



America's Competitive Spirit



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One of the few things that Barack Obama and Mitt Romney can agree on is that our economy is still struggling to regain its strength. Stubborn unemployment and sluggish growth at home combined with a slowing China and a dysfunctional eurozone have cast a dark shadow on America's eternal optimism. The media favors negative news and the 24/7 cycle of gloom and doubt can be dispiriting.

We are always looking for the economic points of light around the globe and strive to provide a counterpoint to the pervasive pessimism. As Warren Buffett once said, "It's never paid to bet against America. We come through things, but it's not always a smooth ride."

I moved from Toronto to San Antonio more than twenty years ago. A Canadian pursuing the American Dream. I bought a business that became U.S. Global Investors. I believed back then, as I still do today, that there is nowhere else in the world where opportunity abounds and initiative is rewarded as it is in the U.S.A. "Despite all its setbacks, the U.S. remains at the center of world competitiveness because of its unique economic power, the dynamism of its enterprises and its capacity for innovation," according to IMD, a well-regarded Swiss business school.

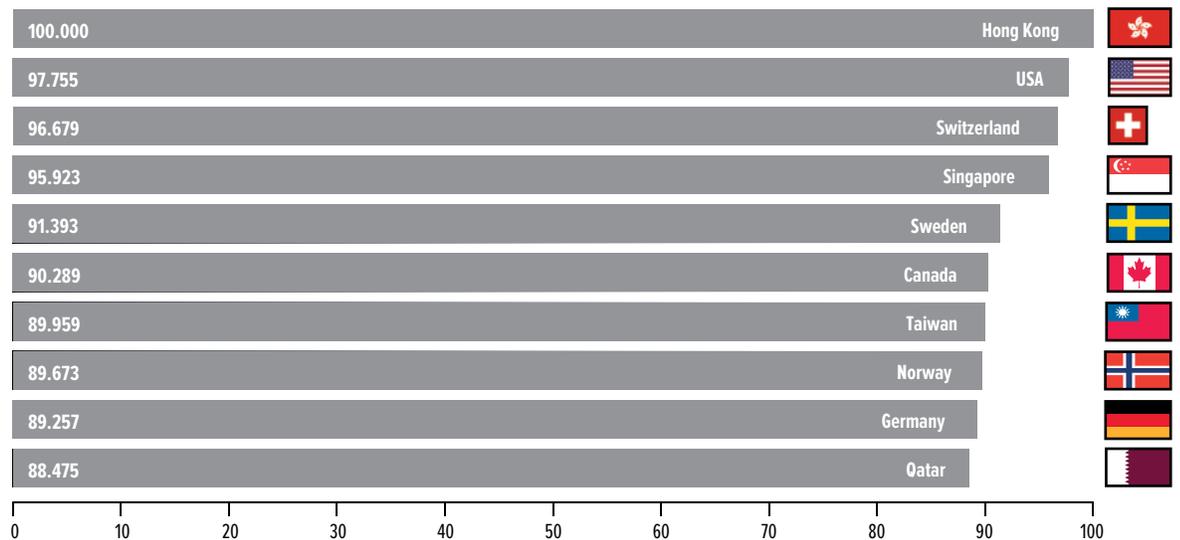
IMD recently released the findings of its annual World Competitiveness Yearbook (WCY). Its rankings survey more than 4,200 international executives and measure how well countries manage their economic and human resources to increase prosperity. The top three most competitive of the 59 ranked economies in 2012 are Hong Kong, the U.S. and Switzerland.

Barron's editorial page editor Thomas G. Donlan wrote, "It's worth contemplating the advantages that a group of international business executives and analysts still can find in the U.S. economy. At the top is access to financing, following a strong research-and-development culture, an effective legal environment, dynamism of the economy, a skilled workforce, and reliable infrastructure. At the bottom, they find the U.S. lacks competency of government and a competitive tax regime."

During tough times, Americans must be vigilant in safeguarding our competitive edge by continuing to be a compassionate and generous nation while resisting the siren calls of socialism. A system that strangles private property rights and sponsors excessive bureaucracy, regulation and taxation cannot deliver on a promise of prosperity to its people.

The World Competitiveness Scoreboard 2012

Top 10 Countries



Source: IMD World Competitiveness Yearbook 2012

We must not lose our collective faith in capitalism because it has proven to be the only social system that rewards individual ability, initiative and achievement.

What Henry Ford said a century ago holds true today, “What’s right about America is that although we have a mess of problems, we have great capacity – intellect and resources—to do something about them.”



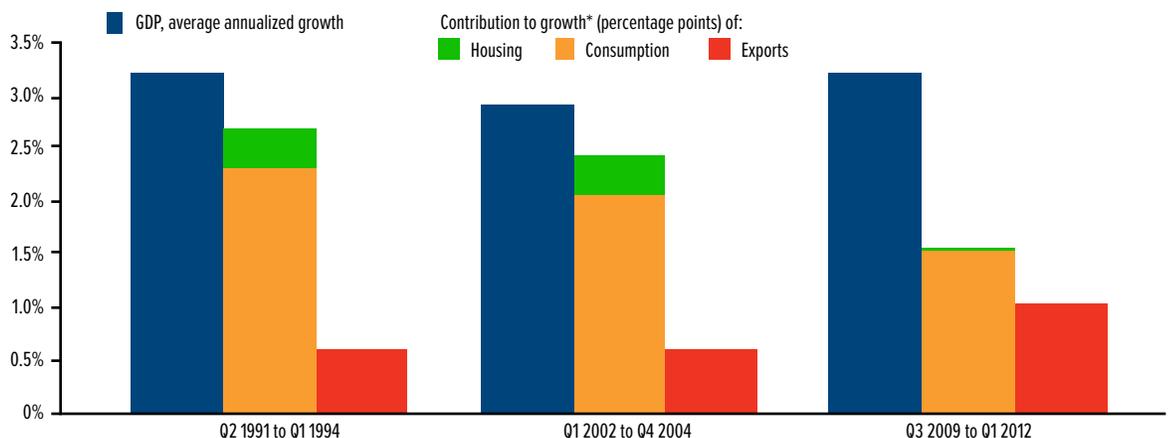
The Economist's cover story last week heralded America’s economy the “Comeback kid.” “Led by its inventive private sector, the economy is remaking itself. Old weaknesses are being remedied and new strengths discovered, with an agility that has much to

teach stagnant Europe and dirigiste Asia,” according to the story.

The story notes that while America’s overall growth is unimpressive, some components show signs of boom. We have shifted from a consumption-driven economy to a more outward-facing one. In the post-recession economy exports contributed 43 percent of growth, one of the strongest showings in any recent economic recovery. While sales to traditional markets in the OECD have risen just 20 percent since the end of 2007, they are up 51 percent to Latin America and 53 percent to China.

According to *The Economist*, emerging markets have also reinvigorated America’s role as a big commodity producer. Grain exports are soaring, agricultural land values are rising, and higher oil prices have triggered new output. American innovation in discovering new techniques to release oil and gas from shale has paid massive dividends to the energy sector and created thousands of new jobs in the industry. I wrote about this employment boom recently in Frank Talk and we see this explosion of

Post-Recession Recoveries

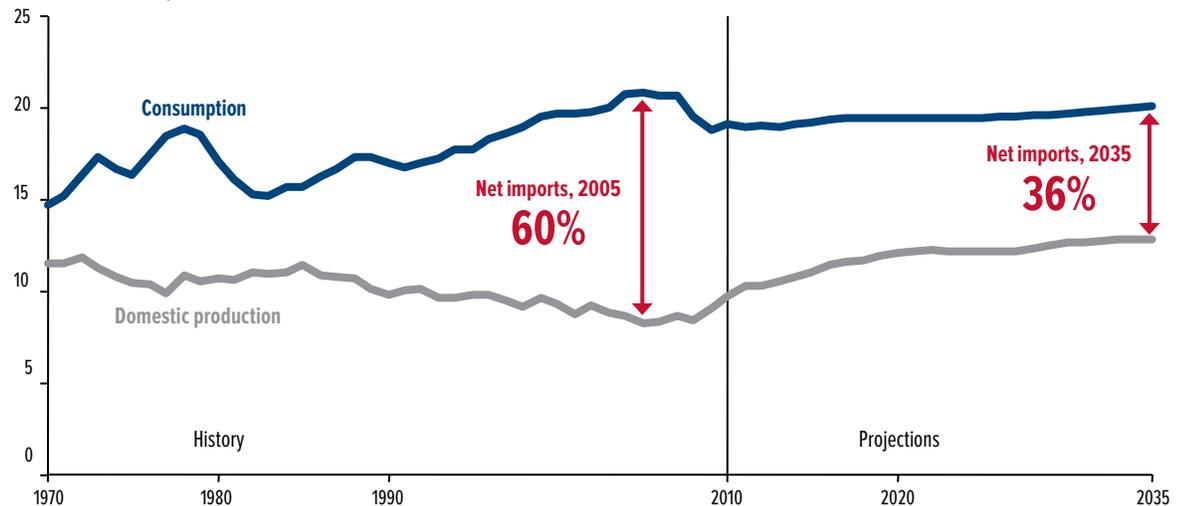


*Contributions of other components are not shown.

Source: Bureau of Economic Analysis

Total U.S. Petroleum and Other Liquids

In Million Barrels Per Day



Source: U.S. Energy Information Administration

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growth first-hand just south of San Antonio with the development of the Eagle Ford Shale.

Cheap, plentiful natural gas benefits industries as diverse as glass, fertilizers, plastic and steelmakers. Last year for the first time in decades, America became a net exporter of refined products. And our nation's gap between oil consumption and domestic production is shrinking.

A way to take advantage of a potential upturn in commodities is by choosing dividend-paying global resources equities. In the S&P 500 Index, nearly all of the materials and utilities stocks and more than half of energy companies pay a dividend that is higher than the 10-year Treasury. Materials and utilities companies yield an average of 2.3 percent and 4.1 percent, respectively, while energy stocks pay an average yield of 2.2 percent. We like the combination of income with growth and it is an important factor in our stock selection process for the **Global Resources Fund**, as well as our other equity funds.

We believe there are many great American companies to invest in. We like those that are growing their top line revenues and paying robust dividends. Currently 47 percent of the S&P 500 stocks pay a dividend yielding more than a 10-year Treasury, demonstrating the resiliency and strength of American enterprises.

Professor Stephane Garelli, director of IMD's World Competitiveness Center, said, "U.S. competitiveness has a deep impact on the rest of the world because it is uniquely interacting with every economy, advanced or emerging. No other nation can exercise such a strong 'pull effect' on the world. In the end, if the U.S. competes, the world succeeds!"

It is the nature of humans to compete. The Summer Olympics commencing next week in London will bring together more than 10,500 athletes from 204 countries to compete for the gold. I look forward to watching this showcase of the human spirit and the drive to succeed.



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