The Enduring Popularity of Gold

By Frank Holmes
CEO and Chief Investment Officer
U.S. Global Investors

The World Gold Council (WGC) reaffirmed the power of the Love Trade in its 2011 Gold Demand Trends report released this week. Gold demand grew 0.4 percent in 2011 despite a 28 percent year-over-year increase in bullion’s average price.

After flirting with the top spot for some time, China emerged as the world’s largest gold market for jewelry and investment during the fourth quarter of 2011 as demand in India weakened. This is the first time China’s demand outpaced India’s in 11 quarters. However, India did retain the gold demand crown for the entire year, purchasing 933 tons compared to China’s demand of 770 tons.

I always say the trend is your friend, and I believe China’s increasing demand for gold is one trend that is just getting started. Although gold imports from Hong Kong were cut in half in December, HSBC Global Research reports that overall gold imports from Hong Kong were 10 times the historical average from January through November 2011. HSBC expects a continued rise in Chinese incomes will keep demand at a robust pace. The WGC sees domestic demand for gold jewelry and investment driving 20 percent growth in Chinese gold demand during 2012.
China should consider its leadership as the No. 1 gold market a short-term position, though. While China’s presence in the bullion market is strong and growing for jewelry and investment, India’s ancient relationship with the yellow metal is such that “domestic drivers of demand are largely independent of outside forces,” says the WGC. The WGC does not see India’s role in the gold market diminishing over the long term.

Ajay Mitra, the WGC’s managing director for the Middle East and India, recently expressed India’s strong ties with gold in a 60 Minutes feature. Gold has always been a part of India’s history, culture and tradition. I have witnessed firsthand the strength of this bond many times over the years. As the famous saying goes, “no gold, no wedding.”

Don’t Forget About the Fear Trade

The Fear Trade was also recently reaffirmed by the Federal Reserve when it publicly stated its intention to keep inflation at “exceptionally low levels” through 2014. Inflation is the kryptonite to the Fed’s monetary efforts and it’s likely the Fed will take any measures necessary to prevent inflation spikes.

The Fed has targeted a 2 percent inflation rate, which means the U.S. dollar will lose 33 percent of its value over the next 20 years, says The Daily Reckoning’s Charles Kadlec. In the next four years alone, nearly 10 percent of the “value of Americans’ hard earned savings” will be destroyed, says Charles.

Put another way, Charles estimates that it will take $150 in the year 2032 to purchase the same amount of goods you could get for $100 in 2012.

Charles isn’t the only one opposed to the Fed’s “monetary manipulation.” In his latest letter to shareholders, Warren Buffett faults the government and its “systemic forces” for destroying the purchasing power of investors. He argues stock investments offer the best long-term investment opportunity because interest rate levels don’t offset the loss of purchasing power due to inflation.

However, there is one group that benefits from the low interest rate environment—borrowers. This means the largest borrowers in the world, developed world governments, will be able to service their enormous amounts of debt more easily. This year alone, the U.S., Japan and Europe will roll over $8 trillion in federal debt.
CIBC World Markets sees the secular bull market in gold continuing for “several years,” as the firm believes debt in major economies have reached a point “where financial and economic pressures will manifest themselves in ways that have up until now only been dreamed about.” With these manifestations, Ian McAvity equates gold to insurance. He suggests to readers that they wouldn’t cancel fire insurance because their house hasn’t had a fire. “Gold proffers the best ability to protect long-term purchasing power against deliberate devaluation of the paper alternatives,” he concludes.

For evidence of this, one needs to look no further than the significant gold purchases by central banks over the past few years. Emerging markets’ central banks have been the strongest buyers, experiencing a record increase in gold purchases last year. After building up their reserves during most of the post-World War II period, central banks’ gold holdings remained stable. Following the end of the cold war, they began a selling spree, helping to “explain bullion’s profound price weakness” during the 1990s, says HSBC Global Research.

The trend started to reverse about the same time the Fed cut interest rates in 2007, says Adrian Ash from Bullionvault. Now, total gold holdings sit at a six-year high with the total current amount of gold reserves sitting around 31,000 tons. In 2011 alone, the WGC says central banks had a net purchase of 440 tons, the highest figure since 1964.

The WGC says central banks are concerned about the creditworthiness and low yields of their existing reserve assets held in dollars and the euro. Their solution: diversify with gold.

**Value is in the Eye of the Beholder**

In Bangkok Thailand, the Buddhist temple Wat Traimit is home to the largest golden Buddha in the world. In its lotus position, the statue is over 15 feet tall and weighs five tons; if it were solid gold, it would account for 3 percent of the world’s mined gold.
For two centuries, the statue was thought to be worthless because it was covered in plaster to protect the figure from a Burmese attack.

As the story goes, when the Buddha was moved to a new temple in the 1950s, it slipped from the crane and fell. That night, a monk dreamed the statue was divinely inspired, which prompted him to visit the Buddha image. Through a crack in the plaster, he saw a glint of yellow and the statue's true beauty was revealed. At today's price of gold, the Buddha is worth more than $277 million.

Sometimes the true value of things isn't always apparent. Like the Golden Buddha, the true value of gold miners has remained hidden while the price of bullion has shined. CIBC noted in its February report that gold equities have “undergone significant multiple compression and now trade well below historical averages.”

Here's just one illustration of how cheap gold stocks appear compared to gold. The yellow line represents the number of gold and silver index units that can be purchased with one ounce of gold. While the historical ratio averaged 4.5, today an investor can buy more than 8 units of the XAU to one ounce of gold. In other words, shares of gold mining companies can be purchased at one of the cheapest levels in nearly 30 years.
Dave Rosenberg from Gluskin Sheff also favors gold equities. He particularly likes miners who can grow production and reserves while keeping costs under control. “Because input costs tend to be more positively correlated in the early years of a rally, history has shown that the equities tend to dramatically outperform the bullion in the later stages of a gold bull market.” He suggests buying undervalued gold mining stocks in politically safe areas with higher-grade projects and a relatively simple way of extracting the metal.

For thousands of years, pharaohs, explorers, rulers and investors have been attracted to gold, as the precious metal has been a vital tool in building and protecting wealth. While gold naysayers focus on the day-to-day fluctuations in price, I believe gold equities and bullion will continue to enjoy “maximum popularity,” as the Oracle of Omaha puts it, for years to come. The allure of gold—whether it is from Fear or Love—cannot be underestimated.

This commentary references the investment theory of an investment as insurance against a separate market event that could negatively affect performance of an investment. The reference does not guarantee performance or a safeguard from loss of principal by investing in that asset.

Index Summary

- The major market indices were higher this week. The Dow Jones Industrial Average increased 1.16 percent. The S&P 500 Stock Index increased 1.38 percent, while the Nasdaq Composite increased 1.65 percent.

- Barra Value outperformed Barra Growth as Barra Value finished 1.71 percent higher while Barra Growth gained 1.11 percent. The Russell 2000 closed the week with a gain of 1.89 percent.

- The Hang Seng Composite finished higher, gaining 3.41 percent, Taiwan gained 0.41 percent for the
week, and the KOSPI rose 1.49 percent.

- The 10-year Treasury bond yield closed 1 basis point higher at 0.81 percent.

### Domestic Equity Market

After suffering the first weekly loss of 2012 last week, the S&P 500 Index bounced back this week. Energy, technology and financials were the best performers, while utilities, industrials and basic materials lagged.

#### Strengths

- The energy sector was led by exploration and production companies, as Devon Energy, Chesapeake Energy and Newfield Exploration all rose by more than 10 percent.

- In the S&P 500 technology sector, JDS Uniphase, Micron Technology and Motorola Solutions each rose by approximately 7 percent for the week.

- In the financials sector, Hartford Financial Services Group and Zions Bancorp both rose by more than 8 percent.

#### Weaknesses

- While every sector in the S&P rose this week, utilities experienced the slightest gains, rising by just 0.27 percent.

- Gilead Sciences was the worst performer in the S&P 500, dropping by 12.57 percent for the week. On Friday, Gilead announced that patients taking an experimental hepatitis C drug relapsed within weeks of stopping treatment.

- A disappointing outlook for 2012 pushed Cliffs Natural Resources down nearly 10 percent for the week.

#### Opportunities

- The market has been able to shrug off every negative and climb that wall of worry.

#### Threats

- After such a strong start to the year, a pullback or consolidation in the market would not be surprising.
The Economy and Bond Market

Treasury bond yields were modestly higher again this week as most of the yield curve shifted higher by about 2 basis points.

As the global economy continues to sputter central banks around the world are opening the monetary spigots. Japanese fourth quarter GDP fell 0.6 percent and the chart indicates that the country’s GDP is down 1 percent on a year-over-year basis, signaling the country is in a recession. Earlier this week, the Bank of Japan announced a $130 billion expansion of its quantitative easing (QE) program and implemented a 1 percent inflation target. Last week, the Bank of England expanded its QE program by $80 billion. Chinese Premier Wen Jiabao indicated policymakers will begin “fine tuning” the economy during the first quarter of 2012. This is just another way of saying the recent easing measures we’ve seen China implement will continue.

Strengths

- Initial jobless claims continue to improve, falling to the lowest levels since 2008.
- The Bank of Japan announced a $130 billion expansion of its QE program and implemented a 1 percent inflation target.
- Housing data continues to improve, with housing starts and building permits showing signs of life in January.

Weaknesses
Retail sales were weaker than expected as higher gasoline costs crimped spending elsewhere.

Eurozone GDP shrank 0.3 percent in the fourth quarter.

Japanese fourth quarter GDP fell 0.6 percent.

Opportunities

- The “risk on” trade started to show a few cracks this week and a reversal of sentiment would be good for bonds.

Threats

- Coordinated global easing from the world’s central banks eventually will create inflation.

Gold Market

For the week, spot gold closed at $1,723.38 up $1.38 per ounce, or 0.08 percent. Gold stocks, as measured by the NYSE Arca Gold BUGS Index, edged 0.52 percent lower. The U.S. Trade-Weighted Dollar Index crept higher by just 0.41 percent for the week.

Strengths

- According to the World Gold Council, demand for gold hit 14-year highs last year. This was driven by record investment, increased buying in China, and central bank purchases which were at their highest level in 40 years. Global gold demand reached 4,067.1 tons last year, the highest level since 1997. This is largely attributable to a 5 percent increase in investment demand.

- The world’s first yuan-denominated gold exchange traded fund (ETF) made its debut on the Hong Kong stock exchange this week. Analysts believe that the product will be successful as more investors become familiar with holding gold through an exchange-listed product. The Hang Seng RMB Gold ETF was launched by the Hang Seng Bank Ltd and is intended to track the performance of the London gold fixing price in U.S. dollars.

- The State Bank of India, the country’s largest commercial bank, is now offering rail employees special discounts on gold coins with their salary packages. With 1.44 million employees, Indian Railways is the world’s second-largest employer behind the China National Petroleum Corporation.

Weaknesses

- While some senior mining companies have posted weak results, dividends continue to be a focal point for gold miners. Most recently, Agnico-Eagle and Kinross announced dividend increases of 25 percent and 33 percent, respectively.

- The dividend hikes are a strategy gold miners are using to attract investors to the mining sector. Dividends have historically been a significant component of mining shares, but this trusted method of building shareholder wealth had mostly been forgotten in recent years.

- With new accounting standards going into effect in 2012, a number of companies have had to write down the book value of several acquisitions as part of their latest earnings results. These non-cash charges could possibly make some companies think twice about future deals, but an assessment of a few recently disclosed resource statements reveals that some companies may need to acquire higher grade
assets to shore up their valuations.

- The British Columbia Securities Commission forced Extorre Gold Mines to withdraw its prospectus filing and cancel its recent bought deal financing due to a technical issue with a preliminary filing back in August 2011. This is a puzzling development since these reports are called “preliminary” for a reason and should not be viewed as “definitive economic reports” by the market.

**Opportunities**

- Singapore announced that it will exempt gold and other precious metals from its 7 percent goods and services tax as a measure to spur the development of gold trading in the country. This measure brings its tax treatment in line with countries such as Switzerland and Australia, and should encourage asset managers to seriously consider relocating their operations within the investment-friendly country.

- Gold mining in Colombia is predicted to attract $2.1 billion in gold-related investments by 2015, as major gold players have recently announced ambitious plans in the country. AngloGold Ashanti said that it will be investing $400 million in the coming months and Gran Colombia Gold also announced that it would exceed its 2011 investments of nearly $20 million.

- Despite controversy surrounding Newmont Mining’s stalled $4.8 billion Conga project, it is clear that the project will continue; it is just a matter of when. Peru’s Council of Ministers has hired two Spanish engineers and a Portuguese geologist to “overhaul” the environmental impact study for the project. Oscar Valdes, the country’s prime minister, said recently that the problem with the project is not actually a lack of water, but a lack of infrastructure, such as dams and pipelines, necessary to give residents access to the water.

**Threats**

- The recent death of a prominent mining advisor in the Democratic Republic of Congo may trigger a power struggle in one of Africa’s biggest mineral-producing countries. Augustin Katumba Mwanke, the former governor of the copper-rich province of Katanga, was among five who died this week when a jet crashed at an airport outside the eastern city of Bukavu. Analysts are speculating that because Katumba was regarded as the “power being the throne” and was instrumental in negotiating large contracts for the country. Without him, there will be a great deal of uncertainty about who will ensure the contracts remain intact.

- As we approach elections in Zimbabwe, concerns we’ll see a similar crackdown to the one that preceded elections in 2008 have been heightened after President Robert Mugabe’s party suspended 29 non-governmental organizations (NGOs). Mugabe’s banishment of foreign NGOs make it difficult to provide humanitarian assistance or monitor the vote. It’s widely suspected that Mugabe and top figures of his ZANU-PF party have abused human rights and rigged past votes.

- A Barclays study showed that the Fed has purchased 91 percent of 20- to 30-year Treasuries since beginning its Operation Twist program last year. With the disguised money printing strategy set to end in June, one has to wonder what amount of yield will be needed to attract interest when the Fed is no longer a buyer.

---

**Frank Talk Insight for Investors**

- February 17, 2012: What Will be the Most Promising Emerging Market?
- February 16, 2012: Will 2012 Be a Comeback Year for Risky Assets?
- February 14, 2012: 60 Minutes Airs India’s Love for Gold

*Blog by Frank Holmes, C.E.O. and Chief Investment Officer*

---

**Energy and Natural Resources Market**
**Strengths**

- Brent crude oil prices hit a six-month high of $119.28 per barrel this week on reports that Iran might cut crude exports to six European countries.

- The Global Resources Fund’s holdings of pipeline MLP stocks posted solid gains this week as the Alerian MLP Infrastructure Index climbed to record levels.

- Grain prices edged higher this week with soybean futures climbing to the highest level in almost five months after Chinese buyers purchased a record amount of the oilseed from the U.S.

**Weaknesses**

- The global steel market remains soft as Swedish specialty steel maker SSAB said it is postponing the restart of an idle blast furnace due to weak demand conditions in Europe.

- Rusal, the largest global aluminum producer, said it believes shutdowns in global aluminum capacity will reach 3-4 million tons per year in 2012. The company stated that “as a result of aluminum price decline at the end of 2011, a significant share of the world and European primary aluminum capacity has become unprofitable, resulting in partial or total closing of some smelters . . . a further 6-8 percent of global capacity curtailments are to be expected in the first half of 2012.”

- Preliminary U.S. gasoline consumption statistics for January appear to have diverged from relatively strong macroeconomic statistics.

**Opportunities**

- Deutsche Bank reported that traders are once again focusing on the Brent-WTI spread within the oil markets. WTI gained almost $2 per barrel to close over $100 per barrel for the first time in February, while Brent remained flat around $117.50 a barrel. With the first phase of the Seaway pipeline reversal due before summer, the differential between Brent and WTI is expected to narrow.

- China’s Ministry of Land and Resources will likely offer more than 20 blocks in its second shale-gas auction, compared to its original plan of more than 10. China is estimated to hold more gas trapped in shale than the U.S.

- Not only did BHP Billiton and Rio Tinto approve a $4.5 billion expansion to their Escondida copper mine in Chile, which is planned to increase the mine’s reserve by 25 percent, but BHP also made plans...
to reopen its Pinto Valley mine in Arizona, which was closed three years ago. The substantial capital commitments by both companies demonstrates optimism about longer term demand for the metal; analysts have said that tight global supplies for a metal used for everything from power transmission to plumbing have left them with a positive outlook for the metal and its cost structure as well.

**Threats**

- Peru’s copper producers face the risk of blackouts next year because of power line delays in the southern Andes. Spain’s Abengoa and Colombia’s Interconexion Electrica may cancel new transmission projects unless the government clarifies a law that has delayed three lines by at least a year. Delayed power lines will set back projects including Xstrata’s $5.67 billion investment in the Las Bambas and Antapaccay copper mines and Luz del Sur’s $160 million Santa Teresa hydroelectric plant.

- Low demand and higher costs are expected to further erode profits in the Chinese steel sector in 2012. Also, many big steel enterprises suffered losses in the second half of the year, and the situation was unlikely to improve in 2012.

**Emerging Markets**

**Strengths**

- Chinese Premier Wen Jiabao said the nation needs to start fine-tuning economic policies this quarter, the first indication of a timeframe for an adjustment he has pledged since October.

- China has instructed banks to roll over loans to local governments as the principal on much of the debt can’t be repaid, the Financial Times reported.

- China pledged to invest in Europe’s bailout funds and sustain its holdings of euro assets.

- India’s inflation was down to 6.55 percent year-over-year in January from 7.47 percent in November on lower food prices and a nearly 7 percent appreciation of the rupee in January. Markets reacted positively to this.

- Colombia’s exports rose 43 percent to $5.5 billion in December, the national statistics agency said.

- Despite very cold weather in Europe, Polish PMI at the end of January reached 52.2 and industrial production increased by 9 percent.
Weaknesses

- Wuhu city stopped its recently announced housing tax relief programs, probably under pressure from the Beijing central government which insists on housing market curbs. In fact, Wuhu is a third-tier city and, therefore, never had housing purchase restrictions. Although China reiterated frequently that its housing tightening policy wouldn’t change, it has lowered mortgage rates for first-home buyers and the People’s Bank of China said it would make sure enough funds are available for mortgage lending.

- Spain was downgraded for the third time in two months by Moody’s, as it was revised down to A3 this week and maintained a negative outlook, citing fiscal slippage and vulnerability to market stress.

Opportunities

- The chart below shows there were almost no railway projects awarded since the second quarter of 2011 due to the Wenzhou rail accident in July. With the investigation report out last month, JP Morgan believes the drought in new projects will end very soon. From a low base in 2011, construction revenues should look much better this year.

- Many people thought China had overinvested in railway and that there is not enough demand for rail. BCA, in its recent research, has shown that the length of the railway system in China increased by 50 percent since 1995, a remarkable gain, but passengers travelling on the country’s railway system per year doubled, and railway freight increased by 150 percent during the same period.

Approvals for New Railroad Projects Likely to Restart in China

- Japan announced this week that it would expand its asset purchase program by JPY 10 trillion and made a formal announcement of its inflation target of 1 percent in an attempt to stave off deflation and
weaken the currency in the face of monetary easing in the U.S. and other developed markets.

- In March, Brazil plans to ease a tax increase charged on imported cars for automakers investing to build local assembly plants. The surcharge of as much as 30 percent was implemented last month, amid protests from Chinese automakers, to stem a surge of imported cars being sold in Latin America’s largest economy. “The tax was used as an emergency brake, now we will lower it,” head of the Brazilian Industrial Development Agency, Mauro Borges Lemos, said in an interview this week. “It’s an incentive to speed up investments.”

**Threats**

- Recent reports from China show that new loans are below expectations, which will probably not improve liquidity in the economy.

- The Globe and Mail reported that optimism grew late this week that Greece had finally done enough to secure a second bailout despite worsening relations with Germany, but doubts remained over lenders’ demands for tighter supervision of how Athens will implement the deal. Greek officials say they have done everything asked of them for eurozone finance ministers to sign off on the €130-billion euro rescue package on Monday, a month before Athens needs the money to make €14.5 billion of debt repayments due on March 20 or go bankrupt.

---

**Leaders and Laggards**

The tables show the performance of major equity and commodity market benchmarks of our family of funds.

### Weekly Performance

<table>
<thead>
<tr>
<th>Index</th>
<th>Close</th>
<th>Weekly Change($)</th>
<th>Weekly Change(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Gas Futures</td>
<td>2.68</td>
<td>+0.21</td>
<td>+8.28%</td>
</tr>
<tr>
<td>Oil Futures</td>
<td>103.24</td>
<td>+4.57</td>
<td>+4.63%</td>
</tr>
<tr>
<td>Hang Seng Composite</td>
<td>2,979.70</td>
<td>+83.39</td>
<td>+2.88%</td>
</tr>
<tr>
<td>S&amp;P Energy</td>
<td>555.03</td>
<td>+12.05</td>
<td>+2.22%</td>
</tr>
<tr>
<td>Russell 2000</td>
<td>828.68</td>
<td>+15.35</td>
<td>+1.89%</td>
</tr>
<tr>
<td>S&amp;P BARRA Value</td>
<td>625.85</td>
<td>+10.53</td>
<td>+1.71%</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>2,951.78</td>
<td>+47.90</td>
<td>+1.65%</td>
</tr>
<tr>
<td>Korean KOSPI Index</td>
<td>2,023.47</td>
<td>+29.76</td>
<td>+1.49%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>1,361.23</td>
<td>+18.59</td>
<td>+1.38%</td>
</tr>
<tr>
<td>DJIA</td>
<td>12,949.87</td>
<td>+148.64</td>
<td>+1.16%</td>
</tr>
<tr>
<td>S&amp;P BARRA Growth</td>
<td>728.15</td>
<td>+7.97</td>
<td>+1.11%</td>
</tr>
<tr>
<td>10-Yr Treasury Bond</td>
<td>2.00</td>
<td>+0.02</td>
<td>+0.81%</td>
</tr>
<tr>
<td>S&amp;P Basic Materials</td>
<td>236.33</td>
<td>+1.83</td>
<td>+0.78%</td>
</tr>
<tr>
<td>Gold Futures</td>
<td>1,725.90</td>
<td>+0.60</td>
<td>+0.03%</td>
</tr>
<tr>
<td>XAU</td>
<td>192.82</td>
<td>-1.89</td>
<td>-0.97%</td>
</tr>
</tbody>
</table>
## Monthly Performance

<table>
<thead>
<tr>
<th>Index</th>
<th>Close</th>
<th>Monthly Change($)</th>
<th>Monthly Change(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Gas Futures</td>
<td>2.68</td>
<td>+0.21</td>
<td>+8.50%</td>
</tr>
<tr>
<td>Korean KOSPI Index</td>
<td>2,023.47</td>
<td>+131.08</td>
<td>+6.93%</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>2,951.78</td>
<td>+182.07</td>
<td>+6.57%</td>
</tr>
<tr>
<td>Russell 2000</td>
<td>828.68</td>
<td>+49.42</td>
<td>+6.34%</td>
</tr>
<tr>
<td>10-Yr Treasury Bond</td>
<td>2.00</td>
<td>+0.10</td>
<td>+5.48%</td>
</tr>
<tr>
<td>S&amp;P BARRA Growth</td>
<td>728.15</td>
<td>+28.87</td>
<td>+4.13%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>1,361.23</td>
<td>+53.19</td>
<td>+4.07%</td>
</tr>
<tr>
<td>S&amp;P BARRA Value</td>
<td>625.85</td>
<td>+24.04</td>
<td>+3.99%</td>
</tr>
<tr>
<td>S&amp;P Energy</td>
<td>555.03</td>
<td>+20.78</td>
<td>+3.89%</td>
</tr>
<tr>
<td>Gold Futures</td>
<td>1,725.90</td>
<td>+63.30</td>
<td>+3.81%</td>
</tr>
<tr>
<td>DJIA</td>
<td>12,949.87</td>
<td>+370.92</td>
<td>+2.95%</td>
</tr>
<tr>
<td>Oil Futures</td>
<td>103.24</td>
<td>+2.65</td>
<td>+2.63%</td>
</tr>
<tr>
<td>S&amp;P Basic Materials</td>
<td>236.33</td>
<td>+4.02</td>
<td>+1.73%</td>
</tr>
<tr>
<td>XAU</td>
<td>192.82</td>
<td>+1.62</td>
<td>+0.85%</td>
</tr>
<tr>
<td>S&amp;P/TSX Canadian Gold Index</td>
<td>369.43</td>
<td>-2.44</td>
<td>-0.66%</td>
</tr>
<tr>
<td>Hang Seng Composite Index</td>
<td>2,979.70</td>
<td>-332.01</td>
<td>-14.83%</td>
</tr>
</tbody>
</table>

## Quarterly Performance

<table>
<thead>
<tr>
<th>Index</th>
<th>Close</th>
<th>Quarterly Change($)</th>
<th>Quarterly Change(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russell 2000</td>
<td>828.68</td>
<td>+109.94</td>
<td>+15.30%</td>
</tr>
<tr>
<td>S&amp;P BARRA Value</td>
<td>625.85</td>
<td>+77.87</td>
<td>+14.21%</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>2,951.78</td>
<td>+363.79</td>
<td>+14.06%</td>
</tr>
<tr>
<td>Hang Seng Composite Index</td>
<td>2,979.70</td>
<td>+362.47</td>
<td>+13.85%</td>
</tr>
<tr>
<td>S&amp;P Basic Materials</td>
<td>236.33</td>
<td>+28.56</td>
<td>+13.75%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>1,361.23</td>
<td>+145.10</td>
<td>+11.93%</td>
</tr>
<tr>
<td>DJIA</td>
<td>12,949.87</td>
<td>+1,179.14</td>
<td>+10.02%</td>
</tr>
<tr>
<td>S&amp;P BARRA Growth</td>
<td>728.15</td>
<td>+66.23</td>
<td>+10.01%</td>
</tr>
<tr>
<td>S&amp;P Energy</td>
<td>555.03</td>
<td>+46.50</td>
<td>+9.14%</td>
</tr>
<tr>
<td>Korean KOSPI Index</td>
<td>2,023.47</td>
<td>+146.80</td>
<td>+7.82%</td>
</tr>
<tr>
<td>Oil Futures</td>
<td>103.24</td>
<td>+4.42</td>
<td>+4.47%</td>
</tr>
<tr>
<td>10-Yr Treasury Bond</td>
<td>2.00</td>
<td>+0.04</td>
<td>+2.14%</td>
</tr>
<tr>
<td>Gold Futures</td>
<td>1,725.90</td>
<td>+0.50</td>
<td>+0.03%</td>
</tr>
<tr>
<td>XAU</td>
<td>192.82</td>
<td>-4.97</td>
<td>-2.51%</td>
</tr>
<tr>
<td>S&amp;P/TSX Canadian Gold Index</td>
<td>369.43</td>
<td>-37.20</td>
<td>-9.15%</td>
</tr>
<tr>
<td>Natural Gas Futures</td>
<td>2.68</td>
<td>-0.73</td>
<td>-21.35%</td>
</tr>
</tbody>
</table>

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.

An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.
All opinions expressed and data provided are subject to change without notice. Some of these opinions may not be appropriate to every investor.

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 Eastern European 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. 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.

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. Each tax free fund may invest up to 20 percent 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. Bond funds are subject to interest-rate risk; their value declines as interest rates rise. The tax free funds 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.

Past performance does not guarantee future results.

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

Holdings as a percentage of net assets as of 12/31/11:

Devon Energy Corp.: All American Equity Fund, 0.83%
Chesapeake Energy Corp.: 0.0%
Newfield Exploration Co.: 0.0%
JDS Uniphase Corp.: 0.0%
Micron Technology, Inc.: 0.0%
Motorola Solutions, Inc.: 0.0%
Hartford Financial Services Group, Inc.: 0.0%
Zions Bancorp: 0.0%
Gilead Sciences, Inc.: 0.0%
Cliffs Natural Resources, Inc.: Global Resources Fund, 2.21%
Hang Seng RMB Gold ETF: 0.0%
Hang Seng Bank Ltd: 0.0%
Agnico-Eagle Mines Ltd: Gold and Precious Metals Fund, 4.08%; World Precious Minerals Fund, 3.56%; Global Resources Fund, 0.01%
Kinross Gold Corp.: Gold and Precious Metals Fund, 1.72%; World Precious Minerals Fund, 1.48%
Extorre Gold Mines Ltd: World Precious Minerals Fund, 1.73%
AngloGold Ashanti Ltd: Gold and Precious Metals Fund, 2.93%; World Precious Minerals Fund, 0.73%
Gran Colombia Gold Corp.: Gold and Precious Metals Fund, 4.32%; World Precious Minerals Fund, 4.54%; Global Resources Fund, 1.62%; Global MegaTrends Fund, 0.26%; Global Emerging Markets Fund, 0.46%
Newmont Mining Corp.: Gold and Precious Metals Fund, 2.14%
SSAB Corp.: 0.0%
Rusal: 0.0%
BHP Billiton Ltd: Global Resources Fund, 2.01%
Rio Tinto plc: 0.0%
Abengoa: 0.0%
Interconnexion Electrica: 0.0%
Xstrata plc: 0.0%
Luz del Sur: 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 S&P BARRA Growth Index is a capitalization-weighted index of all stocks in the S&P 500 that have high price-to-book ratios.
The S&P BARRA Value Index is a capitalization-weighted index of all stocks in the S&P 500 that have low price-to-book ratios.
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 MSCI Russia Index is a free-float weighted equity index developed in 1994 to track major equities traded in the Russian market.
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 Alerian MLP Infrastructure Index is a capitalization-weighted composite of 25 energy infrastructure master limited partnerships (MLPs).
The Purchasing Manager's Index is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.
The NYSE Arca Gold BUGS (Basket of Unhedged Gold Stocks) Index (HUI) is a modified equal dollar weighted index of companies involved in gold mining. The HUI Index was designed to provide significant exposure to near term movements in gold prices by including companies that do not hedge their gold production beyond 1.5 years.