



U.S. Global Investors

# Investor Alert



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## Table of Contents

[Index Summary](#) • [Domestic Equity Market](#) • [Economy and Bond Market](#) • [Gold Market](#)  
[Energy and Natural Resources Market](#) • [Emerging Markets](#) • [Leaders and Laggards](#) • [Fund Performance Link](#)

## Love Trade Cools as Central Banks' Gold Demand Heats Up

By Frank Holmes

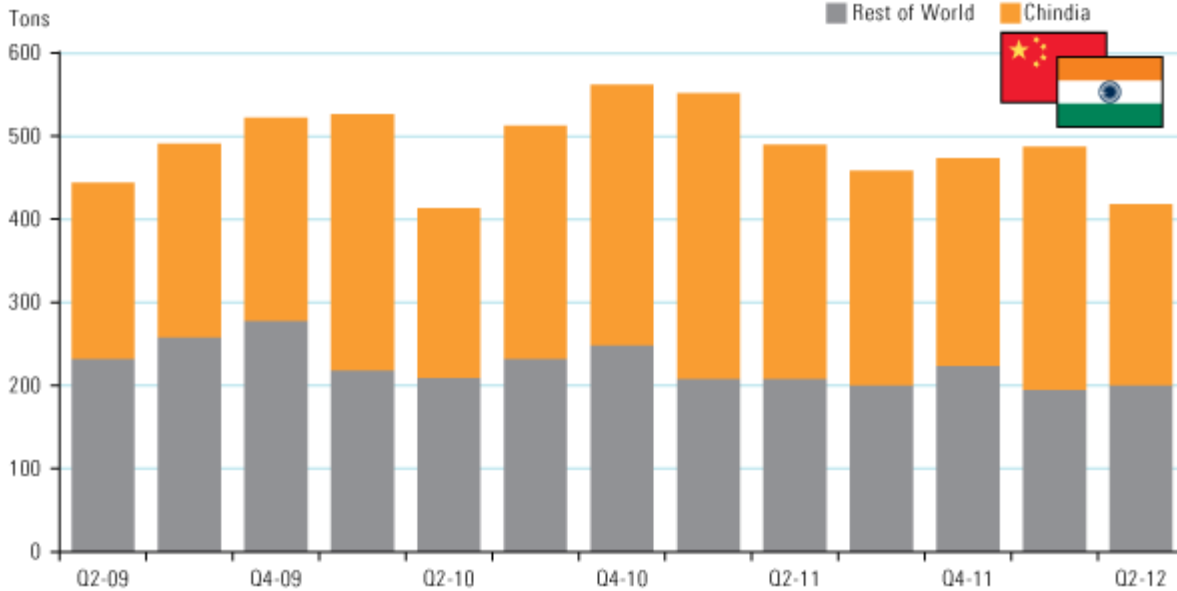
CEO and Chief Investment Officer

U.S. Global Investors

The two largest gold buyers in the world that largely drive the [Love Trade](#), China and India, underwhelmed the metals market with their subdued demand for the yellow metal during the second quarter of this year.

According to the [World Gold Council's](#) (WGC) quarterly Gold Demand Trends report, total demand was 990 tons, which was about 7 percent lower compared to the second quarter of 2011. When you break down demand and look at the jewelry sector, you can see that Chindia remains about 50 percent of the world's total gold demand. However, this quarter's jewelry demand of a little more than 400 tons makes it one of the weakest periods in two years.

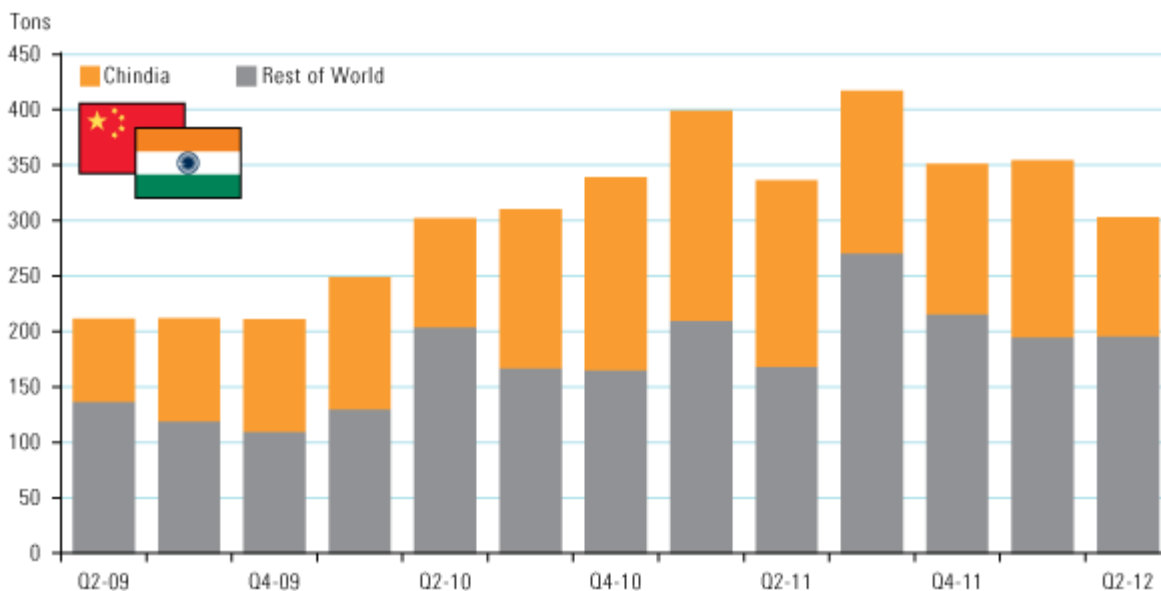
### Jewelry Demand: Rest of the World vs. Chindia



Source: Thomson Reuters GFMS, World Gold Council

Total bar and coin demand was also weak in China and India compared with the rest of the world.

## Bar & Coin Demand: Rest of the World vs. Chindia



Source: Thomson Reuters GFMS, World Gold Council

As we discussed earlier this year, India has been facing a number of economic challenges, resulting in a dramatic decrease of 30 percent in jewelry demand for the country over the second quarter compared to this time last year. The country's "unsupportive environment" for gold included a slowing GDP growth, record high gold prices because of its currency, rising domestic inflation, high interest rates, and fears of a poor monsoon season, says the WGC.

China's gold demand has been affected by a slowing economy as well as a "lack of clear direction in the gold price," says the WGC. However, during the WGC's conference call, Managing Director of Investment Marcus Grubb said it would be wrong to think that China is entering a period of extended weakness. If you look at Chinese demand for gold over the first half of 2012, the level was 410 tons—about the level that it was this time last year over the same period.

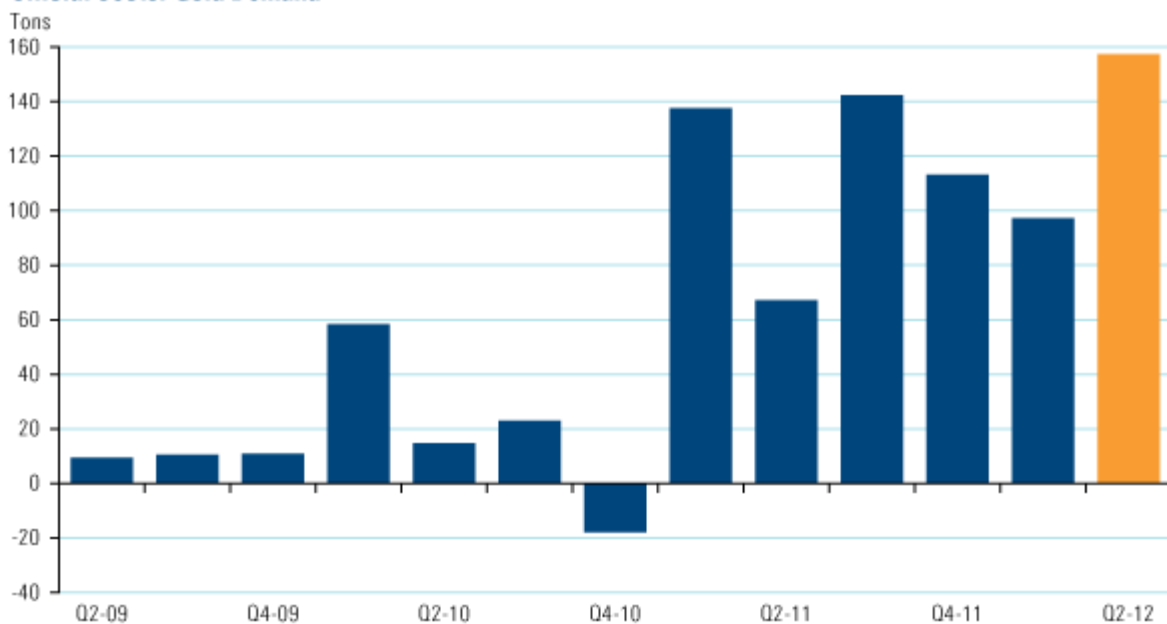
As we enter the [Love Season for gold](#), we'll look for any indications from government policies that might spur the continuation of the long-standing tradition of gold buying for weddings and Diwali in India, along with gold gifts for weddings and births that take place in China during this auspicious Year of the Dragon.

**Although the Love Trade is on ice for the period, a relatively new gold buyer has been warming up to gold.**

The official sector continued its [gold buying spree](#) this quarter. The WGC reported that central bank purchases hit a record high since the official sector became gold buyers three years ago. According to Mr. Grubb, if this trend continues over the remainder of 2012, central banks will be entering a "new territory" of gold buying that has not been seen since the early 1960s and since the end of the Bretton Woods System in 1971.

According to the firm's quarter-end data, official sector institutions purchased 158 tons of gold in the second quarter—or about 16 percent of the quarter's total gold demand. During the first half of 2012, central banks have acquired 254 tons of the metal, which is about 25 percent higher than the same period last year, says WGC.

### Official Sector Gold Demand



Source: Thomson Reuters GFMS, World Gold Council

Central banks from developing markets led the buying trend once again. The WGC says Kazakhstan indicated that it is “targeting an allocation to gold of 15 percent of its foreign exchange reserves” and one way it plans to build up its allocation is to purchase “the country’s entire domestic production over the next two to three years.”

Other emerging countries with central banks increasing their allocations to gold include Mexico, the Philippines, Russia, Turkey and Ukraine. According to Mr. Grubb, central banks have been motivated to add gold mainly as a currency hedge. Central banks want to increase their weightings in reserve asset portfolios and diversify away their dependence on U.S. dollars—and possibly the euro. There’s also a belief that sovereign debt is no longer considered to be a “risk-free” asset, says the WGC.

During his quarterly conference call, Mr. Grubb elaborated on this up-and-coming trend that [we’ve been watching take place over the past 12 to 18 months](#). He believes gold is being “reintegrated into the fabric of the financial system” as a use of collateral. Mr. Grubb noted how “many exchanges are making gold eligible, with a haircut somewhere between sovereign debt and equities, as a collateral asset in all kinds of financial transactions.” The CME Group in the U.S. has already accepted gold as collateral, and just today, the European clearing house, the CME Clearing Europe, announced that gold bullion is now considered an “eligible collateral type.”

When it comes to collateral and capital requirements, “gold is being brought back into the fold as an important asset,” says Mr. Grubb.

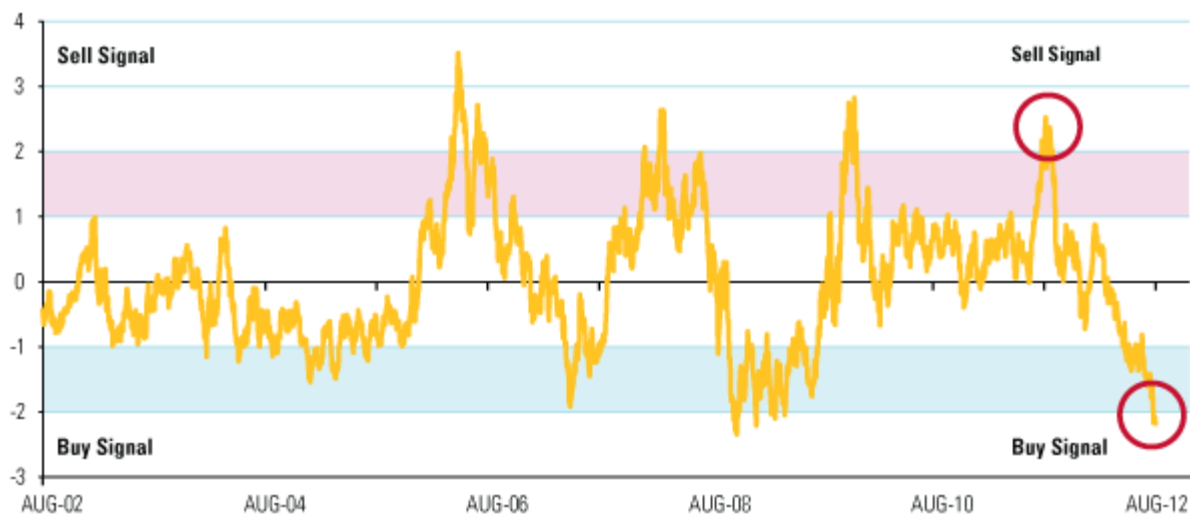
#### Strike While Gold’s Not Hot?

There’s been a lot of discussion from market pundits wondering where gold is heading. I say investors should use math to their advantage. Similar to card counting strategies used by blackjack players, count historical trends to discover inflection points.

Gold appears to be at one of those inflection points right now. Using the last 10 years of data, if you plot the 12-month rolling return, you can see that gold has reached an extreme low, registering a -2 sigma.

### Gold Sending A Buy Signal?

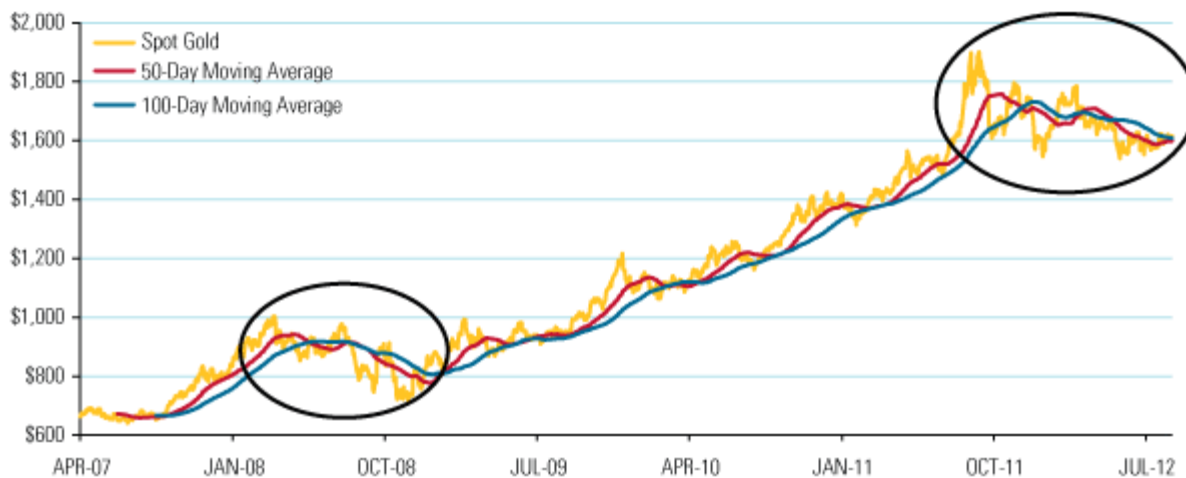
12-Month Rolling Return Percentage Change in Standard Deviation Terms (10 Years through 8/17/12)



Source: Bloomberg

The last time gold reached this point was in August 2008. You can see below the yellow metal's significant climb after hitting that standard deviation low.

### Gold Above Its 50-Day and 100-Day Moving Averages



Source: Bloomberg

Just recently, the gold price has moved above its 50-day and 100-day moving averages, which is another indication of potential strength for the metal and an additional reason to believe that gold may be an attractive entry point.

I'll be talking about gold and natural resources at the Chicago Hard Assets Investment Conference on September 21. If you'd like to learn more about attending the free event and when I'll be speaking, send me a note at [editor@usfunds.com](mailto:editor@usfunds.com).

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## Index Summary

- The major market indices were higher this week. The Dow Jones Industrial Average rose 0.51 percent. The S&P 500 Stock Index rose 0.87 percent, while the Nasdaq Composite advanced 1.84 percent.
- Barra Growth outperformed Barra Value as Barra Growth rose 1.11 percent while the Barra Value index appreciated 0.59 percent for the week. The Russell 2000 closed the week with a gain of 2.29 percent.
- The Hang Seng Composite fell 0.32 percent; Taiwan rose 0.36 percent, while the KOSPI added 0.01 percent.
- The 10-year Treasury bond yield rose 15 basis points for the week, to 1.81 percent.

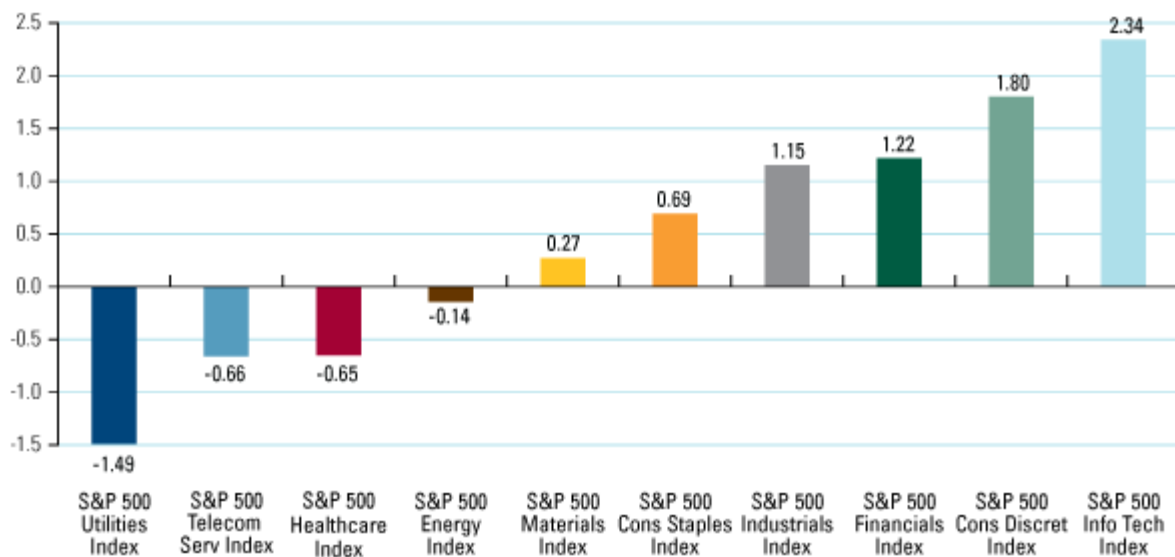
All American Equity Fund - GBTFX • Holmes Growth Fund - ACBGX • Global MegaTrends Fund - MEGAX

## Domestic Equity Market

The S&P 500 Index rose 0.87 percent this week, as dormant news flow from Europe proved a relief to developed markets in general. Trading volume has been characteristically anemic in the summer heat, but investors have not given up hope on potential policy change ahead of the Federal Reserve Chairman's Jackson Hole speech at the end of the month. Cyclical areas continued to exhibit strength this week with technology, discretion, and financials leading. Defensive sectors including utilities, telecom, and healthcare were laggards for the week.

### S&P 500 Economic Sectors

(Percentage return for each sector group from Friday to Friday, August 10, 2012 – August 17, 2012)



Source: Bloomberg, U.S. Global Research

## Strengths

- The technology sector was the best performer this week, rising 2.3 percent driven by a rally in communication equipment and internet software and services. JDS Uniphase, Cisco, Ebay, and Google were among the best performing names.
- The discretion sector also performed well with housing-related names particularly strong. Both PulteGroup and The Home Depot rose around 7 percent as U.S. building permits surprised on the upside in July with a 6.8 percent sequential jump.
- Sears was the best performer in the S&P 500 this week rising by 15.7 percent as its second quarter loss narrowed due to lower inventory costs.

## Weaknesses

- The utilities sector lagged as rotation into more cyclical areas continued for the week. Utilities also became the worst performing sector over the past three months.

- Telecom also underperformed this week, in synch with a change in risk preference.
- Staples, Inc. was the worst performer in the S&P 500 this week, falling by more than 15 percent. The company reported lower-than-estimated sales for the second quarter and lowered annual sales and earnings guidance citing slower growth in the U.S. and sluggish demand in Europe.

## Opportunity

- The market is looking past the current economic weakness and remains focused on the potential monetary policy action from the Fed, the European Central Bank (ECB), and China.

## Threat

- The S&P 500 has almost reached its April high, a technical resistance level, and could be vulnerable to any disappointments from global central bankers.



U.S. Government Securities Savings Fund - UGSXX • U.S. Treasury Securities Cash Fund - USTXX  
Near-Term Tax Free Fund - NEARX • Tax Free Fund - USUTX

## The Economy and Bond Market

Treasury yields rose for a fourth week in a row. Additionally, the benchmark 10-year yield is on the verge of breaking above the technically significant 200-day moving average.

### 10-Year Treasury Yield Approaches Its 200-Day Moving Average



Source: Bloomberg

## Strengths

- The Thomson Reuters/University of Michigan preliminary August index of consumer sentiment increased to 73.6, the highest level since May, from 72.3 the prior month.

The four-week average for initial jobless claims remains at its lowest level since March.

- According to the Conference Board's gauge of Leading Economic Indicators, the economic outlook for the next three to six months increased 0.4 percent last month after a revised 0.4 percent drop in June. Economists projected the gauge would rise by 0.2 percent.

## Weaknesses

- Initial jobless claims rose slightly to 366,000 this week, somewhat muddling the picture for the job market.
- Manufacturing in the Philadelphia region contracted in August for a fourth consecutive month as orders and employment declined.
- China July foreign direct investment fell 8.7 percent year-over-year to \$7.58 billion, its lowest level in two years, which fuels concern that a slowdown in confidence in China's growth prospects may restrain any economic rebound.

## Opportunity

- The ECB appears ready to implement some form of QE in the very near future.
- With further weak economic data out of China, the odds of additional easing measures continue to move higher.
- Interest rates are likely to remain very low for the foreseeable future.

## Threat

- Europe remains a wildcard with the markets shifting focus on a weekly basis.
- China also remains somewhat of a wildcard as the economy has slowed and officials appear in no hurry to take decisive action.

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## Gold Market

For the week, spot gold closed at \$1,616.05 down \$4.15 per ounce, or 0.26 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, rose 1.14 percent. The U.S. Trade-Weighted Dollar Index edged higher, gaining 0.05 percent for the week.

## Strengths

- Despite the dollar's steady rise since the start of the summer, the gold price continues to defy efforts to push it lower. Technically, gold has now traded above both its 50- and 100-day moving averages and the seasonally strong autumn rally in gold could well play out again this year.
- Gold sentiment likely got a boost when recent filings showed billionaire John Paulson raised his stake in an exchange-traded fund tracking the price of gold, leaving his \$21 billion hedge fund with more than 44 percent of its U.S. traded equities tied to bullion. In addition, the \$25 billion Soros Fund Management LLC portfolio also made a sizable increase in its exposure to bullion. The Soros Fund, based in New York, raised its existing weight by slightly more than 175 percent from the previous filing. And finally, investment funds in China soon plan on launching the country's first batch of gold



exchange-traded funds, according to the state-run Shanghai Securities.

- Nomura International Plc told clients that the gold price is “not heavily pricing in QE3,” referring to so-called quantitative easing. “The potential upside, were QE3 to be introduced, would likely far outweigh any potential downside. Even if it is not introduced, real rates remain very low and the gap between them and gold is large.”

## Weaknesses

- Great Basin Gold announced this week that CEO Ferdi Dippenaar has resigned with immediate effect. This is due to a strategic review process begun as a result of delays at the group's Burnstone operation in South Africa. On release of the news the stock tumbled 50 percent. In recent months, both Aaron Regent and Tye Burt, CEOs of Barrick and Kinross, respectively, also have been shown the door during these tough times for gold miners.
- Clive Johnson, the president and CEO of B2Gold Corporation, expressed his frustration on the company's quarterly conference call with regards to the difficulty of trying to get distressed companies to come to the table for a potential acquisition. Johnson noted the self-interest of management versus the shareholders was clearly evident in that many companies either are unwilling to sign confidentiality agreements or, if they are, they come with caveats – shackles in the form of standstill agreements – that make it tough to do anything.
- The World Gold Council (WGC) recently reported that gold demand reached 990 tonnes in the second quarter, down 7 percent from a year ago. The weaker trend in investment, jewelry and technology demand for gold was compensated by the Central Banks' surging appetite, which led to the largest quarterly increase since the second quarter of 2009. Though both China's and India's gold consumer demand declined year-on-year in the second quarter, retail investment demand ex-China and India actually rose 16 percent. In particular, the European purchase of bullion bars and coins rose 15 percent, revealing investors' demand for gold for capital preservation in light of the European debt and banking crises. The WGC highlighted that Russia will continue to be a driving force in the gold market. It is now the fourth largest consumer of gold jewelry, and has the world's eighth largest gold reserves.

## Opportunities

- David Prowse, Metals and Mining Specialist Sales at Bank of America Merrill Lynch, recently visited a number of accounts in New York and Boston. David reported that he was perhaps halfway through the second day before a single investor had mentioned gold or gold shares. It has essentially been a year since gold peaked last August and few have interest in the shares these days making it that much easier to pick up a reasonable position without much market impact.
- Barron's also carried a technical analysis of gold bullion versus the gold stocks this past week. The publication noted that for the first time in more than two years, gold stocks are looking better than the metal, although they are not yet fully in bullish mode. Barron's pointed out that the desire to sell gold stocks versus gold itself reached a climax in May and since then the short gold stock trade looks to have washed out, perhaps establishing a price floor, and making their risk/reward profile look fairly good
- Since February, the COMEX speculative position on silver has fallen by 72 percent. A survey of hedge funds showed they are the least bullish on silver in almost four years. However, physical holdings of silver via exchange-traded products has climbed for three months and is now valued at \$16.2 billion. In the coming weeks, the Jackson Hole Fed retreat may be the last chance the Fed has to act before the presidential election.

## Threats

- Platinum producers in South Africa, which account for 75 percent of world output, are facing plunging profits, surging energy costs, and labor instability. Lonmin plc has been at the epicenter of the crisis. The labor unions have been the nucleus of the problem where the Association of Mineworkers and Construction Union (AMCU) has been targeting the platinum mines to extend its membership at the expense of the established mining unions, the NUM and Solidarity which are nowadays seen by some as part of the mining establishment. Several murders took place between the rival factions so police were called in. Unfortunately the conflict escalated with 34 deaths at the Lonmin Mine.
- Some believe David Rosenberg of Gluskin Shelf to be a perennial bear but he's pretty much one of the few strategists who is willing to mention the bad news and bare the disdain of those who want us to



keep the rose-tinted glasses on. Dave noted this week that the spike in food and gas prices casts a cloud over the back-to-school shopping season.

- With regard to investors' appetite for income-producing securities versus taking the risk of parking cash in the equity markets and trying to sleep at night, Mr. Rosenberg pointed out that that retail investors eagerly snapped up nearly one-third of the largest municipal debt deal of the year, a \$10 billion one-year bill issued by California with a range of 0.3 to 0.55 percent.



[Global Resources Fund - PSPFX](#) • [Global MegaTrends Fund - MEGAX](#)

## Energy and Natural Resources Market

### Coal Inventories at Major Coastal Independent Power Producers Beginning to Decline



Source: Sxcoal, Deutsche Bank. \* Inc: Zhejiang Electric Power, Shanghai Electric Power, Guangdong Yudean, Guodian, Datang and Huaneng

### Strengths

- The price of oil gained 3.5 percent this week, to \$96 a barrel, the highest level since May 11.
- Output from the world's largest copper mine, Chile's Escondida, jumped 18.3 percent in the first half of the year compared with the same period of 2011, to 533,200 metric tons.
- China electricity consumption in July increased 4.5 percent year-over-year to 456 million MWh. The growth rate remains somewhat subdued due to soft manufacturing sector demand.

### Weaknesses

- The latest composite leading indicators (CLI) from the Organisation for Economic Co-operation and Development, designed to anticipate turning points in economic activity, continue pointing to a slowdown in activity for most of the world's major economies.
- The civil disorder issues at Lonmin's Marikana platinum mine appear to be worsening. South African riot police have reportedly opened fire on striking miners armed with machetes and sticks, killing more than 30 miners. Lonmin said it had lost the equivalent of 15,000 ounces of platinum from the six-day disruption.

- Baosteel cut September prices of its main steel products for a third time since June, following a fall in demand. Its list price for hot-rolled coil (HRC) was reduced by Yuan 100/t to Yuan 4062/t (\$635/t).

## Opportunities

- Colombia's main railway, Fenoco, has restarted shipping coal to ports after the end of a nearly month-long strike in the world's fourth-largest coal exporter, the company's president reported on Friday. The union on Thursday ended the 25-day strike, which had prevented exports from Colombia's main coal-producing province of Cesar.
- Vale's CEO expects iron ore prices to start recovering in September due to falling stocks in China.
- Newcrest Mining expects to spend about \$5 billion over the next five years to lift output to 3.5 million ounces of gold by 2017 (vs. target of 2.5 million ounces for 2012).

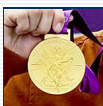
## Threats

- The probability of a large scale asset purchase announcement (QE3) at the September 12-13 Federal Open Market Committee meeting is not as certain as originally thought, according to some economic analysts. This could be a headwind for further gains in the commodities asset class.
- Markets are facing a potential threat from the "fiscal cliff," a series of U.S. tax and spending policies scheduled to take effect on New Year's Day 2013. It is difficult to predict exactly whether or how a solution can be reached given impending elections, leading to increased market uncertainty.

## Frank Talk *Insight for Investors*



August 16, 2012  
**Evaluating the  
Wisdom of Buying  
Gold**



August 13, 2012  
**Which Way Will the  
Pendulum Swing for  
Gold?**



August 9, 2012  
**Where Wealth  
Thrives and  
Innovates**

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

China Region Fund - USCOX • Eastern European Fund - EUROX  
Global Emerging Markets Fund - GEMFX

## Emerging Markets

### Strengths

- Malaysia's second quarter GDP accelerated to 5.4 percent year-over-year, higher than the consensus 4.6 percent. CPI for July fell to 1.4 percent from 1.6 percent in June, lower than the consensus 1.6 percent.
- Chinese premier Wen Jiabao said China has more room for stimulus policies since inflation has come down. He also told local business people and government officials in Zhejiang province that the economy is stabilizing.
- China railway investment for the next five months is expected to be about 50 percent higher than the amount invested in the same period last year.

### Weaknesses

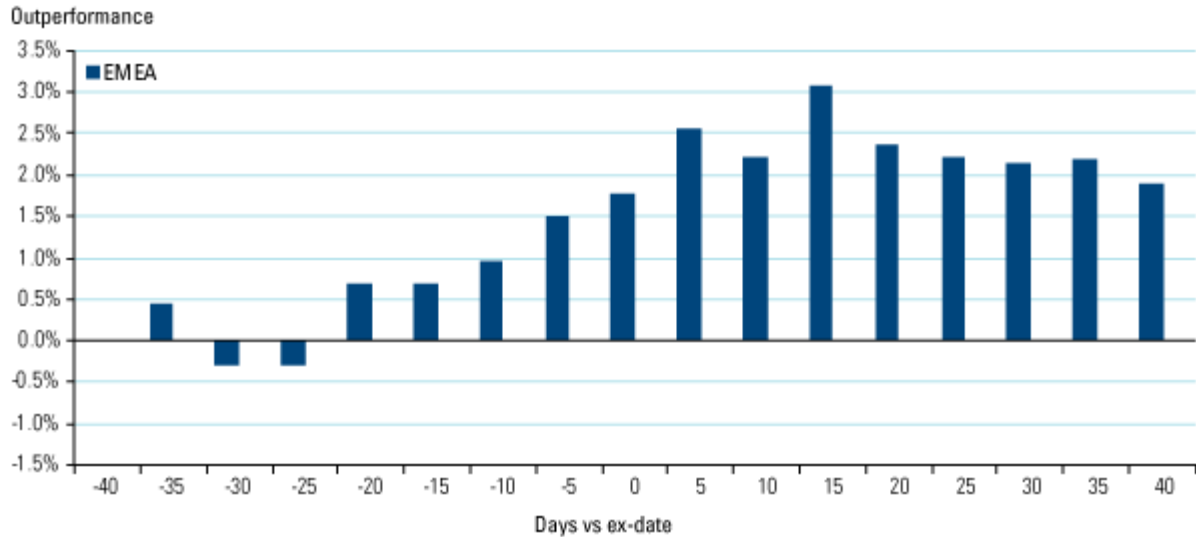
- Indonesia's current account deficit widened sharply to \$6.9 billion or 3.1 percent of GDP in the second quarter. The Bank of Indonesia (BI), therefore, tightened monetary policy by raising the deposit facility rate by 25 basis points to 4 percent which will push up the interbank borrowing rate. BI also strengthened the loan-to-value ratio to 70 percent for housing and vehicle loans.
- China's July power demand grew 4.5 percent, lower than the 5.4 percent total demand growth year-to-date. Industrial power demand continued slowing.

- Taiwan's second quarter GDP contracted 18 basis points, more than the estimate of 16 basis points.

## Opportunities

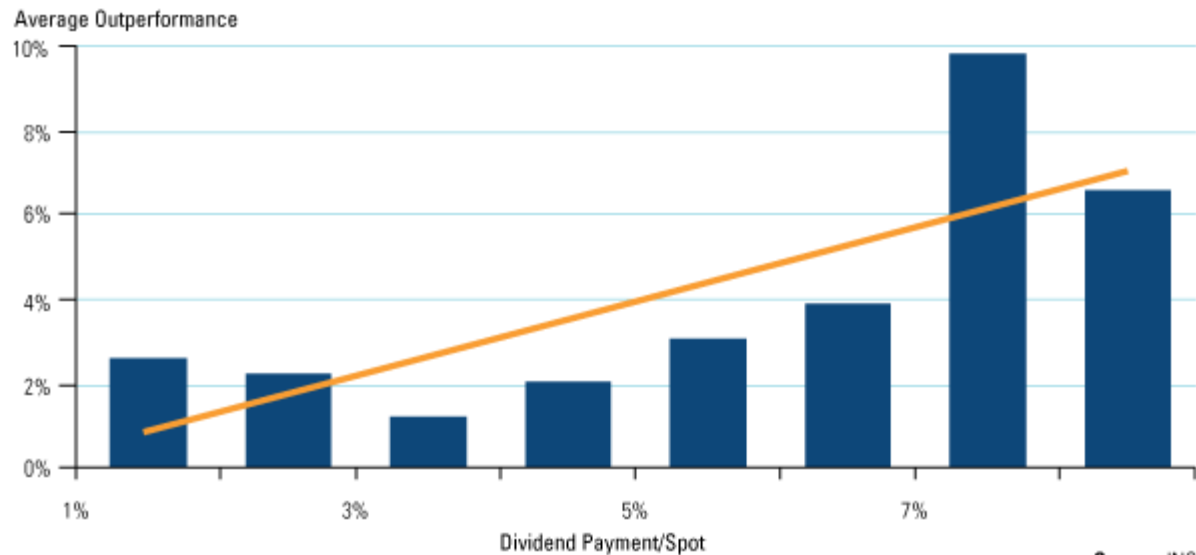
- According to research from ING, the dividend effect on stock outperformance is healthy in emerging Europe and is most prominent among Turkish stocks, some of which pay close to a 10-percent dividend.
- Prior to ex-date, the dividend effect is driven by interest from high-yield equity funds. Post the ex-date, the dividend effect exists due to: 1) cheapness on a P/E basis; and 2) a dividend reinvestment effect into the stock and sector.

### Dividend-Paying Stocks in Europe, Middle East and Africa Cumulative Average Outperformance Before and After the Ex-Date



Source: ING

### Relative Performance of Dividend-Paying Stocks in Europe, Middle East and Africa Compared to Dividend Payment in the Period from Three Weeks Before to Three Weeks After Ex-Date

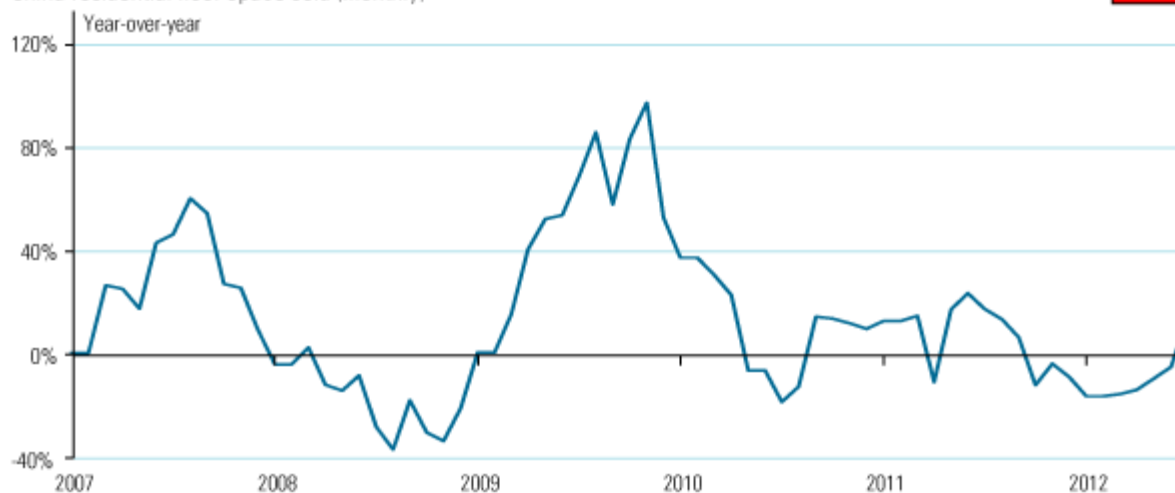


Source: ING

- **Recovery in Property Transaction Should Improve Cash Flow for Chinese Developers**  
The chart below shows July's housing transactions have picked up on a yearly basis. This will help cash flow for developers, and also reduce inventories. The housing market needs further inventory reduction before new starts can go up.

**Recovery in Property Transaction Should Improve Cash Flow for Chinese Developers**

China residential floor space sold (monthly)



Source: CEIC Data, National Bureau of Statistics, CLSA Asia-Pacific Markets

**Threats**

- The much hoped for bank reserve ratio reduction by the People's Bank of China has not arrived. Liquidity tightness in the banking system has affected new loan growth, which will slow the growth recovery of the economy.
- As European policy-makers return from their usual long holiday, the German constitutional court may rule against current transfers.
- Republican and Democratic conventions in the U.S. may reduce the opportunity for compromise on the fiscal cliff.

**Where Does the Gold Come From?**  
Learn more about the top-ten gold-producing countries

**Leaders and Laggards**

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

**Weekly Performance**

Index	Close	Weekly Change(\$)	Weekly Change(%)
DJIA	13,275.20	+67.25	+0.51%
S&P 500	1,418.16	+12.29	+0.87%
S&P BARRA Value	638.77	+3.73	+0.59%
S&P BARRA Growth	771.78	+8.49	+1.11%
S&P Energy	541.32	-0.78	-0.14%
S&P Basic Materials	228.16	+0.62	+0.27%
Nasdaq	3,076.59	+55.73	+1.84%
Russell 2000	819.89	+18.34	+2.29%
Hang Seng Composite Index	2,709.24	-8.75	-0.32%

Korean KOSPI Index	1,946.54	+0.14	+0.01%
S&P/TSX Canadian Gold Index	300.11	+2.11	+0.71%
XAU	160.01	+1.64	+1.04%
Gold Futures	1,619.40	-3.40	-0.21%
Oil Futures	96.01	+3.14	+3.38%
Natural Gas Futures	2.72	-0.05	-1.84%
10-Yr Treasury Bond	1.81	+0.15	+9.23%

### Monthly Performance

Index	Close	Monthly Change(\$)	Monthly Change(%)
DJIA	13,275.20	+366.50	+2.84%
S&P 500	1,418.16	+45.38	+3.31%
S&P BARRA Value	638.77	+20.27	+3.28%
S&P BARRA Growth	771.78	+24.86	+3.33%
S&P Energy	541.32	+24.50	+4.74%
S&P Basic Materials	228.16	+5.82	+2.62%
Nasdaq	3,076.59	+133.99	+4.55%
Russell 2000	819.89	+14.83	+1.84%
Hang Seng Composite Index	2,709.24	-332.01	-14.83%
Korean KOSPI Index	1,946.54	+151.63	+8.45%
S&P/TSX Canadian Gold Index	300.11	+20.71	+7.41%
XAU	160.01	+13.71	+9.37%
Gold Futures	1,619.40	+43.90	+2.79%
Oil Futures	96.01	+6.14	+6.83%
Natural Gas Futures	2.72	-0.25	-8.54%
10-Yr Treasury Bond	1.81	+0.32	+21.14%

### Quarterly Performance

Index	Close	Quarterly Change(\$)	Quarterly Change(%)
DJIA	13,275.20	+832.71	+6.69%
S&P 500	1,418.16	+113.30	+8.68%
S&P BARRA Value	638.77	+50.84	+8.65%
S&P BARRA Growth	771.78	+61.86	+8.71%
S&P Energy	541.32	+57.69	+11.93%
S&P Basic Materials	228.16	+20.66	+9.96%
Nasdaq	3,076.59	+262.90	+9.34%
Russell 2000	819.89	+65.56	+8.69%
Hang Seng Composite Index	2,709.24	+77.11	+2.93%
Korean KOSPI Index	1,946.54	+101.30	+5.49%
S&P/TSX Canadian Gold Index	300.11	+15.61	+5.49%
XAU	160.01	+12.32	+8.34%
Gold Futures	1,619.40	+38.20	+2.42%
Oil Futures	96.01	+3.45	+3.73%
Natural Gas Futures	2.72	+0.13	+4.82%
10-Yr Treasury Bond	1.81	+0.11	+6.65%

*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](http://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 06/30/12:

JDS Uniphase Corp.: 0.0%

Cisco Systems, Inc.: 0.0%

eBay, Inc.: 0.0%

Google, Inc.: All American Equity Fund, 1.36%

PulteGroup, Inc.: 0.0%

The Home Depot, Inc.: 0.0%

Sears Holdings Corp.: 0.0%

Staples, Inc.: 0.0%

Great Basin Gold Ltd: Gold and Precious Metals Fund, 0.15%; World Precious Minerals Fund, 0.21%

B2Gold Corp.: Gold and Precious Metals Fund, 1.60%; World Precious Minerals Fund, 1.09%

Barrick Gold Corp.: Gold and Precious Metals Fund, 2.59%; World Precious Minerals Fund, 0.64%

Kinross Gold Corp.: Gold and Precious Metals Fund, 0.39%; World Precious Minerals Fund, 0.29%; Global Resources Fund, 2.07%

Lonmin plc: 0.0%

Baosteel: 0.0%

Fenoco: 0.0%

Vale S.A.: 0.0%

Newcrest Mining Ltd: 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 Bloomberg Gold Bear/Bull Sentiment Indicator charts the percent of respondents in a weekly Bloomberg News survey of traders, investors, and analysts predicting gold prices will rise the following week. The number of participants in the survey, which is completed every Friday, may vary.

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.

The S&P/TSX Global Gold Index is an international benchmark tracking the world's leading gold companies with the intent to provide an investable representative index of publicly-traded international gold companies.

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.

The Consumer Price Index (CPI) is one of the most widely recognized price measures for tracking the price of a market basket of goods and services purchased by individuals. The weights of components are based on consumer spending patterns.

The Producer Price Index (PPI) measures prices received by producers at the first commercial sale. The index measures goods at three stages of production: finished, intermediate and crude.

The University of Michigan Confidence Index is a survey of consumer confidence conducted by the University of Michigan. The report, released on the tenth of each month, gives a snapshot of whether or not consumers are willing to spend money.

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