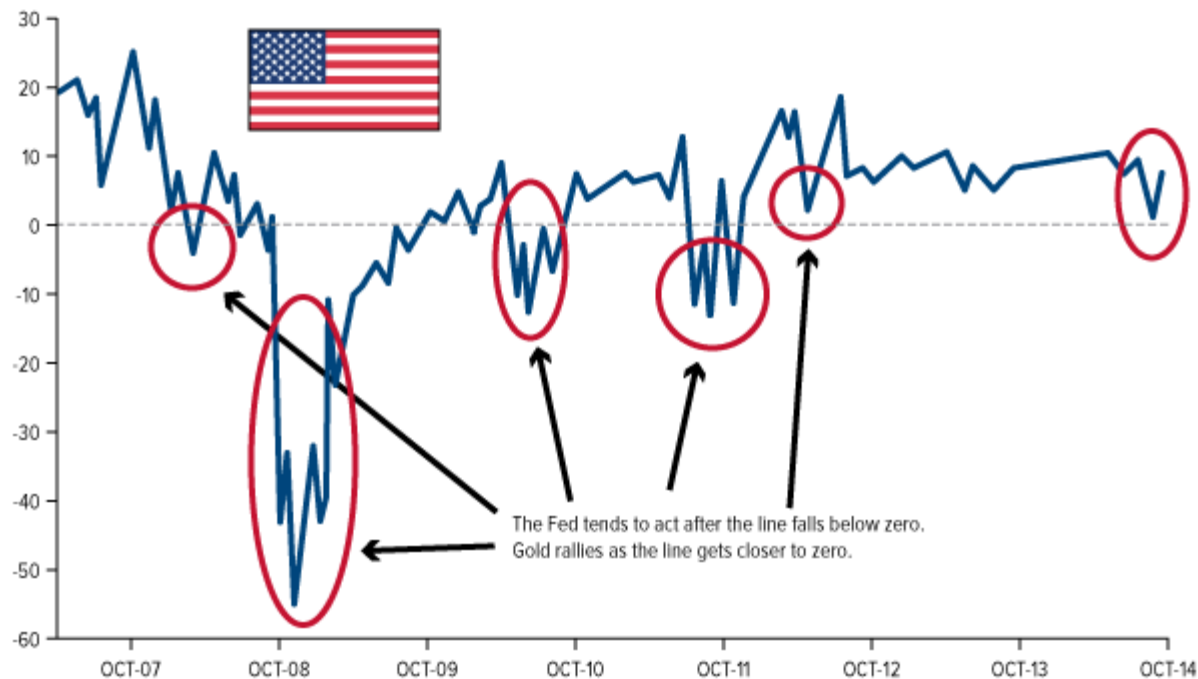
Source: UBS Research, Bloomberg, U.S. Global Investors

[click to enlarge](#)

- The UBS commodity strategy team published a contrarian report stating that liquidity will run dry well before the Federal Reserve has a chance to increase the Fed Funds rate, according to the research firm's Proprietary U.S. Liquidity Indicator. As a consequence, they believe the next significant action of the Fed will be an attempt to reflate the U.S. economy, not rein it in. This leads to a bullish outlook on both dollar cash and gold equities.

Gold Has Historically Rallied When Federal Reserve Takes Action

UBS Proprietary Fed Action Model



Source: UBS Research, Bloomberg, U.S. Global Investors

[click to enlarge](#)

- The same UBS report delineates that gold stocks will outperform bullion as the Fed likely reflates the

economy. The research firm's Fed Action Model predicts when the Federal Reserve is likely to act when the reading falls below zero. Furthermore, their reasoning for gold stocks outperforming bullion is a result of two types of gold rallies. The first is a reflationary boom scenario where bullion outperforms gold stocks as commodity appreciation causes costs to rise. This leads miners to low grade operations and undertake high-cost expansions and M&As. That was the case in 2004 -2007 and 2009-2011. The second type of rally is characterized by risk aversion flows out of credit and equity and into treasuries. Costs at the mine fall as commodity currencies decline. Miners cut costs and restructure. With gold in a bear market, the stocks are financially and operationally geared. This was the case in 2001-2002 and during the last four months of 2008. This is the scenario the UBS team sees presently unfolding.

- Anita Soni of Credit Suisse believes gold mine production is likely to plateau in 2014 and decline over the medium term. This would be a tail impact of significant CAPEX from 2010-2012 that has now entered production and producer expenditures on growth capital. Gold mining exploration has also been cut. This supply shortage would push gold prices higher.

Threats

- India, the world's biggest gold user after China, announced it will review bullion import rules after purchases in October jumped to the highest level this fiscal year. Though no indication has been given, any import restrictions could be a headwind for gold prices.
- The labor movement in South Africa has been thrown into turmoil after the November 8 decision by the Congress of South African Trade Unions to expel the National Union of Metalworkers of South Africa. The decision was opposed by seven of the 20 other affiliates and sets the stage for a fight over loyalty and membership dues of the remaining 1.85 million members. South Africa's labor relations are the most hostile of 144 countries, according to the World Economic Forum, and the country had 114 strikes last year that resulted in 6.7 billion rand (\$597 million) in lost wages.
- UBS cut its one-month gold target from \$1,250 per ounce to \$1,180 per ounce citing weak sentiment, light positioning and an extreme amount of shorts.



Global Resources Fund - PSPFX

Energy and Natural Resources Market

Strengths

- Metals and mining stocks had a big comeback this week. Fears over a slowdown in global growth had depressed the metals space for the past few weeks, leading to oversold conditions. The S&P/TSX Capped Diversified Metals and Mining Index closed up 2.52 percent this week. Nevsun Resources rose 4.93 percent this week.
- Gold stocks continued their rally this week, despite falling oil prices stirring deflationary fears. The NYSE Arca Gold Miners Index rose 2.76 percent this week. Franco-Nevada closed up 3.92 percent this week.
- The International Energy Agency's November report maintained previous demand estimates for 2014 and 2015. While the energy space has taken a substantial beating of late, the presence of strong demand may imply that the bottom is close.

Weaknesses

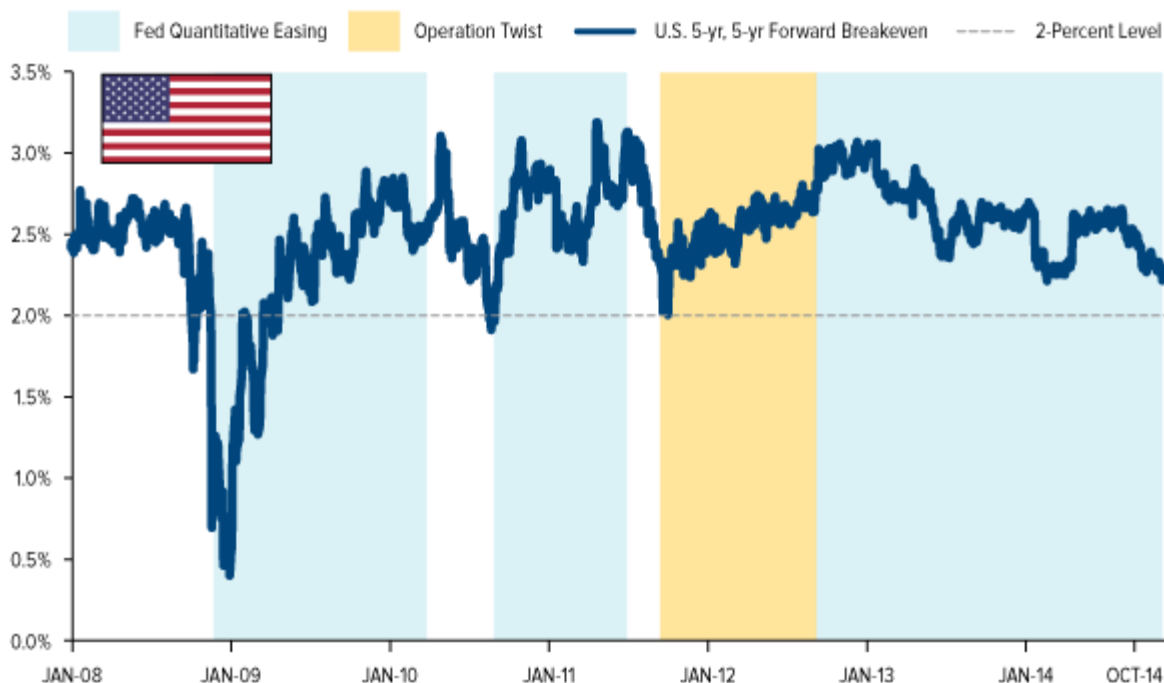
- Oil and gas drilling stocks declined this week as the global energy sell-off continued. Declining oil prices continue to weigh on the industry, causing the S&P Supercomposite Oil & Gas Drilling Index to fall 7.48 percent
- Typically a brighter area of the energy space, oil and gas refining stocks fell this week as declining oil prices narrowed the spread between West Texas Intermediate (WTI) and Brent crude. The S&P Supercomposite Oil & Gas Refining & Marketing Index was down 2.67 percent this week.
- Utilities stocks saw their first weekly decline since the end of September this week, giving back some of their exceptional gains. The S&P 500 Utilities Sector fell 3.05 percent this week.

Opportunities

- While many are predicting an interest rate increase in the United States as early as mid-2015, some analysts are forecasting the next installment of quantitative easing, QE4. CLSA's Greed and Fear argues that the two times the five-year breakeven inflation rate declined to 2 percent, the Federal Reserve began expanding its balance sheet. Currently, the five-year breakeven inflation rate is around 2.2 percent and trending lower. Fear of deflation could prompt further expansionary measures in the U.S., which would be positive for equities overall, particularly gold stocks.

Fed Re-Initiates Balance Sheet Expansion When Rate Reaches 2-Percent Level

Five-Year, Five-Year Forward Breakeven Inflation Rate



Source: CLSA, Bloomberg, U.S. Global Investors

[click to enlarge](#)

- France's GDP grew for the first time this year during the third quarter, while Germany's growth remained positive. Given the headwinds facing the eurozone, the results are a relief to many investors and allow the European Central Bank (ECB) more breathing room for enacting its easing policies.
- The OPEC meeting at the end of this month could not be more pressing. With oil prices severely depressed and weighing on the exporters' budgets, a production cut could yield a significant boost to the energy space.

Threats

- Oil continued its downward trend this week, inciting new fears of further declines to come. If oil dips lower, many energy companies could find themselves in a dire situation. On a positive note, because demand remains strong globally, a decrease in supply will reveal the bottom for oil prices, which should

bounce given the present severity of oversold conditions.

- The dollar seems to be unstoppable. After consolidating for a short period of time, the dollar has risen to new highs. The rise remains a warning sign of a weaker global economy and the threats that still exist to destabilize it.
- The Platts China Steel Sentiment Index revealed that expectations for new orders dropped from 71 in October to 33 in November. The results are the product of speculation that China is removing certain tax rebates on exports of steel products.

Frank Talk Insight for Investors

 <p>November 13, 2014 The Holiday that Jack Ma Built</p>	 <p>November 10, 2014 Everyone Loves a Discount—But Where's the Support for Oil Prices?</p>	 <p>November 6, 2014 Greece's Darkest Hour Before Its Dawn</p>
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A blog by Frank Holmes, CEO and Chief Investment Officer

China Region Fund - USCOX • Emerging Europe Fund - EUROX

Emerging Markets

Strengths

- Turkish stocks rallied this week, getting a boost from falling Brent prices. The country is a net importer of oil, which has allowed it to benefit in the current cheap oil environment. Turkey's current account deficit shrank roughly 33 percent year-over-year in September, while the yield on two-year government notes fell to the lowest level since July. The Borsa Istanbul 100 Index closed up 4.17 percent for the week.
- Hungarian banks breathed a sigh of relief this week as the government decided to allow the conversion of \$14 billion of retail foreign-currency mortgages at the market exchange rate. The government has been at odds with the banks after accusing the latter of unfair lending practices. The recent news comes as a sign of cooperation and solidarity. The Budapest Stock Exchange rose 1.51 percent this week.
- Both China and Hong Kong were among the best performing Asian countries this week, as the government set November 17 as the official start date for the Shanghai-Hong Kong market integration program. This will allow investors from both sides to trade stocks listed in each other's exchanges after seven months of preparation.

Weaknesses

- A great deal of attention was placed on Russia this week, and for good reason. The ruble saw its eighth-straight weekly decline as foreign sanctions, declining oil prices, and intolerably high borrowing costs continue to choke the country's economy. Russia's central bank has been using every tool at its disposal to prop up the ruble, even going as far as to limit domestic lending to the financial sector. Still, the ruble remains the worst performer out of more than 170 currencies, declining roughly 22 percent over the last three months. Furthermore, Russia escalated the conflict in Ukraine this week as NATO reported Russian troops and artillery amassing in eastern Ukraine. The reignited geopolitical risk alongside the continued pressures facing the Russian economy led the ruble to decline 0.8 percent against the dollar this week.
- Another currency that saw significant sell-offs this week was the Brazilian real, declining 1.11 percent against the dollar. The volatility surrounding Brazil stems from speculation over who the re-elected Dilma Rousseff will choose as the next finance minister. Furthermore, Petroleo Brasileiro fell 7.5 percent this week as the company considers the results of an internal investigation about money laundering and bribery. The Ibovespa Brasil Sao Paulo Stock Exchange Index fell 2.73 percent this week.

- Malaysia was the worst performing Asian country this week, as its third-quarter GDP slowed to 5.6 percent year-over-year from 6.5 percent in the second quarter largely due to deceleration in exports. The current account surplus declined significantly to 2.8 percent of GDP from 6.1 percent of GDP in the previous quarter.

Opportunities

- The substantial underperformance of Brazilian stocks has been cited as one of the main reasons for Morgan Stanley's upgrade of Brazil from underweight to equal-weight this week. Technical indicators are revealing a much oversold condition in Brazil, perhaps providing a cheap buying opportunity according to the report.
- Greece's Deputy Finance Minister, Giorgos Mavraganis, announced plans this week to improve the country's tax system and foster growth. The plan includes cutting the income tax rate for businesses, reducing the minimum tax rate on income-wage earners and pensioners, lowering the property tax rate, and developing harsher punishments for tax offenses.
- Chinese government policy efforts to stabilize the property market and rein in excessive local government borrowing should help reduce systemic risk and enhance the asset quality of Chinese banks over time. The imminent official start of the Shanghai-Hong Kong market integration program could be a near-term catalyst for re-rating as Chinese banks are still trading at near trough valuations despite consistent dividend growth in the last eight years.

Dividend Yields of Chinese Banks Increasingly Attractive Thanks to Consistent Dividend Growth

Chinese Bank H-shares, Weighting Average by Market Cap



Source: Thomson Financial, Morgan Stanley Research, U.S. Global Investors

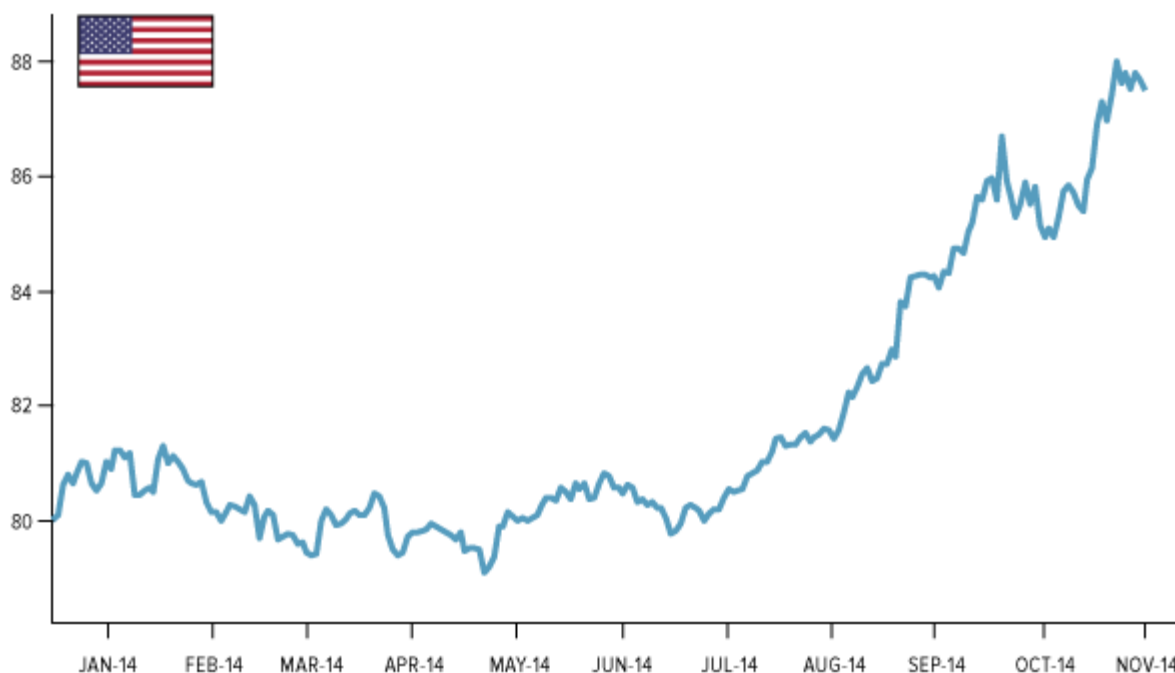
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Threats

- Russia faces the threat of tougher sanctions due to recent allegations of providing weapons and artillery to rebel forces in Ukraine. Current sanctions have already placed significant pressure on the economy, which saw growth of only 0.7 percent in the third quarter. Furthermore, many speculate the central bank will enact another rate increase to defend the ruble, which would be the fifth rate hike this year. Higher borrowing costs for domestic banks, which had its access to credit cut by the central bank this week, could serve to hurl the Russian economy into a recession, a possibility Putin and the central bank are very much aware of.
- The dollar's continued climb remains a warning sign to the global economy. While the eurozone has by and large avoided another recession, deflationary pressures and global growth scares continue to dominate market sentiment. While a reversal of the dollar is certainly overdue, the catalyst that would cause it has yet to be found.

A Strong Dollar Continues to Be a Threat

U.S. Dollar Index



Source: Bloomberg, U.S. Global Investors

[click to enlarge](#)

- A number of things may continue to weigh on investor sentiment towards South Korean equities including: (1) increasingly challenging exports, pressured by a stronger Korean won versus the Japanese yen; (2) negative earnings revisions; and (3) a price-to-earnings valuation above the decade average.

SHORT-TERM TAX FREE

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Near-Term Tax Free Fund

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Leaders and Laggards

The tables show the weekly, monthly and quarterly performance statistics of major equity and commodity market benchmarks of our family of funds.

Weekly Performance

Index	Close	Weekly Change(\$)	Weekly Change(%)
XAU	70.82	+1.78	+2.58%
Hang Seng Composite Index	3,309.75	+78.16	+2.42%
S&P/TSX Canadian Gold Index	147.58	+2.72	+1.88%
Gold Futures	1,190.20	+20.40	+1.74%
Nasdaq	4,688.54	+56.01	+1.21%
S&P Basic Materials	309.43	+3.65	+1.19%

10-Yr Treasury Bond	2.32	+0.02	+0.96%
S&P 500	2,039.82	+7.90	+0.39%
DJIA	17,634.74	+60.81	+0.35%
Korean KOSPI Index	1,945.14	+5.27	+0.27%
Russell 2000	1,174.06	+0.74	+0.06%
S&P Energy	629.88	-12.92	-2.01%
Oil Futures	75.93	-2.72	-3.46%
Natural Gas Futures	4.07	-0.35	-7.86%

Monthly Performance

Index	Close	Monthly Change(\$)	Monthly Change(%)
Nasdaq	4,688.54	+473.22	+11.23%
S&P 500	2,039.82	+177.33	+9.52%
Russell 2000	1,174.06	+101.62	+9.48%
DJIA	17,634.74	+1,493.00	+9.25%
10-Yr Treasury Bond	2.32	+0.18	+8.56%
S&P Basic Materials	309.43	+22.57	+7.87%
Natural Gas Futures	4.07	+0.27	+6.97%
S&P Energy	629.88	+38.46	+6.50%
Korean KOSPI Index	1,945.14	+19.23	+1.00%
Gold Futures	1,190.20	-54.60	-4.39%
Oil Futures	75.93	-5.85	-7.15%
XAU	70.82	-8.40	-10.60%
S&P/TSX Canadian Gold Index	147.58	-20.81	-12.36%
Hang Seng Composite Index	3,309.75	-332.01	-14.83%

Quarterly Performance

Index	Close	Quarterly Change(\$)	Quarterly Change(%)
Natural Gas Futures	4.07	+0.29	+7.65%
DJIA	17,634.74	+971.83	+5.83%
Nasdaq	4,688.54	+223.61	+5.01%
S&P 500	2,039.82	+84.76	+4.34%
Russell 2000	1,174.06	+32.41	+2.84%
10-Yr Treasury Bond	2.32	-0.02	-0.90%
S&P Basic Materials	309.43	-3.81	-1.22%
Hang Seng Composite Index	3,309.75	-99.66	-2.92%
Korean KOSPI Index	1,945.14	-118.08	-5.72%
Gold Futures	1,190.20	-116.00	-8.88%
S&P Energy	629.88	-70.27	-10.04%
Oil Futures	75.93	-21.42	-22.00%
S&P/TSX Canadian Gold Index	147.58	-56.47	-27.67%
XAU	70.82	-31.15	-30.55%

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.

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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 Emerging Europe 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.

Bond funds are subject to interest-rate risk; their value declines as interest rates rise. 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. The Near-Term Tax Free Fund may invest up to 20% 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. The Near-Term Tax Free Fund 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.

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.

Past performance does not guarantee future results.

Some link(s) above may be directed to a third-party website(s). U.S. Global Investors does not endorse all information supplied by this/these website(s) and is not responsible for its/their content.

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

Fund portfolios are actively managed, and holdings may change daily. Holdings are reported as of the most recent quarter-end. Holdings as a percentage of net assets as of 9/30/14:

Ford Motor Co.: 0.0%
General Motors: 0.0%
Tesla Motors, Inc.: All American Equity Fund. 2.09%; Holmes Macro Trends Fund, 2.93%
Virgin America: 0.0%
Walmart: 0.0%
Tiffany & Co.: Gold and Precious Metals Fund, 0.44%
AT&T, Inc.: All American Equity Fund. 1.09%
Verizon Communications, Inc.: All American Equity Fund. 0.97%
Amazon.com, Inc.: 0.0%
The Priceline Group, Inc.: All American Equity Fund. 3.00%; Holmes Macro Trends Fund, 3.03%
Fossil Group, Inc.: All American Equity Fund. 0.93%
Baker Hughes, Inc.: 0.0%
Halliburton Co.: Global Resources Fund, 2.19%; All American Equity Fund. 1.67%; Holmes Macro Trends Fund, 1.95%
NRG Energy, Inc.: 0.0%
Helmerich & Payne, Inc.: Global Resources Fund, 1.49%
Southwestern Energy Co.: All American Equity Fund. 1.36%; Holmes Macro Trends Fund, 1.55%
Transocean Ltd: 0.0%
Franco-Nevada Corp.: Gold and Precious Metals Fund, 6.44%; World Precious Minerals Fund, 1.16%; All American Equity Fund, 1.27%; Holmes Macro Trends Fund, 1.47%
Petroleo Brasileiro S.A.: 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 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 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 NYSE Arca Gold Miners Index is a modified market capitalization weighted index comprised of publicly traded companies involved primarily in the mining for gold and silver.

The Consumer Price Index (CPI) is one of the most widely recognized price measures for tracking the price of a market basket of goods and services purchased by individuals. The weights of components are based on consumer spending patterns.

The NYSE Arca Airline Index is an equal-dollar-weighted index of the most highly capitalized companies in the airline industry.

The S&P/TSX Capped Diversified Metals and Mining Index is an index of companies engaged in diversified production or extraction of metals and minerals.

The S&P 500 Oil & Gas Drilling Index is a capitalization-weighted index. The index is comprised of four stocks whose primary activity is drilling for oil on land or at sea.

The S&P Supercomposite Oil & Gas Refining & Marketing Index is a capitalization-weighted index. The Platts China Steel Sentiment Index reflects the responses of steel makers, traders and exporters at the end of each month to questions about new orders for the month ahead and the proprietary survey contains additional sentiment readings on production, inventories and prices.

The Borsa Istanbul 100 Index is a capitalization-weighted index composed of National Market companies except investment trusts.

The Budapest Stock Exchange Index is a capitalization-weighted index adjusted for free float. The index tracks the daily price-only performance of large, actively traded shares on the Budapest Stock Exchange.

The Ibovespa Index (IBOV) is a total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange.