Did the Government Shutdown Help the Economy?

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From New Delhi to San Francisco to London, and finally back in San Antonio, I've been communicating one consistent theme to investors: Follow the money.

What's really important in following the money is for investors to not get caught up in the negative web spun by the media. There's a lot of drama these days about Obamacare and Washington dysfunction. Take the government shutdown in October, when the House and Senate fought over the debt ceiling. Economic data wasn't released, services were halted, national parks were closed, and "non-essential" government workers were told to stay home.

As a result, GDP was expected to collapse.

Yet, data released this week reveal a different, stronger image of the U.S. economy. I think Shakespeare would deem the media's fear mongering tactics as "Much Ado About Nothing."

Third-quarter GDP growth was recently revised to 3.6 percent, much higher than the estimated 2.8 percent figure. In November, more jobs were created and the unemployment rate fell to 7 percent. Not a spectacular result, but better than expected.

Perhaps people are gaining confidence in the U.S. economy, as figures show a buying spree in large purchases of new homes and vehicles.

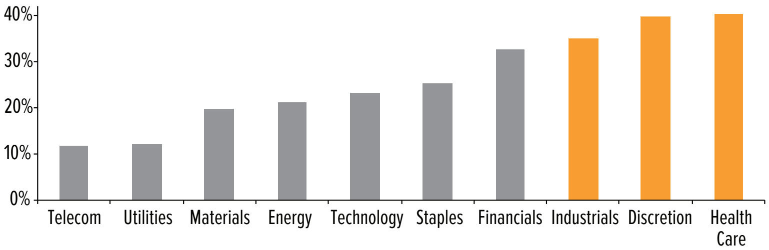
In October, U.S. new home sales rebounded from a one-year low. According to Bloomberg, sales increased more than 25 percent, despite "this year's increase in borrowing costs and property values." As a "sign of growing momentum" for the housing market, applications for building permits also climbed to a five-year high, says Bloomberg.

Many garages will be filled with new cars and more expensive trucks and sport utility vehicles, as 16 million automobiles were sold in November, the fastest pace since February 2007, according to Autodata. American automobile makers "drove the blistering sales month," with General Motors sales growing nearly 14 percent and Chrysler sales increasing 16 percent in November, says USA Today.

These facts support what we've been seeing in the U.S. purchasing manager's index (PMI), which climbed to a ten-month high in November. Generally, PMIs are a leading indicator of future economic trends.

Follow the Money: Relative Strength in S&P 500 Industrials, Discretion and Health Care Sectors

Year-to-Date Performance as of 11/2013



Source: Bloomberg, U.S. Global Investors

Biggest Names in Leading Sectors

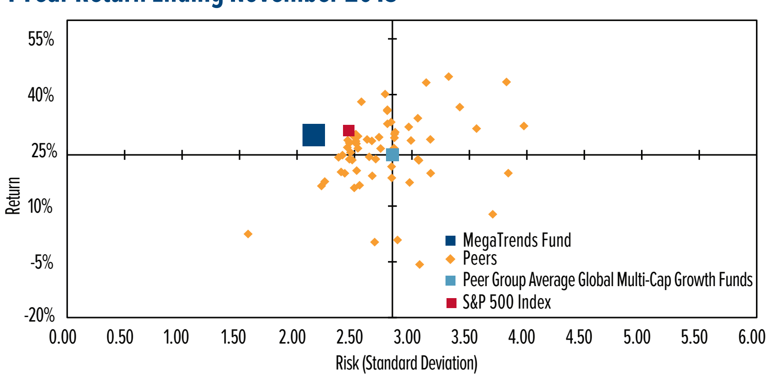
Industrial	Discretion	Health Care
GE	amazon.com	Johnson & Johnson

Top Performers in Leading Sectors (year-to-date)

Industrial	Discretion	Health Care
DELTA	NETFLIX	Celgene

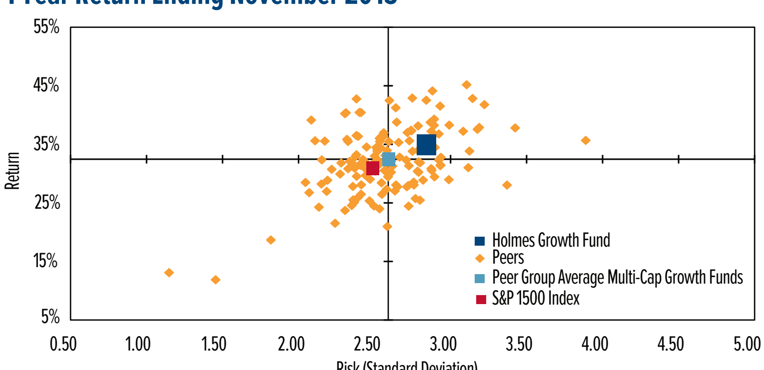
Source: Bloomberg, U.S. Global Investors

MegaTrends Fund Risk / Return Analysis
1 Year Return Ending November 2013



Source: Bloomberg, U.S. Global Investors

Holmes Growth Fund Risk / Return Analysis
1 Year Return Ending November 2013



Source: Bloomberg, U.S. Global Investors

So, we shouldn't hope for a government shutdown again ... or should we?

Here's a Simple Way to Follow the Money: Look for the leaders and understand the laggards. Here's a chart showing the top sector performance among the S&P 500 Index since January. With the revolution occurring in the health care industry, the sector has seen an incredible 40 percent increase, closely followed by consumer discretionary. Industrials stocks, which rose about 35 percent, have gotten a boost from PMI's jumper cables.

Meanwhile, defensive areas such as telecommunications and utilities have lagged, as rising interest rates have made these defensive companies' dividend yields less desirable.

To get an idea of the companies held in each of these sectors, the following are the largest stocks in terms of market capitalization: In industrials, General Electric (GE) is the biggest; in consumer discretionary, Amazon (AMZN) takes the lead; and in health care, it's Johnson & Johnson (JNJ).

On a year-to-date basis, in industrials, airlines such as Delta (DAL), have taken off. Among discretionary stocks, Netflix (NFLX) is the leader, and within the health care sector, biotechnology companies, such as Celgene (CELG), have increased the most.

Ranking sectors and stocks this way, it's easy to follow the leaders. It's like Newton's First Law of Motion: once in motion, these stocks tend to stay in motion.

We've applied this top-down strategy to the MegaTrends Fund (MEGAX). We believe this way of looking at sectors helped the fund outperform its Lipper peers with less risk over the last year.

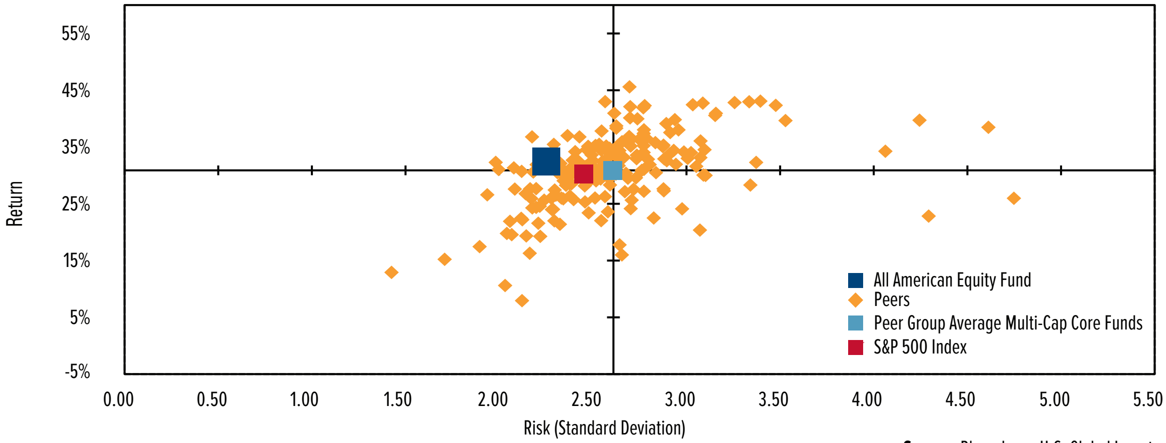
In other words, over this time period, the fund is in "Seattle."

In the investment business, we often chart funds on a matrix of risk and return. The top left quadrant offers the greatest return for less risk, which is where you want your investments to be. If you imagine the matrix as a map of the U.S., you'd want your portfolio to land in "Seattle."

The bottom right quadrant is where an investment has produced below-average returns with above-average risk. In our map analogy, you don't want to find your portfolio in "Miami."

While the MegaTrends Fund utilizes a macro-driven, proprietary strategy to identify sectors, the Holmes Growth Fund (ACBGX) uses what we call the "10-20-20 Model." The stock-picking process is dynamic and focuses on companies growing revenues at 10 percent, generating a 20 percent earnings growth rate and a 20 percent return-on-equity. As you can see below, over the past year, the fund has increased more than its peers with slightly more risk.

All American Fund Risk / Return Analysis 1 Year Return Ending November 2013



Source: Bloomberg, U.S. Global Investors

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

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We recently recommended to shareholders that the investment objective and strategies of these two funds be merged. The merger is subject to the approval of MegaTrends Fund shareholders at a shareholder meeting on December 20.

U.S. Global Investors' third U.S. equity-focused fund, the All American Equity Fund (GBTFX), also landed in "Seattle" over the one-year period.

Will the Domestic Bull Run Continue?

The synchronized global recovery continues to take place. Just this week, Japan announced additional fiscal stimulus. In addition, **China continues to grow**, with sweeping economic reforms taking place, and **Europe is expected to recover**. Further, based on fund flows of investors selling their bonds and buying equities, we expect this trend to continue for a while. As I often say, trying to stop a bull market has risks, so follow the money.

Total Annualized Returns as of 9/30/13	Year-to-Date	One-Year	Five-Year	Ten-Year	Gross Expense Ratio	Expense Ratio After Waivers
All American Equity Fund	23.15%	22.14%	7.92%	7.51%	2.72%	2.20%
Holmes Growth Fund	28.36%	22.89%	7.35%	7.18%	1.86%	NA
MegaTrends Fund	19.93%	21.50%	2.70%	4.25%	3.14%	2.35%
S&P 500 Index	19.79%	19.34%	10.02%	7.57%	NA	NA
S&P 1500 Index	20.39%	20.42%	10.34%	7.97%	NA	NA
Multi-Cap Core Lipper Peer Group	21.28%	23.24%	9.70%	7.71%	NA	NA
Multi-Cap Growth Lipper Peer Group	23.06%	22.91%	11.52%	8.37%	NA	NA
Global Multi-Cap Growth Lipper Peer Group	16.86%	20.63%	8.38%	6.85%	NA	NA

Expense ratios as stated in the most recent prospectus. The expense ratio after waivers is a voluntary limit on total fund operating expenses (exclusive of any acquired fund fees and expenses, performance fees, taxes, brokerage commissions and interest) that U.S. Global Investors, Inc. can modify or terminate at any time, which may lower a fund's yield or return. Performance data quoted above is historical. Past performance is no guarantee of future results. Results reflect the reinvestment of dividends and other earnings. Current performance may be higher or lower than the performance data quoted. The principal value and investment return of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost. Performance does not include the effect of any direct fees described in the fund's prospectus (e.g., short-term trading fees of 0.05%) which, if applicable, would lower your total returns. Performance quoted for periods of one year or less is cumulative and not annualized. Obtain performance data current to the most recent month-end at www.usfunds.com or 1-800-US-FUNDS. 13-659