

# ANALYZING GOLD & GOLD STOCKS

**Frank Holmes,**  
CEO and Chief Investment Officer



usfunds.com  
1.800.US.FUNDS



# Sharing Gold Insights with CNBC and Bloomberg Television Who Are Usually Negative on Gold



# THE THREE WISE MEN OF THE HEDGE FUND WORLD AND GOLD

1

RAY DALIO



"If you don't own gold, you know neither history nor economics."

2

PAUL SINGER



"It makes a great deal of sense to own gold."

3

STANLEY DRUCKENMILLER



"We regard gold as a currency and it remains our largest currency allocation."

# Investors Focus on Tip of Interest Rates



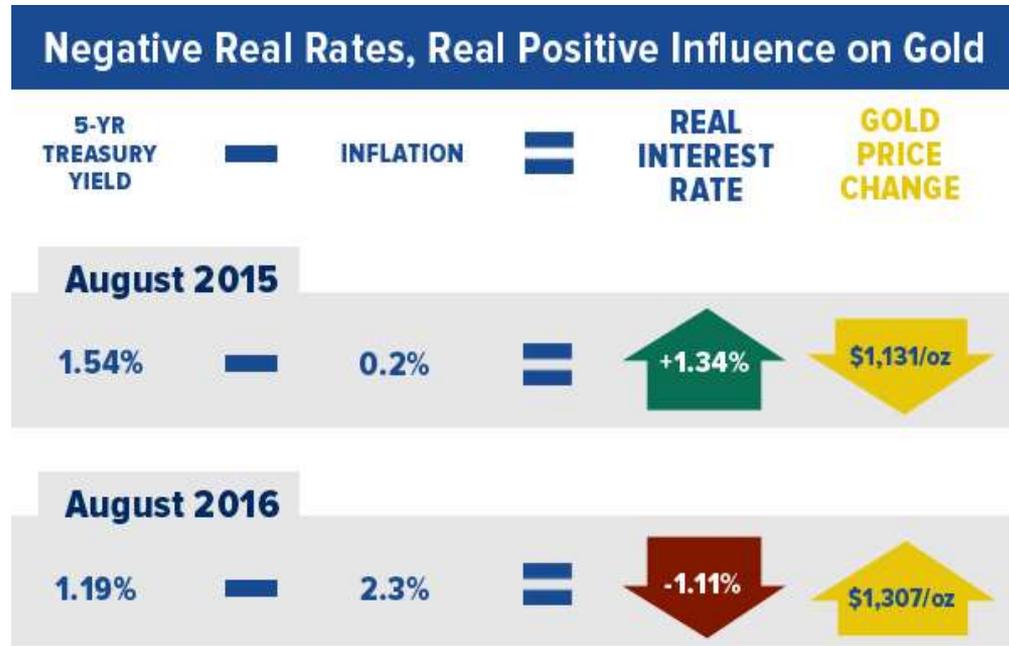
Nominal Interest Rates



**INVESTORS NEED TO FOCUS  
ON REAL INTEREST RATES**  
(Nominal Rates – CPI = Real Rates)

**Real Interest Rates**

# Fear Trade: The Inverse Relation Between Real Interest Rates and the Price of Gold



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

Compare  
Aug 2015  
  
vs  
  
Aug 2016



# Fear Trade: The Inverse Relation Between Real Interest Rates and the Price of Gold

## Negative Real Rates, Real Positive Influence on Gold

5-YR TREASURY YIELD   **-**   INFLATION   **=**   REAL INTEREST RATE   **GOLD PRICE CHANGE**

December 2015

1.76%

0.70%

+1.06%

\$1,066/oz

December 2016

1.93%

2.1%

-0.17%

\$1,128/oz

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

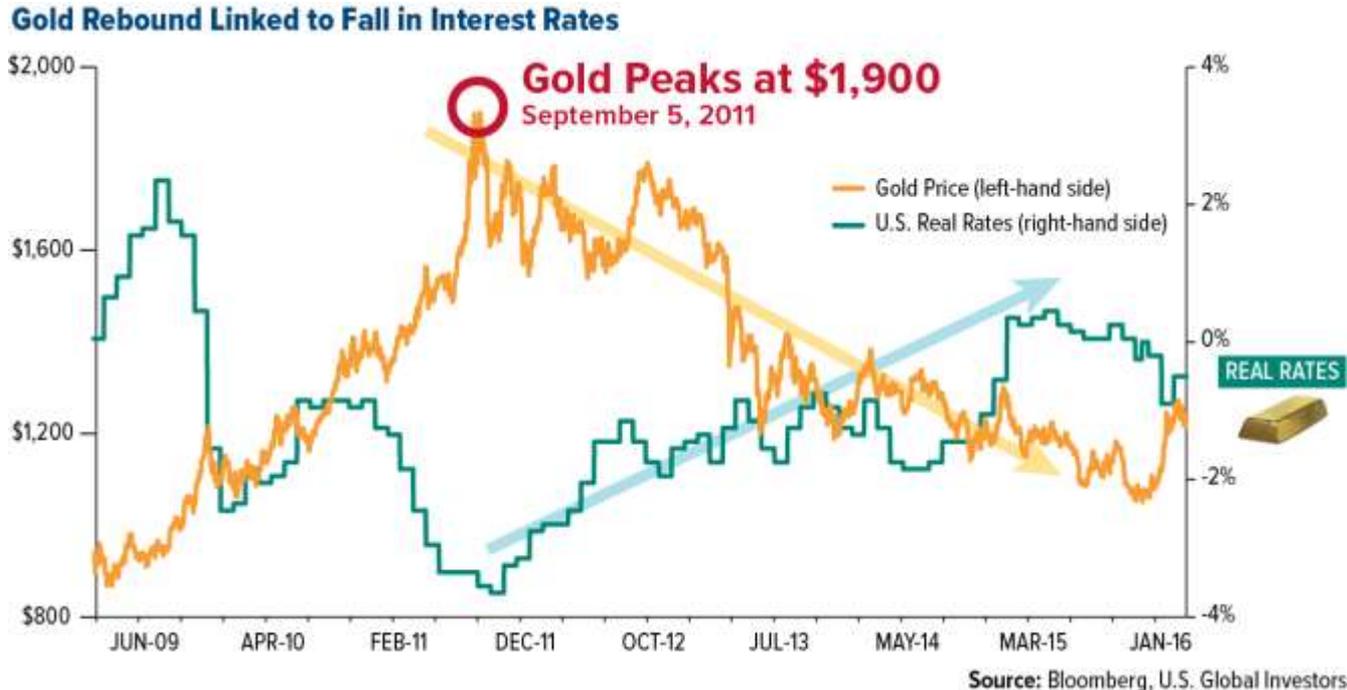
Compare  
Dec 2015

VS

Dec 2016



# Fear Trade: Gold Rebound Has Been Linked to Fall in Real Interest Rates



# Gold Corrects on Rise of 10-Year Treasury Yield

Historically Gold Corrects on Rise of 10-Year Real Treasury Yield



Past performance does not guarantee future results.

Source: Bloomberg, U.S. Global Investors

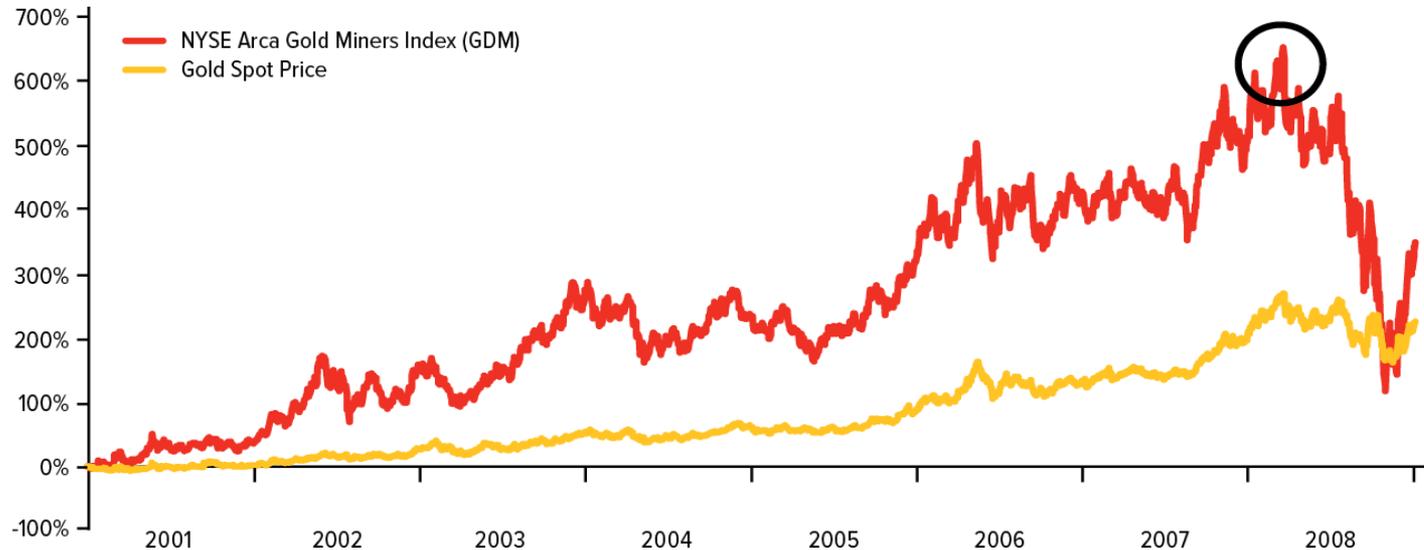


# Gold Cycle 2001 to 2007: Gold Stocks Outperformed Bullion



## Gold Cycle 2001 to 2008: Bullion vs. Gold Stock Performance

Percent Change



Source: Bloomberg, U.S. Global Investors

Past performance does not guarantee future results.



# Gold Cycle 2009 to 2016: Bullion Outperformed Gold Stocks



Gold Cycle 2009 to 2016: Bullion vs. Gold Stock Performance

Percent Change



Past performance does not guarantee future results. Source: Bloomberg, U.S. Global Investors

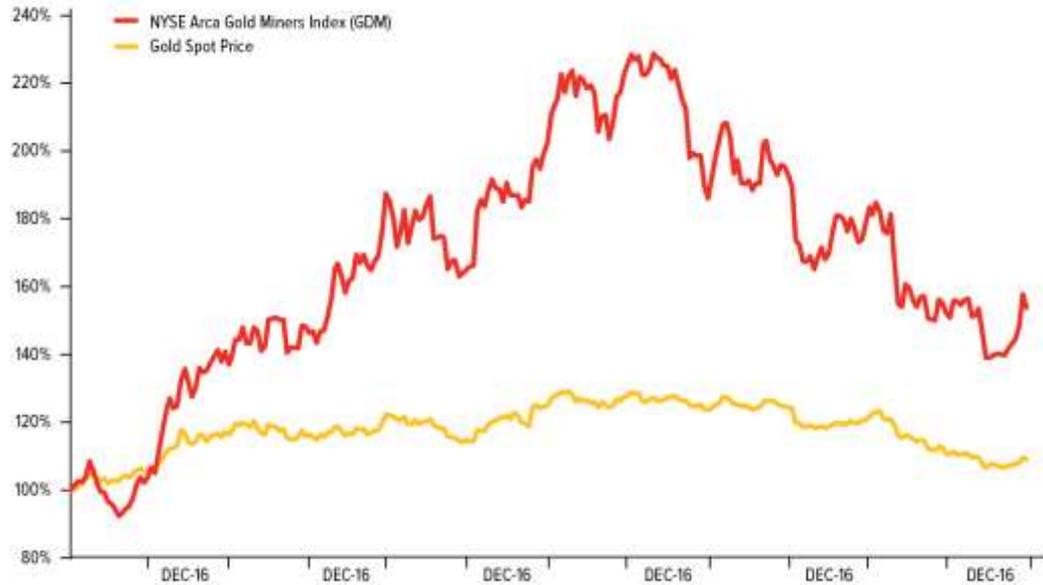


# Gold Cycle Year-to-Date: Gold Stocks Outperformed Bullion



## Gold Cycle Year-to-Date: Bullion vs. Gold Stock Performance

Percent Change

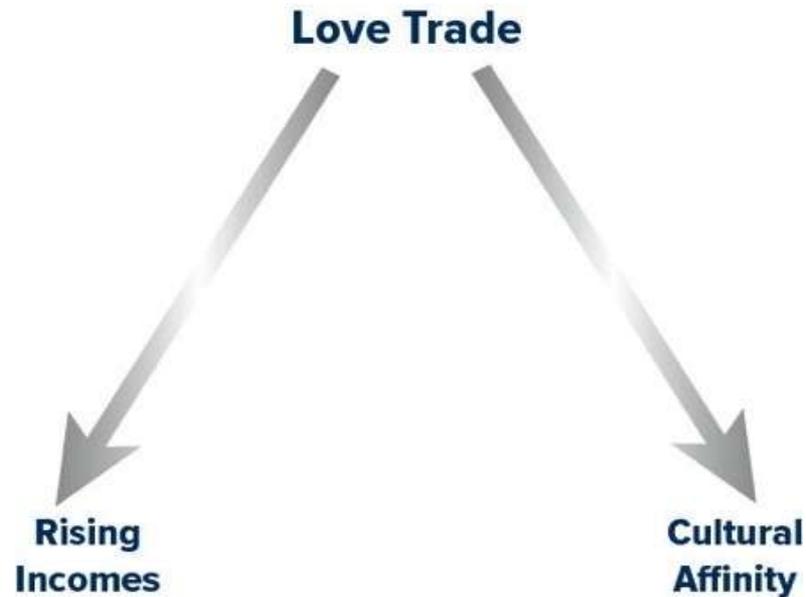


Past performance does not guarantee future results. Source: Bloomberg, U.S. Global Investors



# Driver: The Love Trade

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# Demographics: Emerging World Holds 49% of the Global Population, Just 24% of GDP

		Population (million)*	Nominal GDP (bn USD) 2013*			Population (million)*	Nominal GDP (bn USD) 2013*
<b>E-7</b>				<b>G-7</b>			
	China	1350	9240		U.S.	316	16800
	India	1221	1877		Japan	127	4902
	Indonesia	251	868		Germany	81	3635
	Brazil	201	2246		France	66	2735
	Pakistan	193	237		U.K.	63	2522
	Russia	143	2097		Italy	61	2071
	Mexico	119	1261		Canada	35	1825
<b>Total</b>		<b>3477</b>	<b>17825</b>	<b>Total</b>		<b>750</b>	<b>34490</b>
		<b>49%</b> of world total	<b>24%</b> of world total			<b>11%</b> of world total	<b>46%</b> of world total

Source: U.S. Global Research

\*As of December 2013

Past performance is no guarantee of future results.



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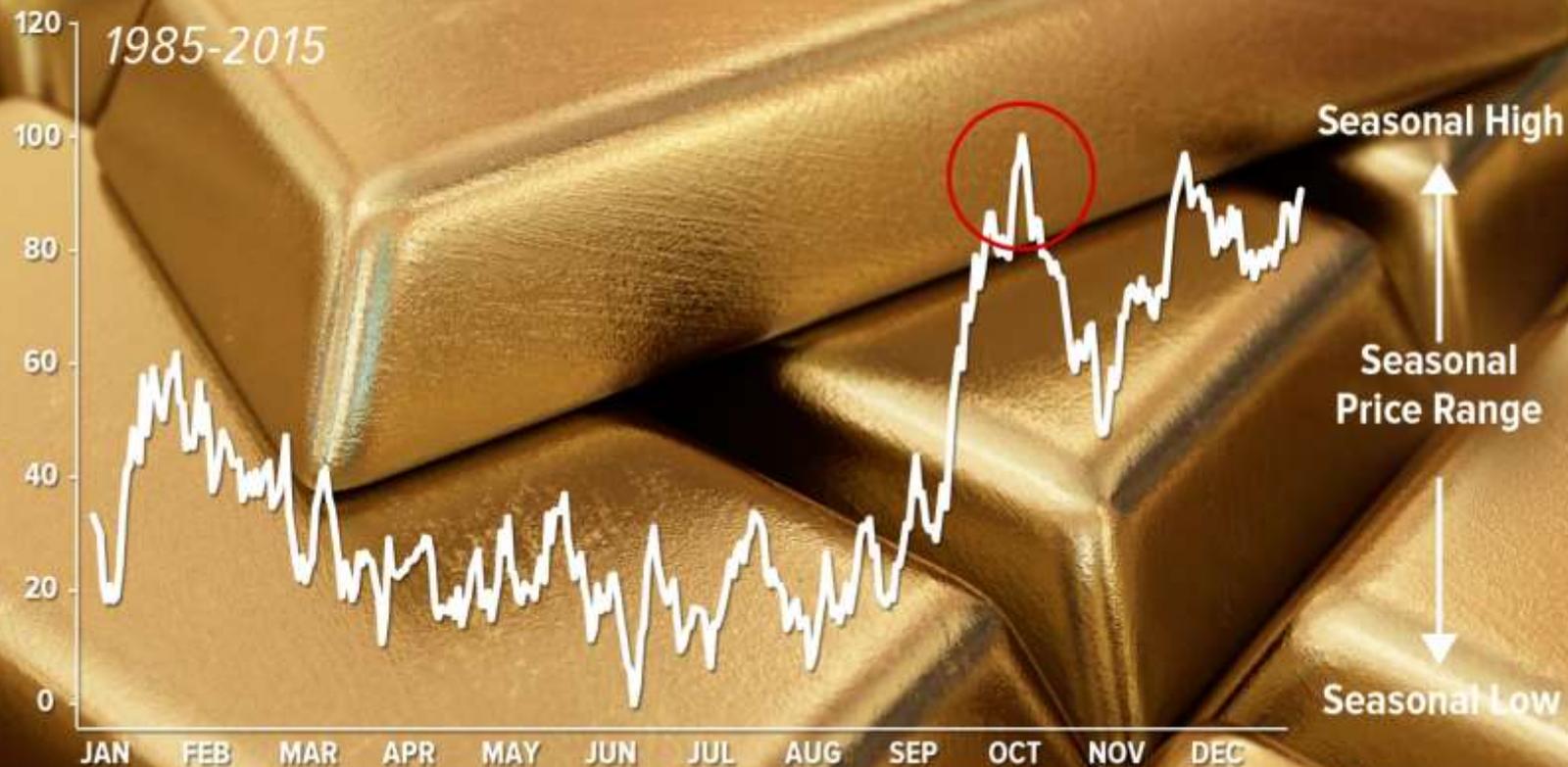
# Understanding Various Market Cycles

## Managing Expectations — Cycles



# GOLD'S HISTORICAL 30-YEAR PATTERN

The seasonal pattern shows historical tendency of when the highest and lowest prices occurred, based on analysis of daily prices collected over the last 5, 15 and 30 years by Moore Research Center, Inc.



Source: Moore Research Center, U.S. Global Investors

# Gold's Love Trade: Cultural Celebrations Prompting the Purchase of Gold

HOLIDAYS

RAMADAN



INDIAN WEDDING SEASON



DIWALI



INDIAN WEDDING SEASON



CHRISTMAS



CHINESE NEW YEAR



JUNE

JULY

AUGUST

SEPTEMBER

OCTOBER

NOVEMBER

DECEMBER

JANUARY

FEBRUARY





# “Chindia” Accounts for More Than Half of Total Global Gold Jewelry Demand in 2015

More Than Half of the World's Population Lives Inside this Circle

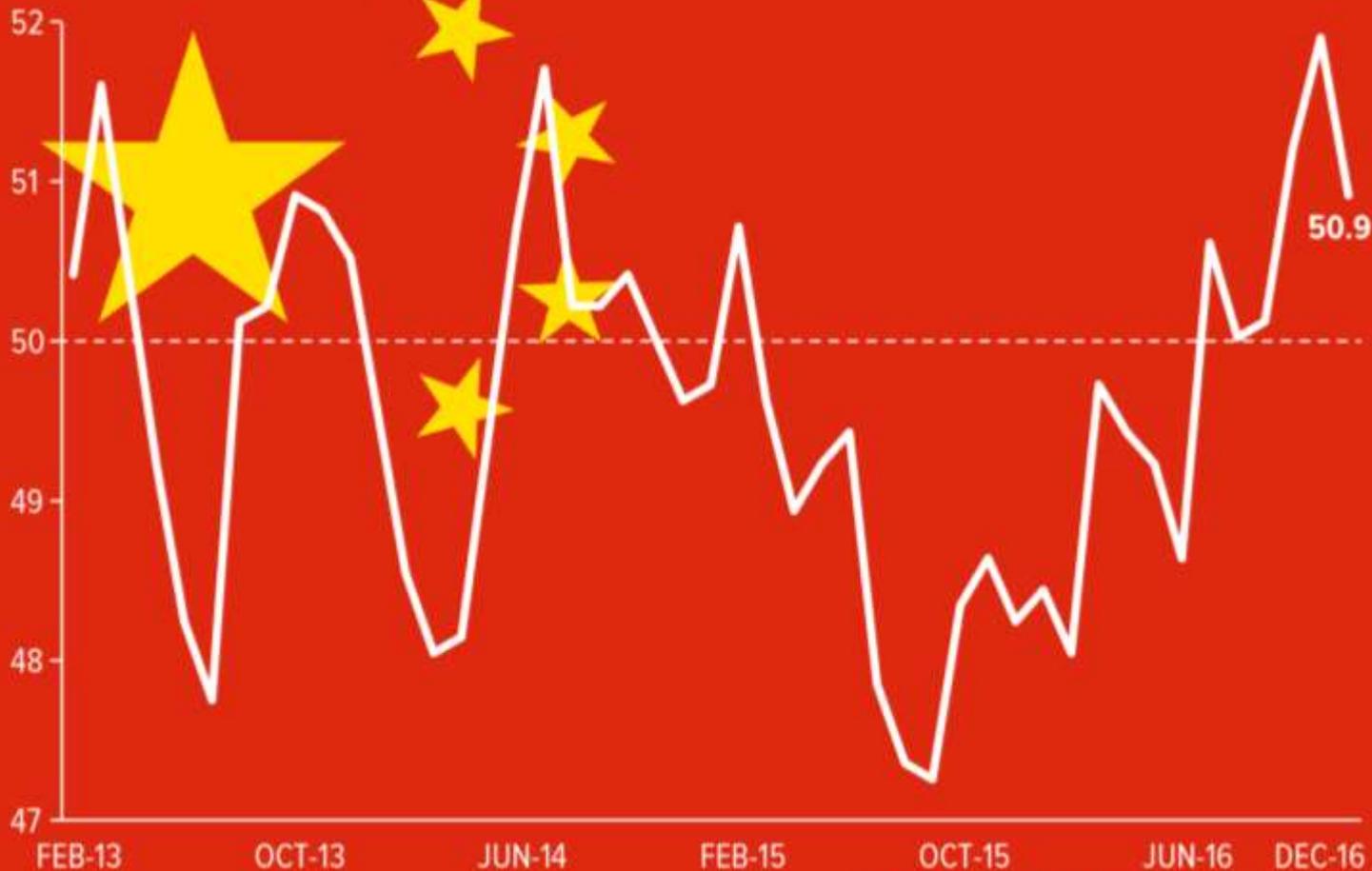


Source: Visual Capitalist



# Chinese Manufacturing Still in Expansionary Mode

Caixin China Manufacturing PMI



Source: Caixin, IHS Markit, U.S. Global Investors

# 109 MILLION



For the first time, the size of China's middle class has overtaken the U.S., 109 million compared to 92 million.



# DID YOU KNOW?

INDIA HAS  
**600 MILLION**  
PEOPLE  
UNDER THE AGE OF 25

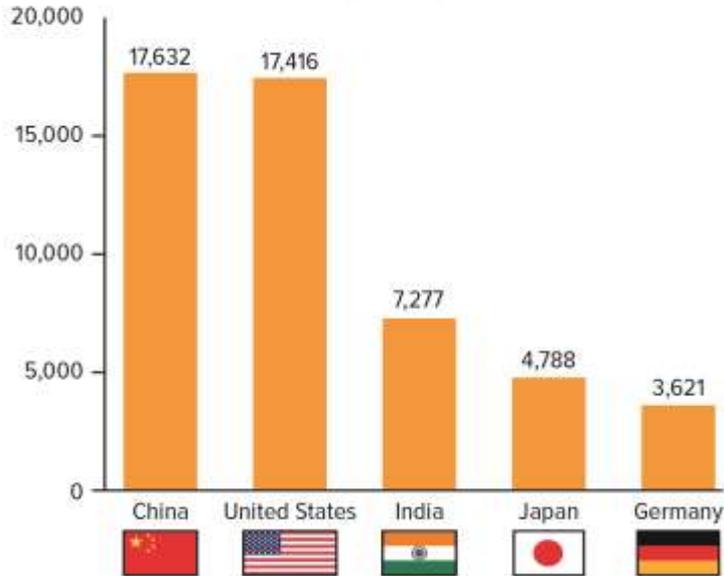
THAT'S 2 TIMES THE  
ENTIRE POPULATION  
**OF THE U.S.**



# China Surpasses U.S. on Purchasing Power Parity Valuation of GDP

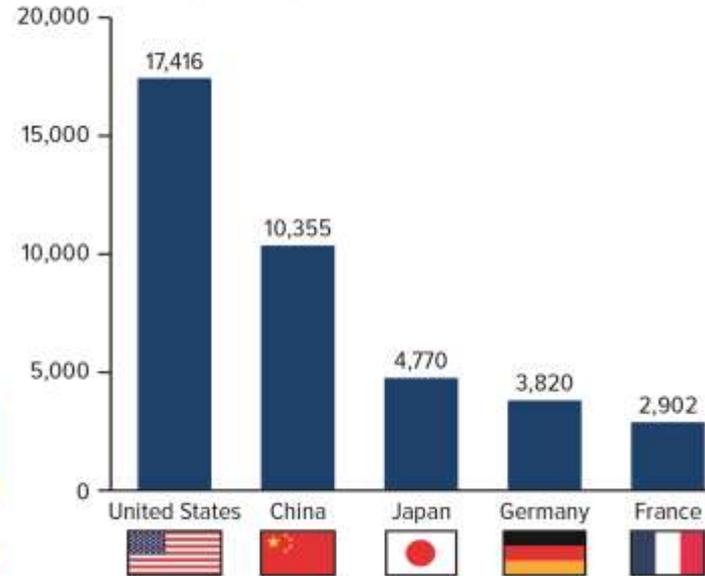
## GDP on Purchasing Power Parity Valuation

Current International Dollar (Billions)



## Gross Domestic Product in Absolute Terms

In U.S. Dollars (Billions)



Past performance does not guarantee future results. **Source:** Knoema, U.S. Global Investors



# The Great Tectonic Shift of Physical Gold From West to East



In December 2015, China imported 180 tonnes of gold from Switzerland alone.





**INDIAN**  
HOUSEHOLDS  
*have the*  
WORLD'S  
**LARGEST**  
PRIVATE  
**GOLD**  
*holdings at*  
**23,000**  
TONNES

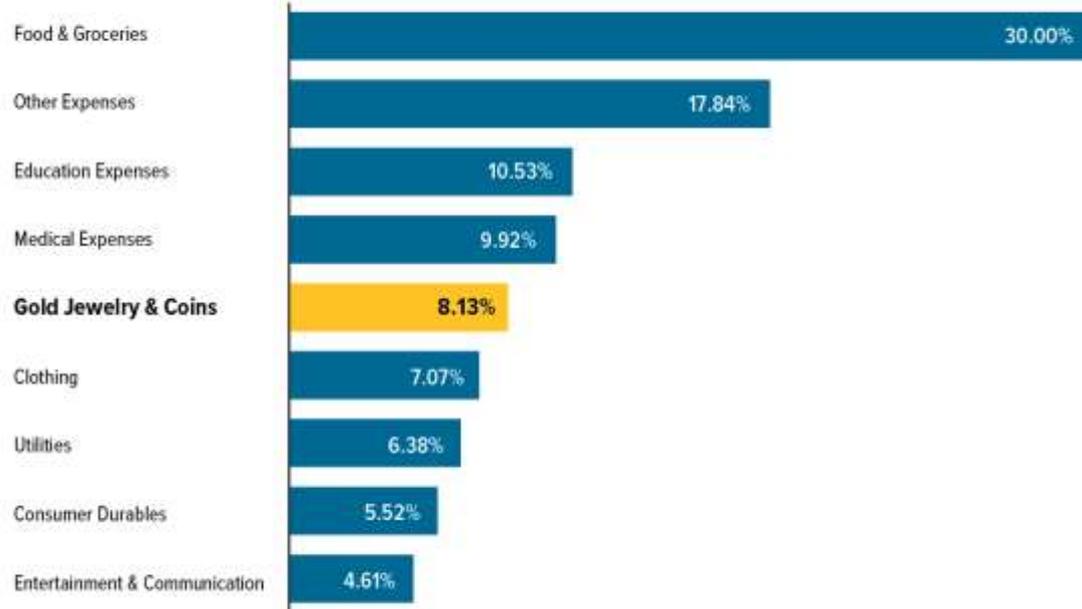


# Gold Is Among Indian Households' Regular Expenditures



## Gold Is Among Indian Households' Regular Expenditures

Percent of Household Expenditure

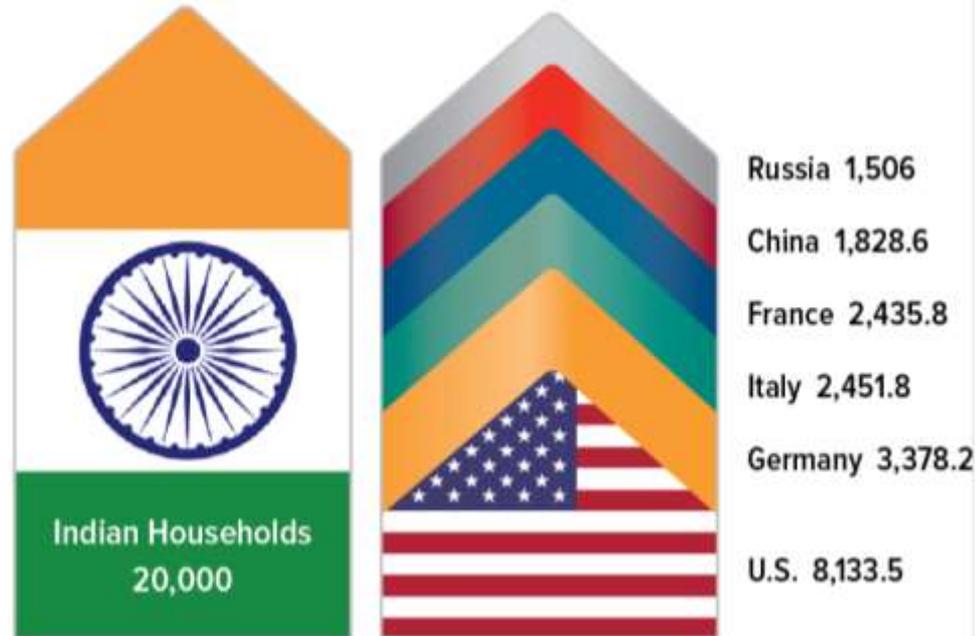


Source: FICCI Gold Survey (2013), U.S. Global Investors



# Indian Households Own More Gold Than Top Six Central Banks

In Tonnes



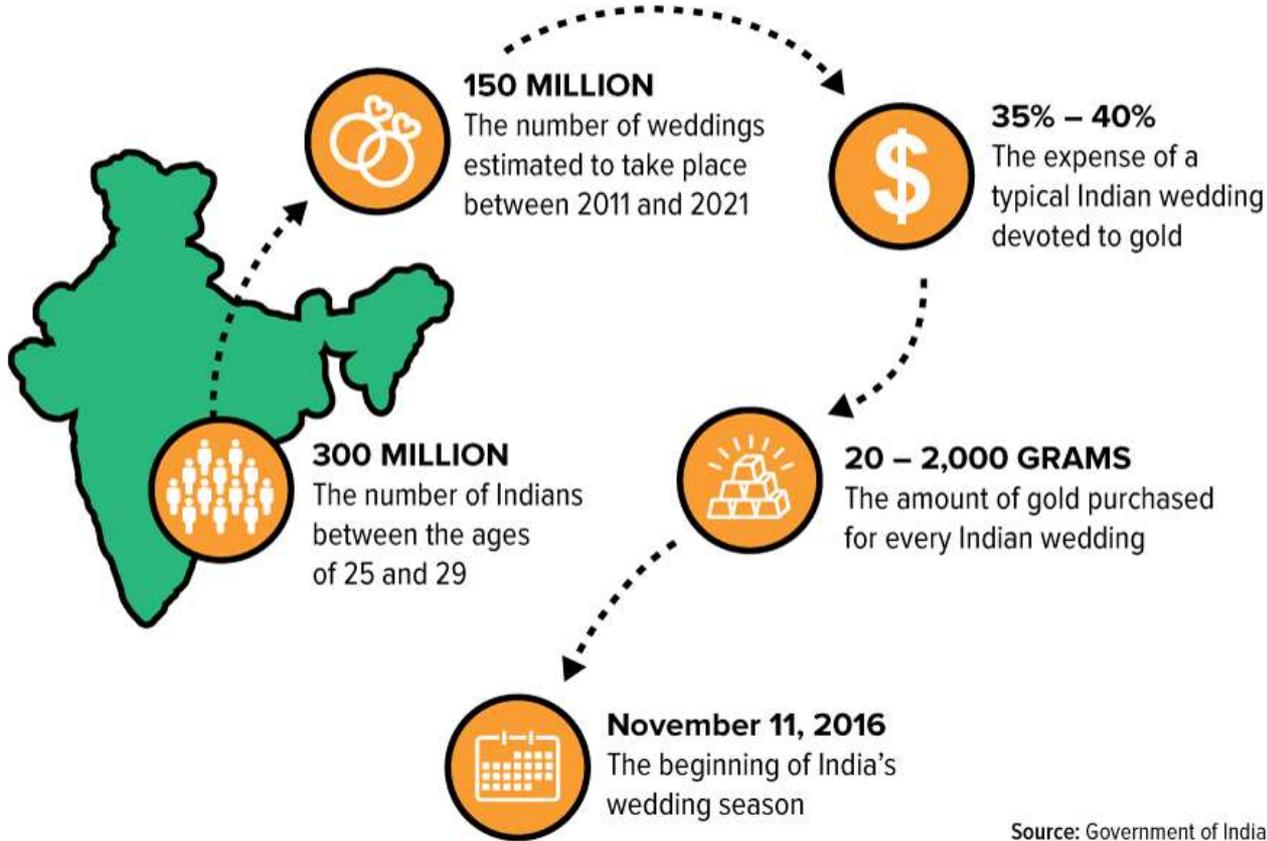
Source: Economic Times, World Gold Council, U.S. Global Investors



A THIRD OF INDIAN **GOLD DEMAND**  
COMES FROM RURAL FARMERS WHO DEPEND  
ON A STRONG **MONSOON**

*Monsoon or rainy season typically lasts from July to September*

# INDIAN WEDDINGS AND GOLD

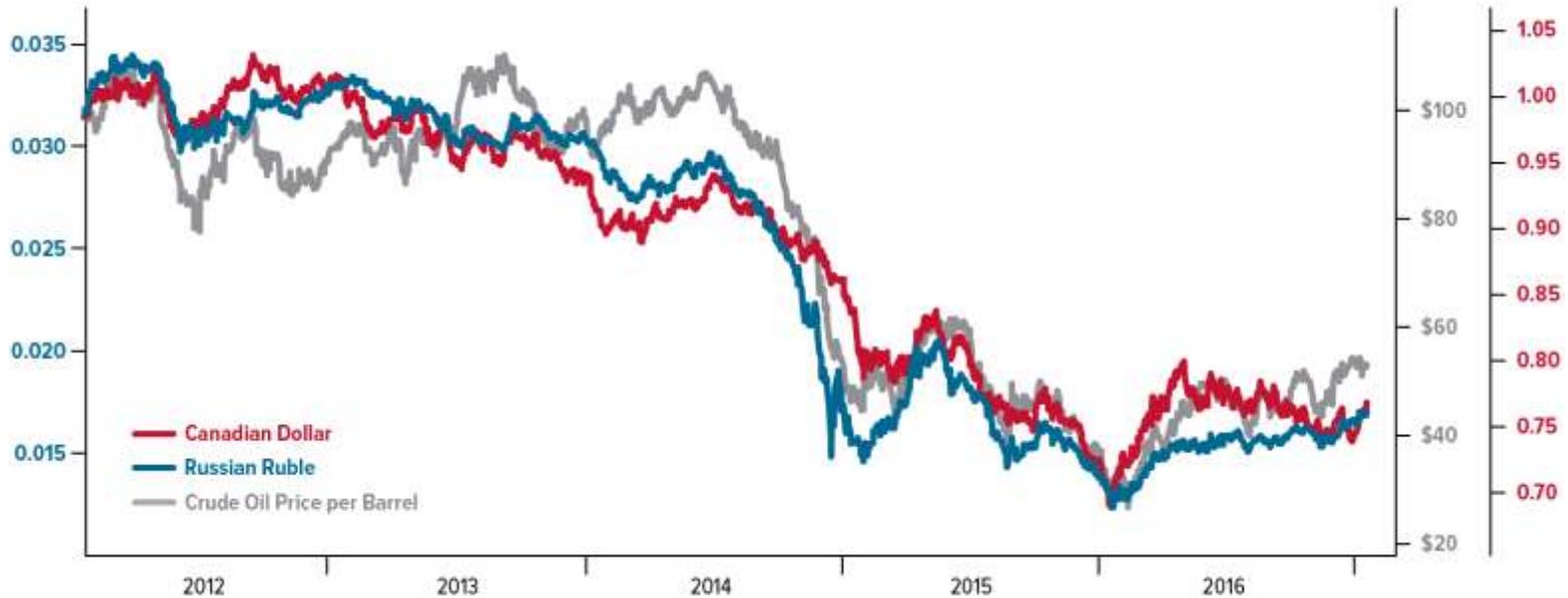


Source: Government of India, LBMA, U.S. Global Investors

# Canadian Dollar and Russian Ruble Track Oil Prices



Canadian Dollar vs. Russian Ruble vs. Crude Oil



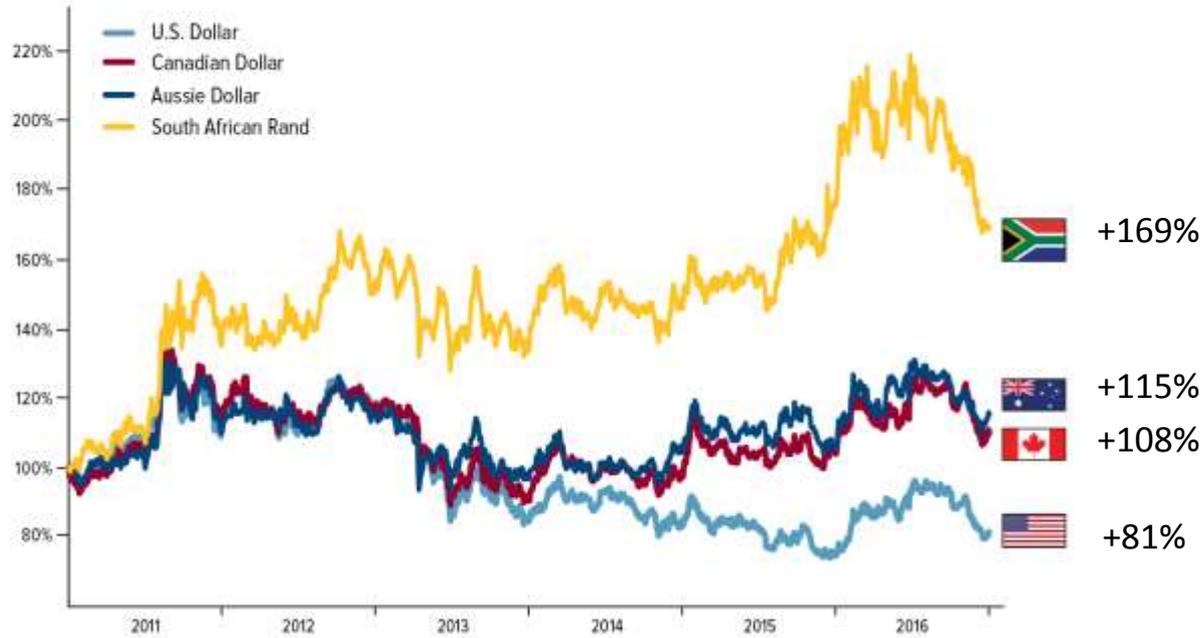
Source: Bloomberg, U.S. Global Investors



# Gold's Performance in Various World Currencies Since 2011 Peak \$1,900/oz

## Currency Moves Based on Gold Price

As of December 31, 2016



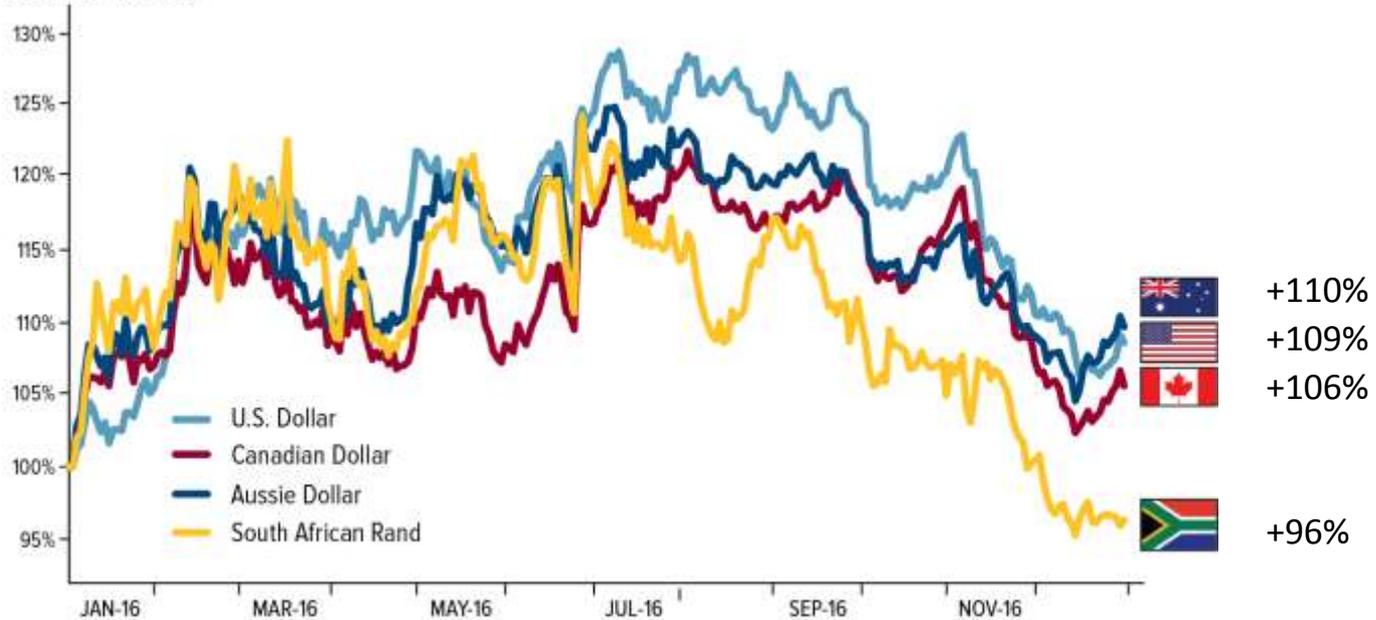
Past performance does not guarantee future results. Source: Bloomberg, U.S. Global Investors



# Gold's Performance in Various World Currencies

## Past 12 Months

**Currency Moves Based on Gold Price**  
December 31, 2016



Past performance does not guarantee future results. Source: Bloomberg, U.S. Global Investors



# The Periodic Table of Commodity Returns

The Periodic Table of Commodity Returns



Returns are based on historical spot prices or futures prices. Past performance does not guarantee future results.

Source: Bloomberg and U.S. Global Research



# Each Asset Class Has Its Own DNA of Volatility

Standard deviation based on 10-year daily data as of 12/31/2016

	Daily	Rolling 1 Year
NYSE Arca Exchange Gold BUGS Index	±3%	±40%
WTI Crude Oil	±3%	±38%
Gold Bullion	±1%	±19%
S&P 500 Index (SPX)	±1%	±18%
Euro	±1%	±10%
Canadian Dollar	±1%	±10%
U.S. Dollar Index	±1%	±9%



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

Standard deviation is a measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Standard deviation is also known as historical volatility. Past performance is no guarantee of future results.



# Card Counting Allowed

Managing Expectations — Anticipate Before You Participate



## Measuring Monthly Volatility

	Number of +10% Moves	Number of -10% Moves	Frequency of ±10% Moves
<b>NYSE Arca Gold BUGS Index (HUI)</b>	449	342	30%
<b>WTI Crude Oil</b>	407	265	26%
<b>MSCI Emerging Markets (MXEF)</b>	137	174	12%
<b>Gold Bullion</b>	128	77	8%
<b>S&amp;P 500 Index (SPX)</b>	33	68	4%

Calculated over rolling 20-trading day periods. Based on approximately 2,550 total occurrences over the past 10 years as of 9/30/2013.



# Gold's Heartbeat:

## Historically Gold Reverts to the Mean



### Gold Is Reverting Back to the Mean

60-Day Percent Change in Standard Deviation Terms, Through January 5

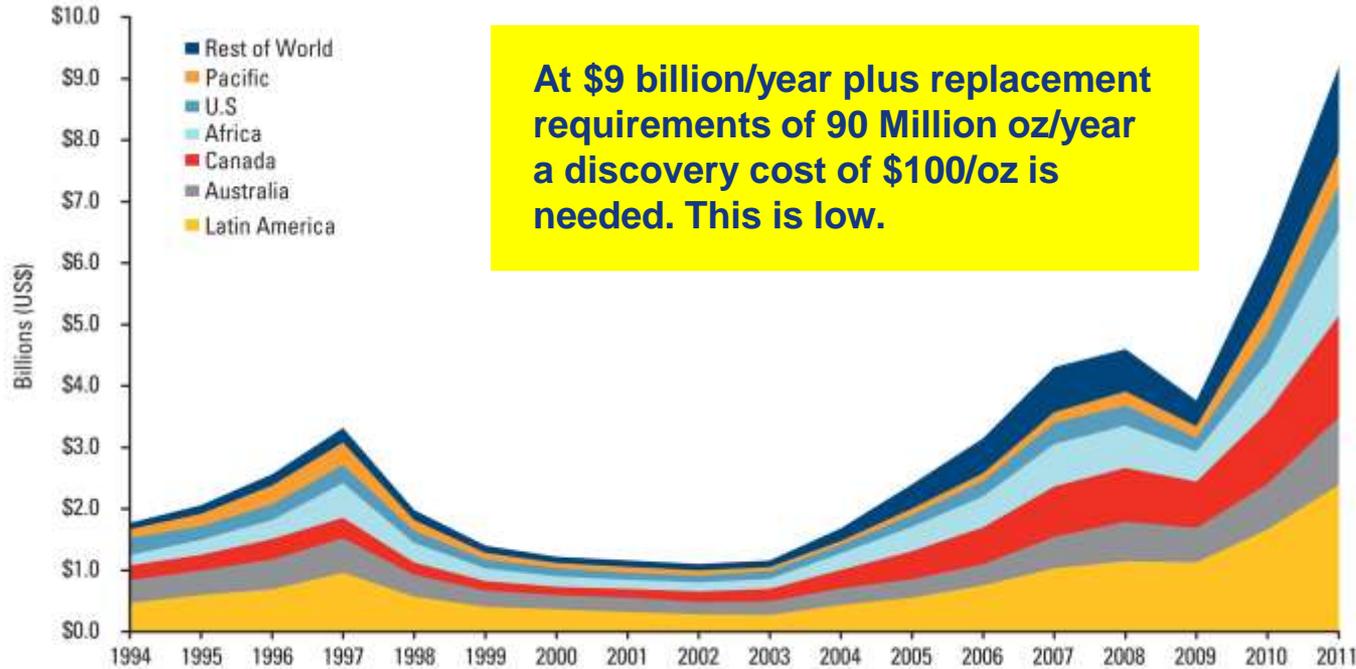


**1 Sigma = 7%**

Source: Bloomberg, U.S. Global Investors



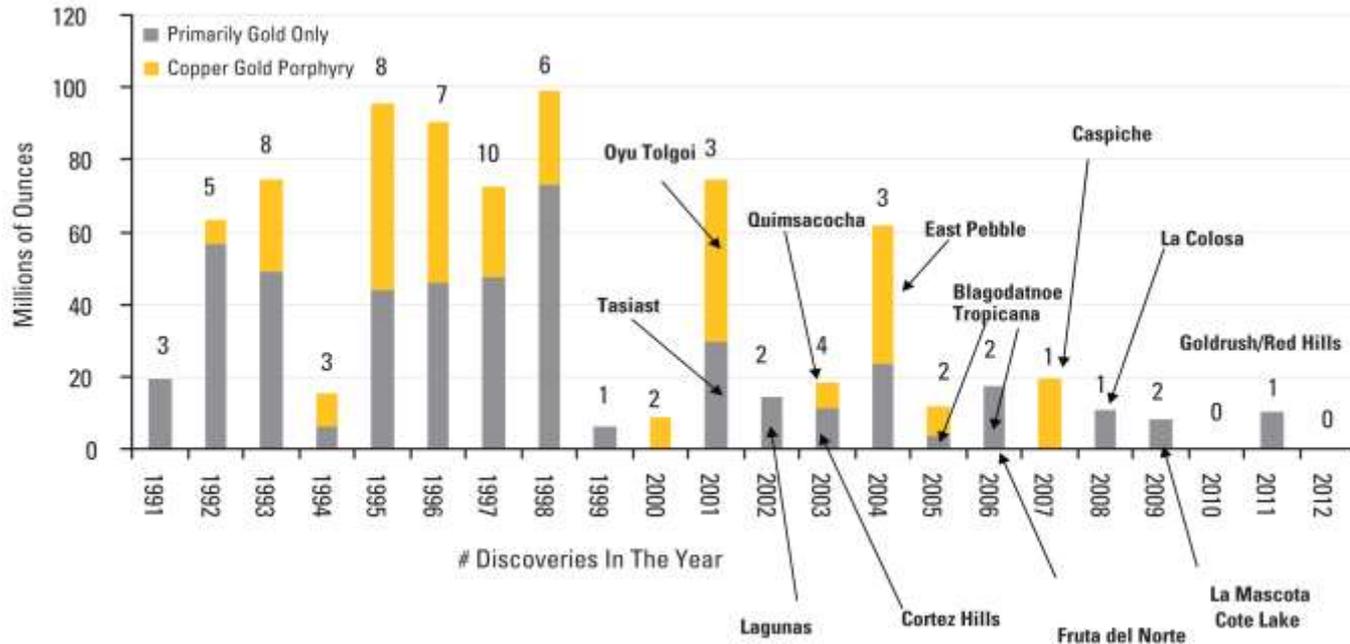
# Exploration Spending Has Skyrocketed Without True Success



Source: CIBC, Metals Economics



# +3 Million Ounce Discoveries Becoming Scarce



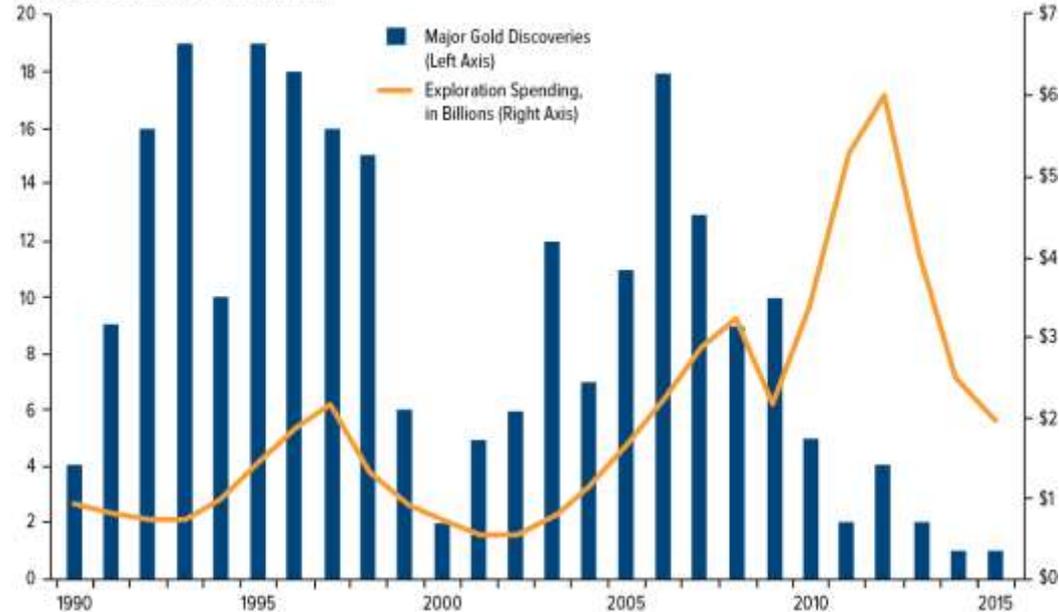
Source: Metals Economics CIBC



# Where Have All the Gold Discoveries Gone?

## Where Have All the Gold Discoveries Gone?

Major Gold Discoveries Are Dwindling

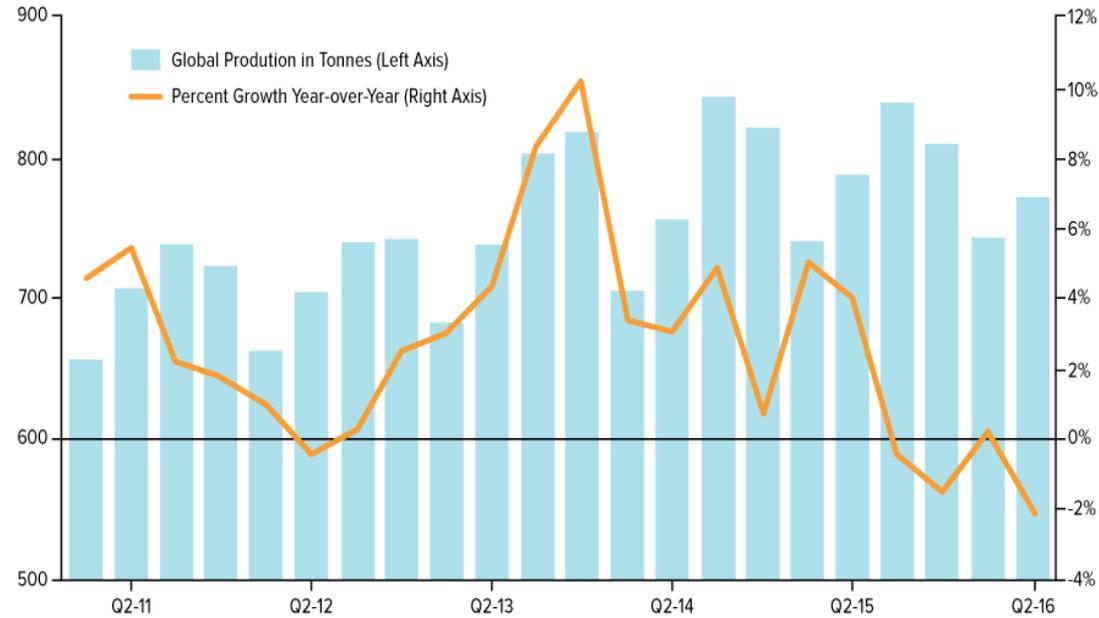


Source: Palisade Research, SNL, U.S. Global Investors



# World Quarterly Mine Production Is Trending Down

World Quarterly Mine Production Is Trending Down



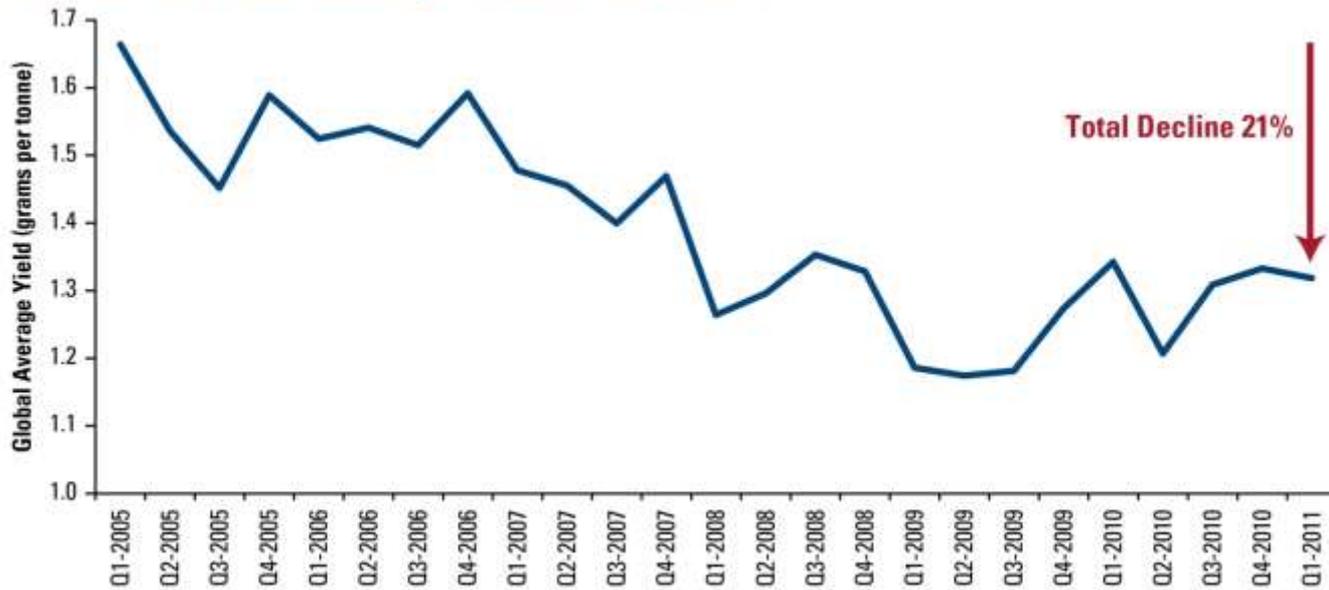
Source: GFMS, Thomson Reuters, U.S. Global Investors



# Gold Grades Fall



**Declines in Global Average Grades Since 2005**



Source: Company Reports and CIBC World Markets Inc.



# Three Price Levels When Valuing Companies

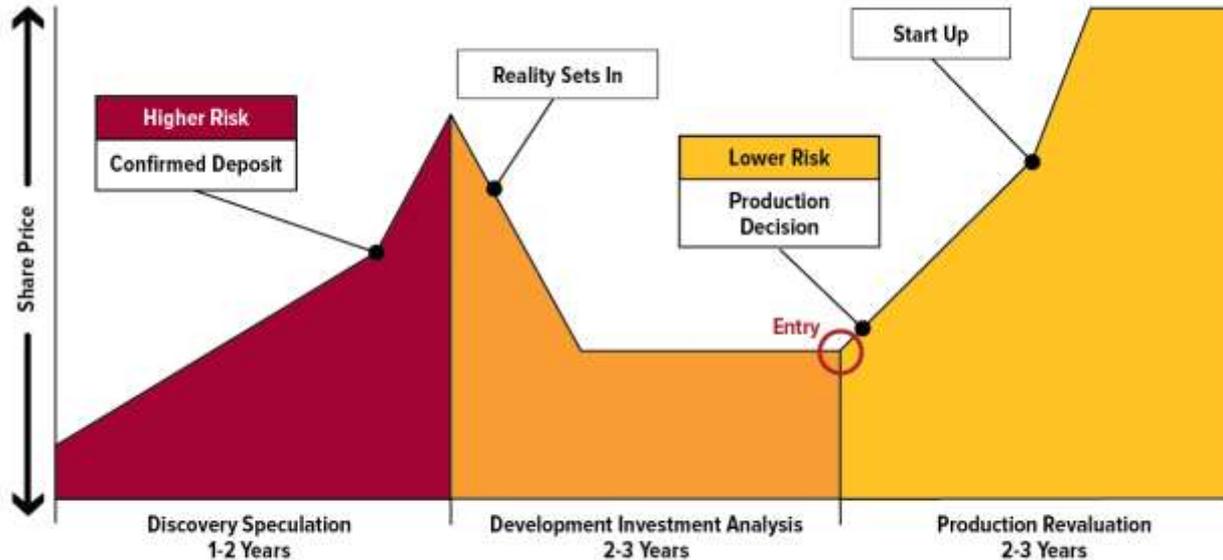
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1. Wholesale Price
2. Retail Price
3. Fairytale Price

# The Lifecycle of a Mine

The Lifecycle of a Mine



Source: U.S. Global Research

Hypothetical illustration, not indicative of any particular holding of the Fund. Reflects cycles we believe are generally typical.



# The Five M's for Gold Miners

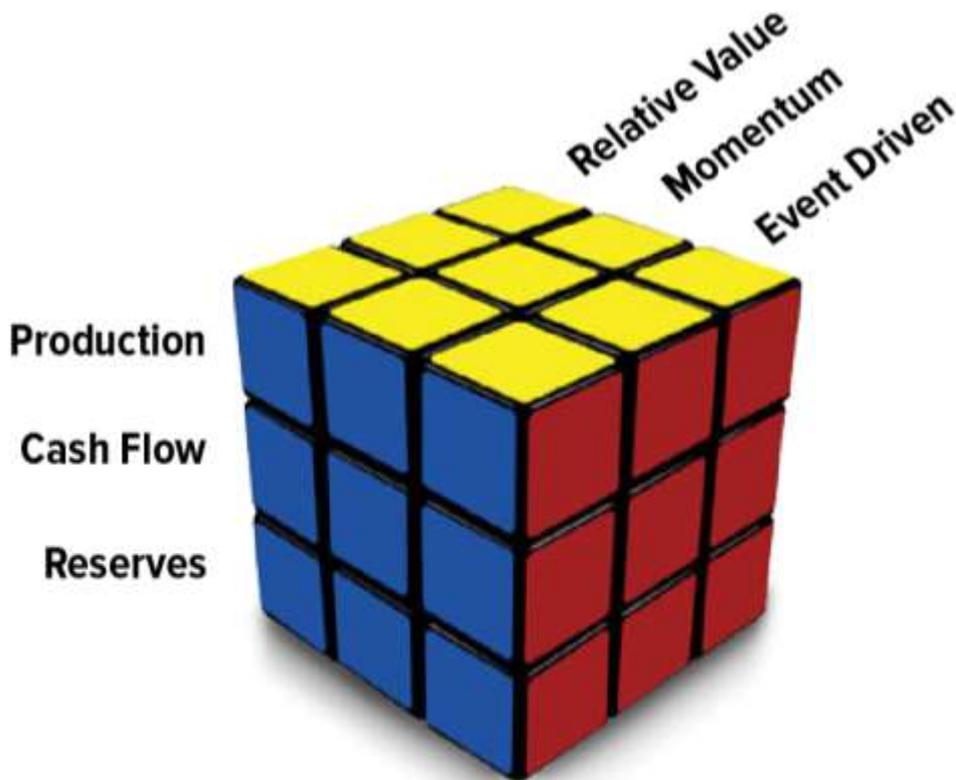
- Management
- Mine Lifecycle
- Market Cap
- Money (Burn Rate)
- Minerals

Weight of Truck: 423 tons  
Load Capacity: 240 tons

Frank Holmes,  
Mauritania



# The Portfolio Manager's Cube: A Look at the Value Drivers Behind Superior Resource Stock Performance

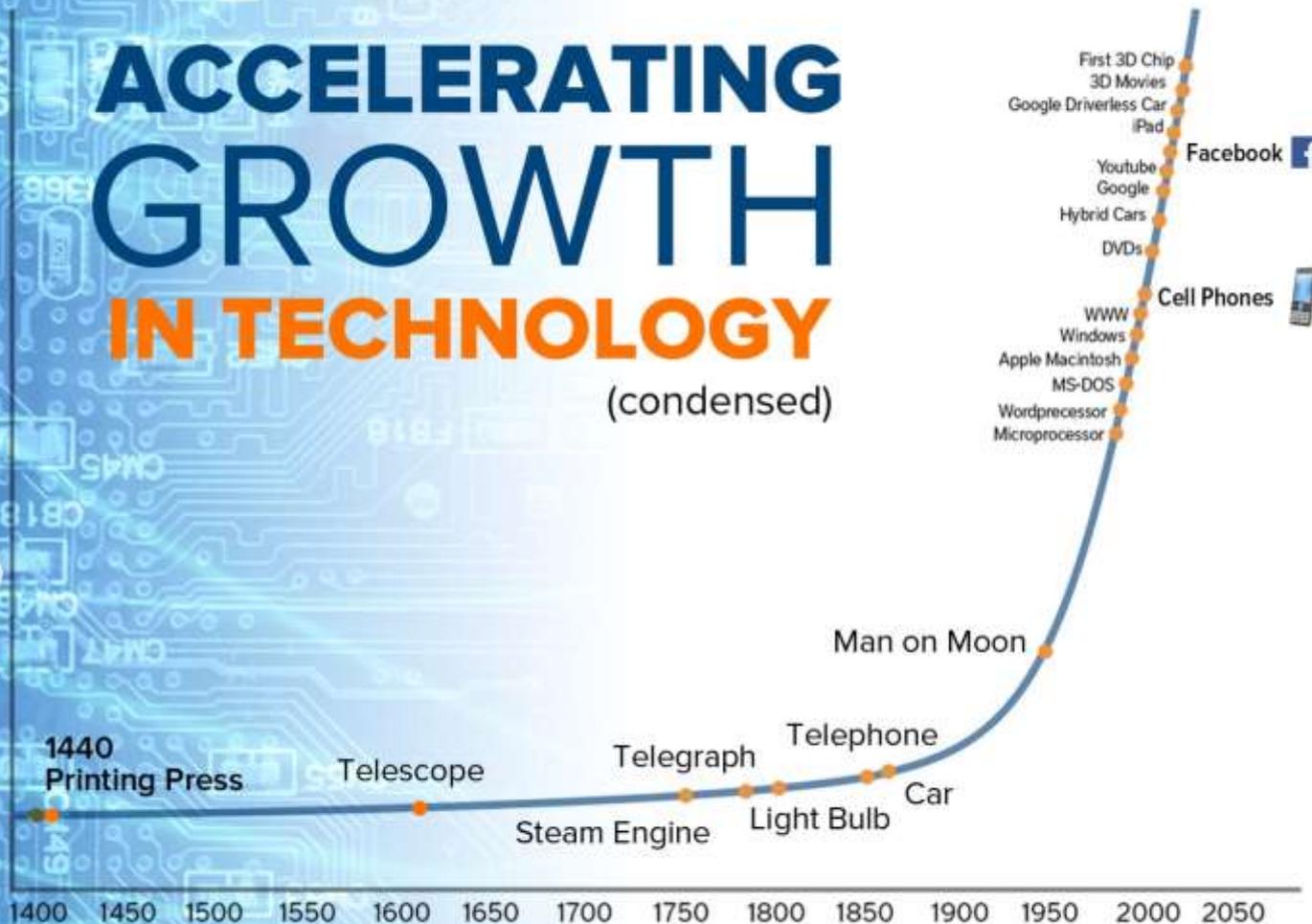


We believe the key success factor to superior performance is growth on a per share basis in the 3 value drivers, Production, Cash Flow, Reserves.

Source: U.S. Global Investors

# ACCELERATING GROWTH IN TECHNOLOGY

(condensed)



# THE 3 WAVES OF CONNECTED DEVICE DEVELOPMENT

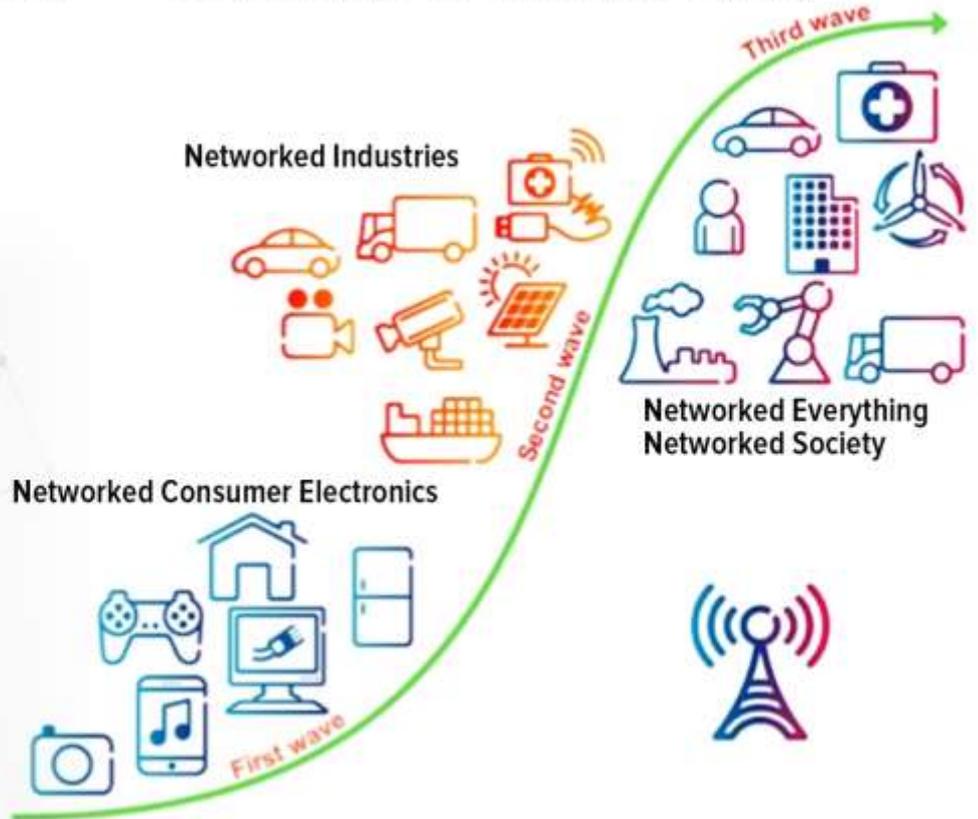


Improved Reach

Improved Value  
- Consumer Lifestyle

Improved  
Process Efficiency

Improved Human  
Efficiency



# WHAT'S NEW THIS TIME?

THE INTERNET GAVE US

**BIG DATA**

(GREATER NEED)

THE CLOUD GAVE US

**MASSIVE COMPUTING**

(MORE HORSEPOWER)

***AND IT'S GETTING MUCH, MUCH BIGGER...***

# IN OTHER WORDS...

**TRAINING** YOUR COMPUTER TO DO STUFF  
JUST LIKE YOU WOULD TRAIN A PET



# REV/SGA (Revenue to Selling, General and Administrative Costs Ratio):

quarterly revenue divided by the aggregate quarterly selling, general and administrative costs

Index Value



\*Hypothetical portfolio of 10 gold stocks based on REV/SGA. As of 12/31/2016

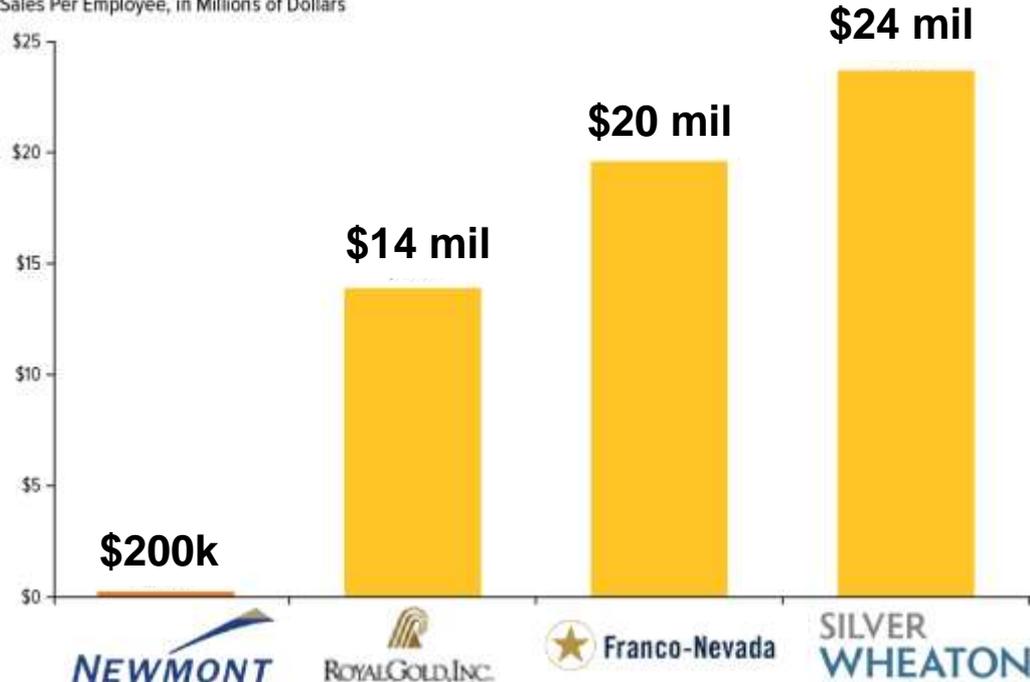
Source: U.S. Global Investors, Bloomberg



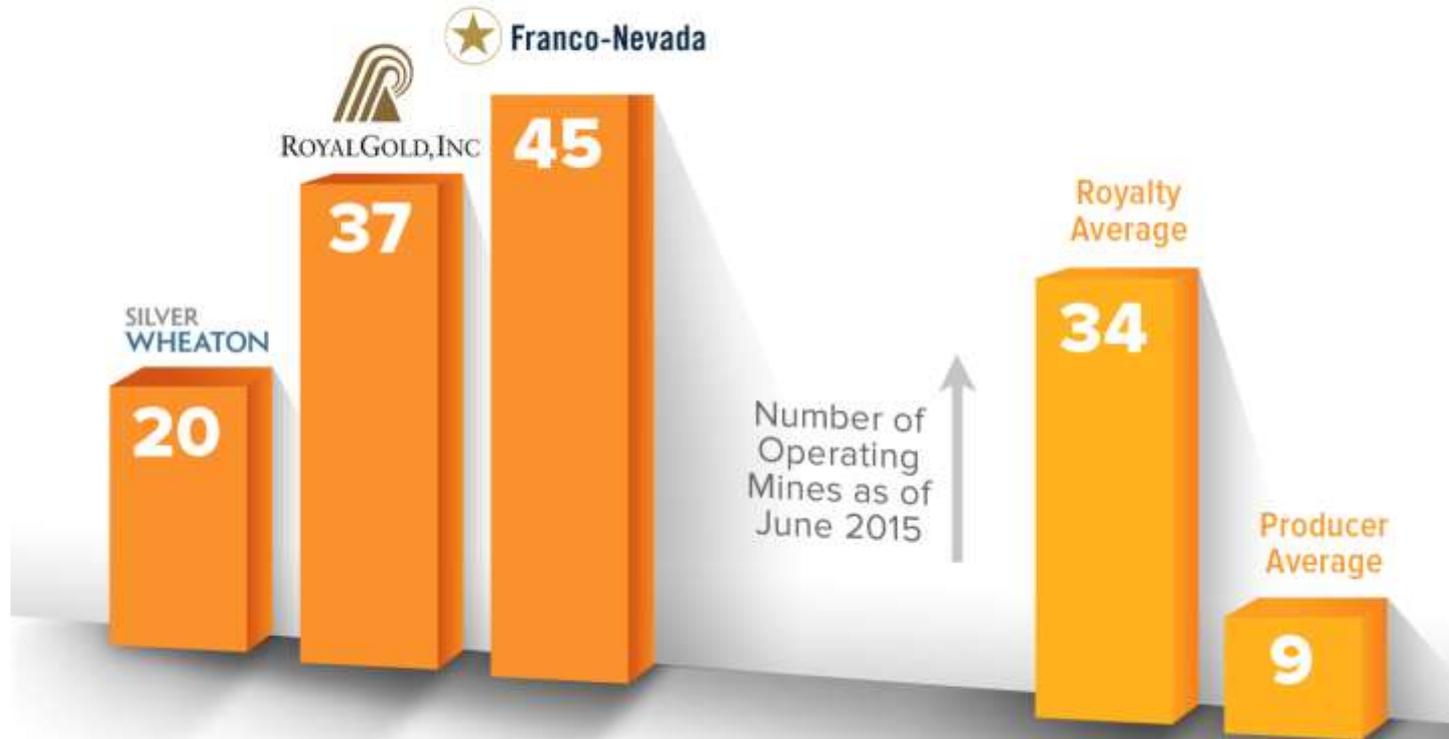
# Royalty Companies Have a Greater Revenue Per Employee Model than Producers

## Royalty Companies Had Greater Sales Per Employee

Sales Per Employee, in Millions of Dollars



# ROYALTY COMPANIES HOLD A MORE DIVERSIFIED PORTFOLIO OF ASSETS



Source: Dundee Capital Markets, U.S. Global Investors

Unlike royalty companies, producer companies operate mines.

# Trying to Stop a Bull Market Has Risks

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# Are you tuning in?

Don't miss Frank Holmes' weekly gold commentary on Kitco News with Daniela Cambone!

The screenshot shows the Kitco website interface. At the top, there's a navigation bar with 'Home', 'Online Store', 'All Metal Quotes', 'Charts & Data', 'Markets', 'News', 'Commentaries', 'Mining', and 'Gold Forum'. The main content area features the 'Kitco Gold Index (KGX)' section, which includes a sub-header 'Shows how US dollar fluctuations impact the value of gold.' and a timestamp 'Jul 14, 2016 16:30 NY Time'. Below this is a callout box titled 'Did gold really go down 9.40?' with a bar chart and text explaining that the price drop was due to a weakening of the USD. To the right of this callout is a table showing the breakdown of the price change.

Did gold really go down 9.40?	
Gold price Change due to Weakening of USD	+3.35
Gold price Change due to Predominant Sellers	-12.75
Gold Price: Total Change	-9.40

Below the callout is a table of Precious Metals:

Precious Metals	Date and Time	Last (Bid)	Change due to Weakening of USD
Gold	07/14/2016 16:30	1332.90	+3.35   +0.25%
Silver	07/14/2016 16:33	29.23	+0.05   +0.25%
Platinum	07/14/2016 16:30	1099.00	+2.70   +0.25%
Palladium	07/14/2016 16:17	648.00	+1.60   +0.25%

There is also an 'Energy' table and a 'Base Metals' table. The video player shows a live broadcast with Daniela Cambone and Frank Holmes. The video title is 'How a Chemical Engineer Became a Multimillion-Dollar Hedge Fund Manager'. The video player includes a 'Click here to learn more...' button.

Kitco.com on July 14, 2016

# SUBSCRIBE TO THE AWARD-WINNING INVESTOR ALERT AND FRANK TALK

usfunds.com

The screenshot shows the website's header with the logo, navigation links (Home, Press Center, Sitemap, Contact Us, Larger Text, Smaller Text, Reset), and social media icons. Below the header is a search bar and an 'OPEN A NEW ACCOUNT' button. A navigation menu includes 'ABOUT US', 'MUTUAL FUNDS', 'ETFs', 'INVESTOR LIBRARY', 'ADVISORS', 'INVESTING WITH US', and 'ACCESS MY ACCOUNT!'. The main content area features a large banner for 'TIME-TESTED HISTORY OF NO DRAMA' with a Morningstar logo and a 'EXPLORE NEARX' button. To the right is a 'How Much Do You Know About Diwali?' slideshow. Below the banner is a subscription prompt: 'Be informed of the market's most important moves when you read the Investor Alert. Read it now' and 'Subscribe to Investor Alert now', with the latter button highlighted by a red arrow. The page is divided into three columns: 'Insights & Research', 'In The News', and 'Frank Talk', each containing several article teasers with images and titles.

← CLICK HERE

# Recognition As an Industry Leader in Investor Education — 80 Awards

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## 80 Mutual Fund Education Alliance STAR Awards

The Mutual Fund Education Alliance (MFEA) is a national industry association committed to investor education, and its STAR Awards program recognizes marketing communications efforts in the mutual fund industry. The awards competition is judged by industry professionals, and based on criteria including educational value, content, design and functionality.



# Disclosures

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

