2012 Reader Favorites

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Though our political leaders have not been instilling much confidence in their dealings with the fiscal cliff and recent tragic events have broken our hearts and weigh on our minds, I believe that 2013 will bring renewed hope, optimism and opportunity.

Here's a quick look back at the top commentaries that were discussed, shared and read by our views in 2012.

10. Worried about Higher Taxes? Take Action

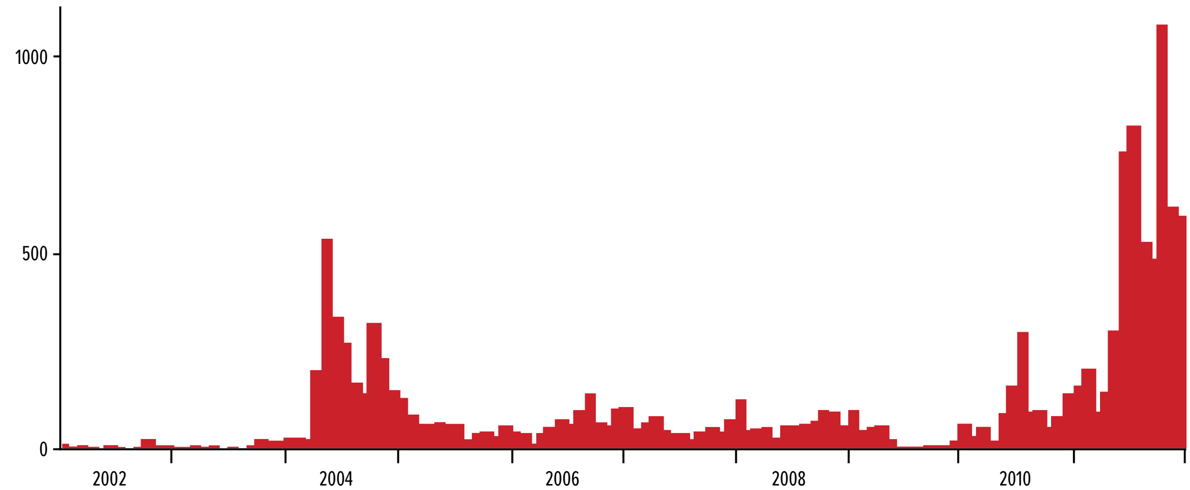
Bonds as an investment vehicle were about as popular as Canadian singer Carly Rae Jepsen's "Call Me Maybe" song, with investors pouring more than $300 billion flowing into bond mutual funds while nearly $135 billion exited equity mutual funds as of mid-December, according to data from Investment Company Institute.

With the increased popularity in U.S. Global's **bond funds**, I asked John Derrick to give an update on the municipal bond environment and the fiscal challenges affecting municipalities. One particular comment struck a chord with the *Wall Street Journal*. In "Meredith Whitney Blew a Call—And Then Some," writer David Weidner mentioned the fact that we were skeptical of the prediction, as Whitney's prediction hadn't come to pass. In fact, we indicated that municipal bonds were as resilient as ever.

9. Heart of China Bull Beats Strong

I wrote this commentary on January 30, following a debate I had with one of the most notorious China bears at the Cambridge House's Vancouver Resource Investment Conference. This debate came on the heels of a year when the level of articles questioning the possibility of a "China crash" went through the roof.

Number of Articles Discussing the Potential of China's "Hard Landing"



Source: Factiva all newspapers, BCA Research 2012

I was clearly in the minority camp with my bullish opinion on China, and the cloud of negative sentiment hung around for most of the year. Beginning with **this post** in January, I have encouraged investors to not be distracted by headlines or short-term news as I believed the government had great determination along with a long-term focus on building the necessary infrastructure and a robust urban labor market.

Many of these ideas were featured in my presentation for Cambridge House, which was subsequently picked up and posted by Business Insider. My "EPIC" presentation invoked an "epic" response, as it garnered more than 90,000 page views.

Surprisingly, just recently, people have become more bullish on China, as economic and manufacturing data shows improvement. With the new leadership and many reforms underway, I expect to continue the conversation on what the future holds for China and what effect this will have on commodities over the course of 2013.

8. What the Next Decade Holds for Commodities

Speaking of China and commodities, it's no surprise that this commentary made the top 10, as our long-time readers look forward to our updated periodic table of commodities. Sports buffs can't get enough of players' stats; commodity investors love to see how each resource ranks from year to year.

7. There's No Place Like America

The news media was inundated with footage of strikes in Europe by unionized government workers and the unemployment rate among the youth skyrocketed in Spain, Greece, Portugal, Italy and Ireland. I shared an excellent quote from Ian McAvity which is worth repeating: "When times get tough, economic nationalism and protectionism tends to rise because it is always easier to blame someone else for self-inflicted problems."

In the post, I compared the woes in the European Union to the U.S. and shared an infographic that U.S. Global created showing "How much goods costs around the world." This infographic was one of the most shared visuals of the year on Facebook, especially because it was so surprising how much **a gallon of gas** costs in Europe and Brazil compared to the U.S.

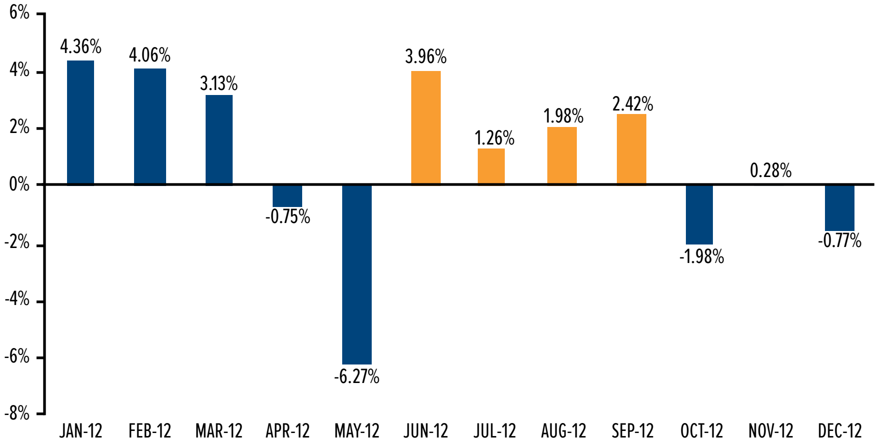
6. Significant Impact of Oil Production in the U.S.

This very recent commentary wasn't showcasing a brand new trend, but was popular in that it highlighted the important contribution the U.S. was making to the commodity space because of shale growth. Our headquarters sits right smack in the middle of one major area of shale activity and earlier this year I wrote two stories that highlight the benefits that Texas has received because of it. See **Texas Ranked Best for Business (Again)** and **Bright Economic Lights of Texas**.

5. Weighing the Evidence of Oil and Gold Stocks

Over the past year, resources companies had been significantly underperforming their underlying commodities. I identified the disparity as an opportunity in April, as my experience tells me that stocks generally revert to their means. I only had to **wait a few months** before news came out that state-owned companies in Asia sought to take advantage of this discrepancy. China's oil giant CNOOC announced its purchase of Nexen and Malaysian company Petronas announced its takeout of Progress.

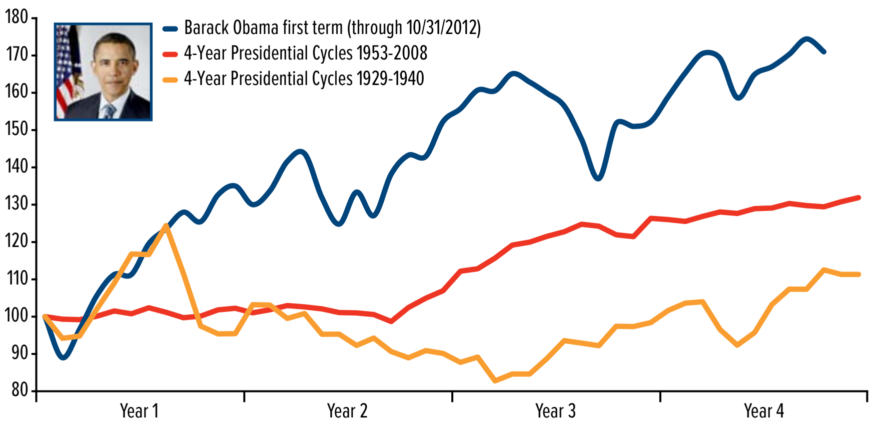
Monthly Returns for S&P 500 Through December 28, 2012



Source: Bloomberg

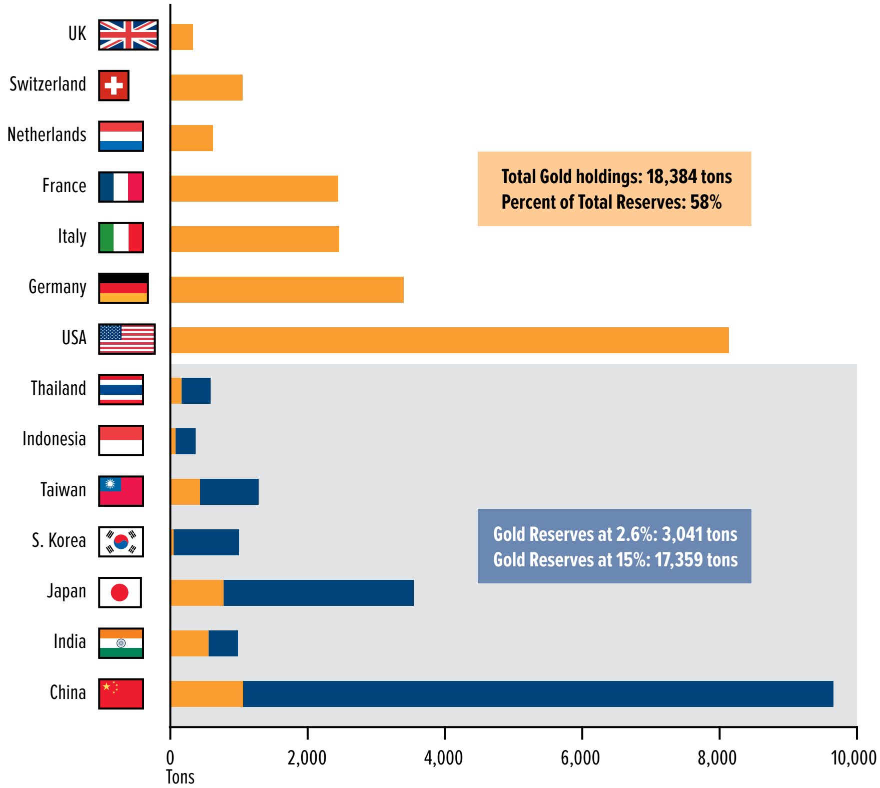
The Presidential Cycle: President Obama vs. History

Relative performance of the S&P 500 (Base at 100. Percent gain of S&P 500)



Source: U.S. Global Investors Research, Bloomberg

Central Bank Gold Holdings in Tons



Source: IMF IFS, World Gold Council

4. Sell in May and Go Away? Not this Year

Sometimes it's the headline that attracts readers, and this is definitely one that gained a great deal of attention. More than 7,000 Seeking Alpha readers checked out the commentary and many left some pretty energized comments — some agreeing with me, and others with a differing view.

I took on the old adage and argued that there were plenty of reasons for investors not to let their equity positions take a long summer vacation. So how did the S&P 500 Index perform? As shown in the chart at left, stocks fell significantly in May, but then went on to have a fantastic summer, with June, July, August and September all remaining in positive territory.

One of the reasons I gave for sticking with stocks is the fact that it was the year of an election, which has historically produced positive returns. Since 1972, the stock market has rallied five of the eight election years, according to J.P. Morgan, with market gains of 12 to 26 percent. Only during recession years did the S&P 500 decline.

Not only did the summer of '12 buck the trend, but take a look at the latest **presidential election cycle**. The performance of the S&P over the last four years under Obama has been one of the best over the past 50 years of any president, defying the odds of what many people thought about the market.

3. Love Trade Cools As Central Banks' Gold Demand Heats Up

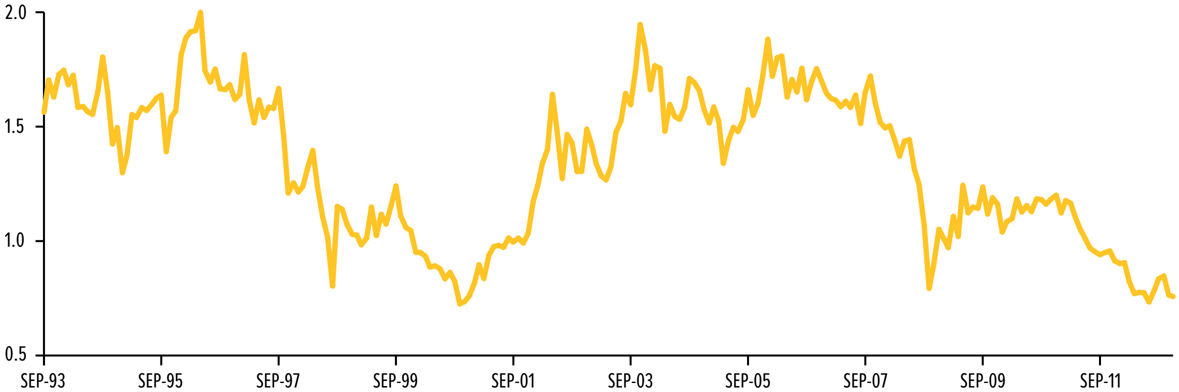
The third-most popular commentary generated a lot of attention because of the relatively new trend that I've highlighted a few times in 2012: Emerging markets' central banks are diversifying away from the U.S. dollar and buying gold.

This trend could be potentially significant in the coming years. Last October, I **highlighted** Franco-Nevada's Pierre Lassonde chart showing the potential increase in gold holdings. Based on the European Central Bank's recommendation to hold 15 percent of reserves in gold, developing countries would have to accumulate 17,000 tons of gold. At a purchase of 1,000 tons a year (or about 40 percent of today's production), these central banks would have to buy gold for the next 17 years!

Back in May, I spoke at the Hard Assets Investment Conference in New York. Business Insider posted my slides calling them the "ULTIMATE Bullish Presentation on Gold" and since then the presentation has received 233,141 views on their site, making it our most popular presentation of the year. In case you missed it, you can **view** all 88 slides.

Gold Miners vs. Gold

Ratio of NYSE Arca Gold Miners Index to gold price in New York trading



Source: Bloomberg

2. Where's the Beef for Gold Equities?

Our second-biggest story was also gold related, but this year, gold miners were top of mind for investors as gold stocks have remained undervalued compared to bullion. When I discussed the disconnect back in April I pointed out the spread between the NYSE Arca Gold Miners Index and gold bullion was at the same extreme level it was during the 2008 credit crisis despite an improving global economic outlook.

Bloomberg's "Chart of the Day" recently displayed the same ratio of gold miners vs. gold, going back to September 1993 when the industry gauge was created. As you can see in the chart below, yesterday's ratio of 0.75 hasn't moved much from the year's low of 0.70 on May 15. We see this as a buying opportunity for quality companies as shares of gold miners are a relative bargain to the metal.

One of our most popular publications of the year was the **Special Gold Report**: What's Driving Gold Companies? I looked at the multiple forces squeezing the profits and earnings out of gold miners and highlighted the importance of selectively choosing companies that exhibit the best relative growth and momentum characteristics.

1. How to Look Past Negativity to See Opportunity

"Things are not always what they seem; the first appearance deceives many; the intelligence of a few perceives what has been carefully hidden." These wise words from Plato reflect the theme of our readers' favorite posting of 2012. Things are not always as they appear, especially in the media. At a natural resources conference I attended last summer, GMO's Jerry Grantham made a compelling case for investment in resources but the CNN article on his speech was titled "Our planet will truly be toast." When I was interviewed on CNBC a host who had hyped the initial public offerings of Facebook and Groupon to viewers scoffed at investing in gold. Since their IPOs, those two high tech companies had collectively lost more in value than all the money invested in gold funds.

Many investors have been unable to recapture their lost confidence. Americans have missed out on almost $200 billion of stock gains as they pulled money from the markets in the past four years since the financial crisis, according to a story by Bloomberg. I believe this post proved popular because we could all use some good news and positive solutions. I reminded investors to look past the negativity to see the patterns and anomalies that will determine where opportunities and threats lie.

Read more of Frank's insights on his blog, **"Frank Talk."** Visit **usfunds.com/franktalk.**

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The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies. 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. 12-753