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U.S. Global Investors
Investor Alert

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What's an Investor to do in Markets like These?

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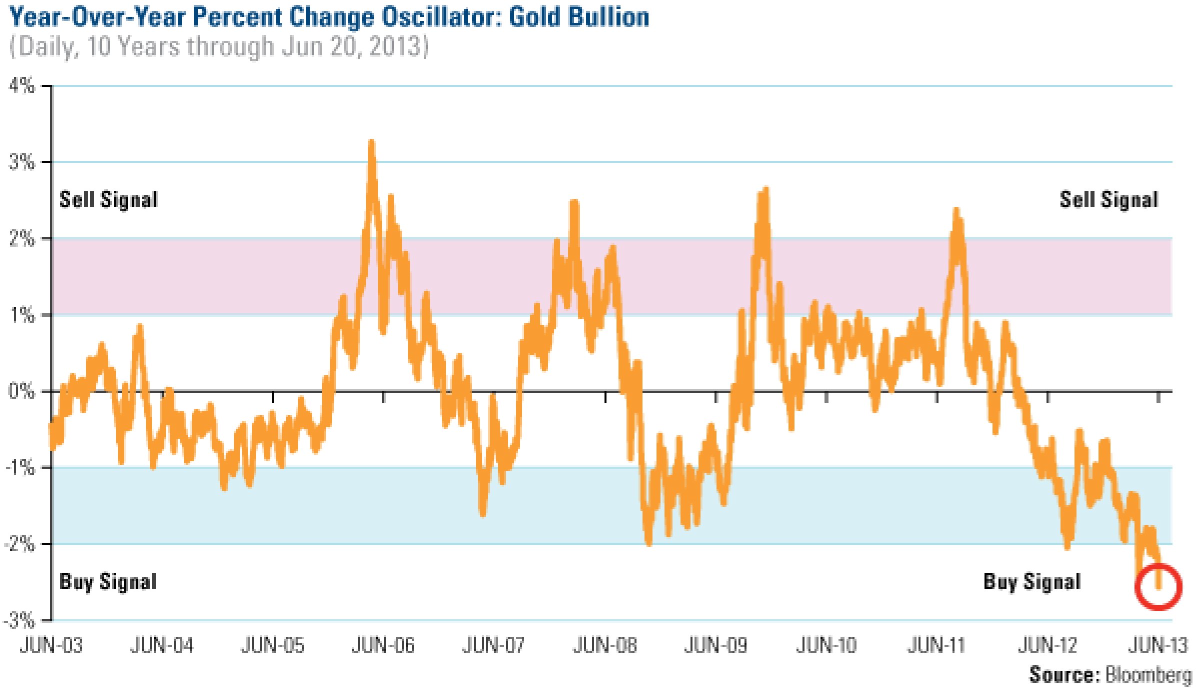
Legendary businessman Steve Forbes once said, "Everyone is a disciplined, long-term investor until the market goes down." It's challenging to have the fortitude to hold on to investments during a one-day carnage event like yesterday. Everywhere you looked there was red on the screen, as U.S. stocks lost 2.5 percent, commodity equities lost 3 percent and gold declined 5 percent. Gold stocks took one of the biggest blows, falling about 7.5 percent.

So what should an investor do after a day like yesterday? Stay calm and invest on, as I believe there is opportunity in picking up what the bears left behind. Here are a few ideas to ponder.

Gold
Gold fell below $1,300 yesterday, and based on our oscillator data, the yellow metal is now in extremely oversold territory. On an annual basis, bullion is down 2.6 standard deviations, which is the worst reading over the past 10 years.

This is the opposite reading that gold buyers had in the summer of 2011, when it was up 2 standard deviations, or at the $1,900 level.

Last week, before this market event occurred, I said that gold could fall another ten percent, but that there could be a 30 percent upside over the next 18 months. You can see the upside potential in the chart, as gold appears due for a reversal toward the mean.



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However, short-term financial gold traders may be discouraged from acting on this bullish sign, as the yellow metal is now even more expensive to trade. After Thursday's huge sell-off, the CME Group, the largest operator of futures exchanges in the U.S., decided to raise margin requirements on gold. As of the close of trading on June 21, the minimum cash deposit for gold futures will increase 25 percent to $8,800 per 100-ounce contract, reports Bloomberg.

This is the second increase in only three months. In April, the CME raised the initial gold margin requirement, which is what triggered the short-term liquidation out of financial gold ETFs and futures.

This isn't a typical move for the CME. Usually, the firm raises margins when prices are rising rapidly to cool down speculation or lowers margin requirements in an attempt to boost liquidity.

In contrast, cash buying of gold is increasing, and this is good news for two reasons: 1) Retail gold investors are not leveraged like futures gold trader, and 2) their buying tends to be stickier.

As we have always suggested, it is prudent to have a 5 to 10 percent exposure and to view gold as a long-term investment. It's important to rebalance annually or when the oscillator shows that gold has moved 2 standard deviations.

Weakness in ETFs Highlights Strength in Mutual Funds

Buyers of ETFs beware, as yesterday's selling exposed a fundamental weakness in the structure of the exchange traded fund. Unlike a mutual fund, which allows the investor to buy or sell at the daily net asset value, ETFs can trade at a premium or discount to their net asset value (NAV). At any point in time, an investor can overpay for an asset (i.e. premium) or receive less than the asset is worth (i.e. discount).

These premiums and discounts can be tremendous on days with big NAV changes, as investors realized yesterday. The chart below shows the NAV trading premiums and discounts for the MSCI Emerging Markets Index ETF (EEM) over the past year. As you can see, the ETF often experienced significant premiums and discounts in this time frame, however, the discount was never as severe as it was on Thursday. As panic selling set in yesterday, the discount grew to be as much as 2.56 percent. Simply stated, "at the very moment of maximum selling, the ETF exacts the maximum trading cost from the seller (and rewards the buyer similarly, with a discount)," says Brendan Conway from Barron's.

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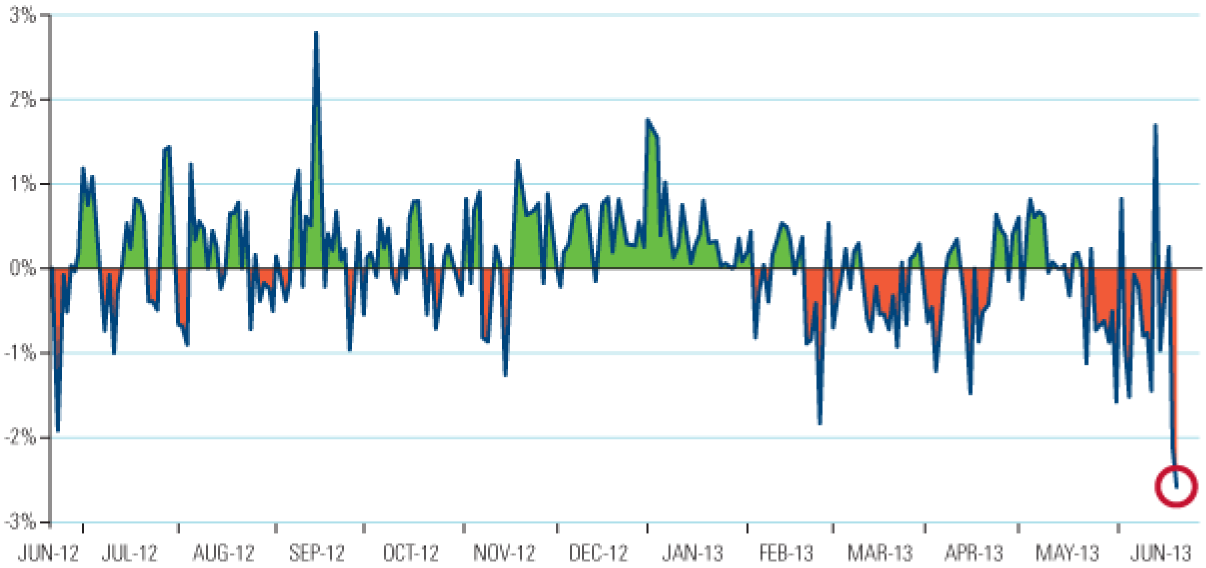
Premium or Discount Paid for the MSCI Emerging Markets ETF



Source: Bloomberg

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He explained the difference in the pricing of the MSCI Emerging Markets Index compared to the underlying ETF. Using data from Morningstar, he writes:

> "iShares fund enters Friday's trading session with a closing Thursday market price of $36.88. But the NAV is $37.85. It's about a full dollar higher. View it in total-return percentage terms: EEM's market price was down by 16.4% as of Thursday's close. But the NAV had only lost 13.2%."

Conway's contrarian lesson for ETF investors: "Don't sell into a panic. ETFs are built to penalize lemmings and reward contrarians."

When it comes to investing, I believe there is no such thing as a free lunch. ETFs have relatively low expense ratios compared with actively managed funds in the same sectors, but that doesn't mean that in the end an ETF costs less to own or that an ETF generates better returns. On volatile days such as yesterday, ETFs can be expensive to trade.

Case Study on a Chemicals Company

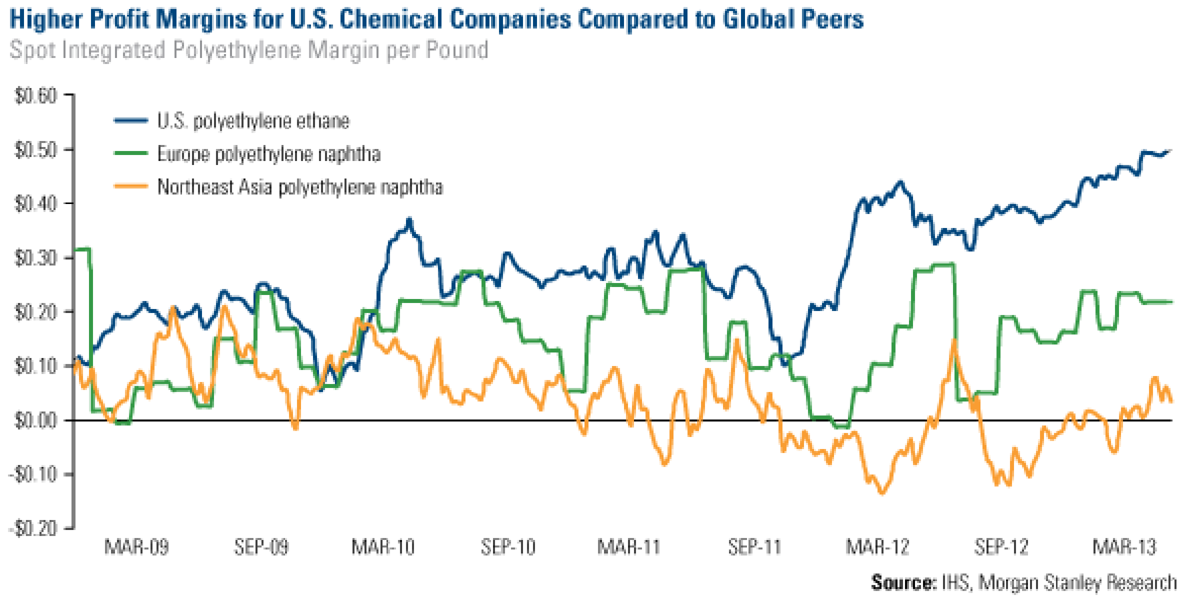
Instead of seeking the short-term trade, we prefer to actively look for solid companies that we believe will outperform over a longer period of time. One such promising opportunity currently held in the All American Equity (GBTFX) and Global Resources Funds (PSPFX) is materials company, LyondellBasell (LYB).

Lyondell is one of the world's largest plastics, chemicals and fuels companies, pays a dividend and just announced that it intends to repurchase up to 10 percent of its outstanding shares over a 12-month period. A "combination of organic cash generation and financial flexibility" could be potentially profitable for its shareholders, as over the next two years, returning "cash to holders of more than 30 percent of Lyondell's equity market capitalization," says Bank of America Merrill Lynch (BofA-ML).

The company is poised to benefit from a recent trend that's been developing in the chemicals sector. In a recent report, BofA-ML reported that ethane will likely be oversupplied for the next three years. This is causing ethane to "trade near 'floor' prices as determined by the value of natural gas over this period." With natural gas currently sitting below $4 per million British Thermal unit (MMBtu), ethane will likely average less than $0.30 per gallon.

Ethane is the raw material that's used in the petrochemical industry, and cheap ethane translates to significantly increased profit margins for U.S. chemical companies, including LyondellBasell.

You can see in the chart below that U.S. chemical companies have much higher profit margins compared to their global peers, with profit margins around $0.50 per pound. This compares favorably to the chemical companies in Europe and Northeast Asia, which have current margins at $0.20 and $0.05 per pound, respectively. These companies use what's called polyethylene naphtha, which is polyethylene made from the raw material, naphtha. Naphtha is oil-based, and because oil is much more expensive to natural gas, ethane is a cheaper feedstock.



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This is just one example of opportunities you can find in today's market if you keep calm and carry on.

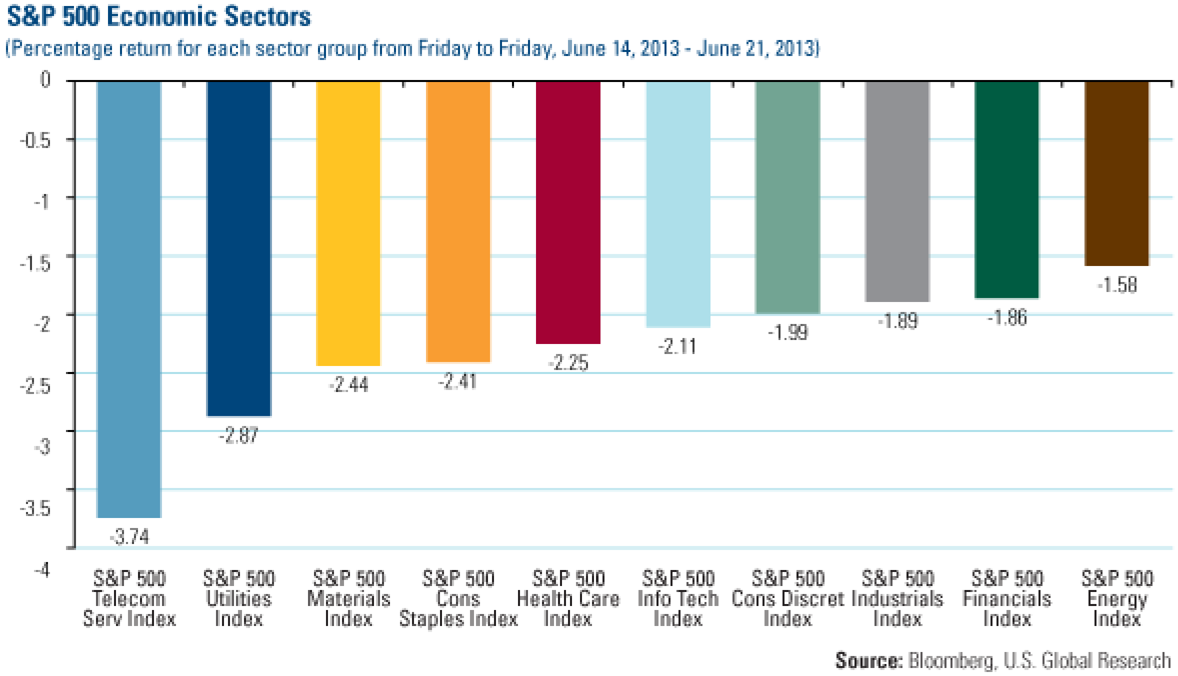
Index Summary

- Major market indices closed sharply lower this week. The Dow Jones Industrial Average fell 1.80 percent. The S&P 500 Stock Index moved lower by 2.11 percent, while the Nasdaq Composite dropped 1.94 percent. The Russell 2000 small capitalization index declined 1.80 percent this week.
- The Hang Seng Composite fell 3.40 percent; Taiwan declined 1.82 percent while the KOSPI dropped 3.52 percent.
- The 10-year Treasury bond yield rose 41 basis points this week to 2.54 percent.

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

Domestic Equity Market

The S&P 500 finished down more than 2 percent this week on central bank policy fears as the Federal Reserve and Ben Bernanke reaffirmed the likely reduction in the current quantitative easing (QE) program in the next few months. The traditionally defensive groups such as telecom and utilities were the worst performers this week as they are viewed as bond proxies and bonds sold off very hard this week.



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Strengths

- All sectors were in the red this week, the energy sector was the best of a bad bunch. While oil prices were down for the week, oil prices remain in the middle of the trading range that we have seen for the past year.
- The financials sector was the second best performer, as many banks and insurance companies could benefit from a steeper yield curve, which steepened considerably this week.
- Micron Technology was the best performer in the S&P 500 this week, gaining 8.93 percent. The company reported earnings this week, beating expectations and raising guidance, along with reaffirming strong macro tailwinds for the company.

Weaknesses

- The telecom services and utilities sectors were the worst performers this week, as both areas were hit hard by the selloff in bonds this week, as they are viewed as bond proxies.
- The materials sector also lagged this week on broad-based weakness. Some manufacturing data out of China this week was disappointing, pointing to continued weak top line growth for many companies in the sector.
- Whirlpool was the worst performer in the S&P 500 this week declining 12.32 percent. The company sold off due to concerns over the effects rising interest rates will have on housing activity and appeared to trade in sympathy with the homebuilders who were also among the worst performers for the week.

Opportunity

- The current macro environment remains positive as economic data remains robust enough to give investors confidence in an economic recovery, but not too strong as to force the Fed to change course in the near term.
- Money flows are likely to find there way into domestic U.S. equities and out of bonds and emerging markets, which should help the market find a floor.

Threat

- A market consolidation could continue in the near term, as the S&P 500 kept trending higher beyond its all time record for a month defying the proverbial “Sell in May” seasonal pattern.
- Higher interest rates are a threat for the whole economy. The Fed must walk a fine line and the

potential for policy error is potentially large.

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 very sharply this week as Fed Chairman Ben Bernanke and the Federal Open Market Committee (FOMC) more or less repeated prior commentary regarding "tapering" (reducing QE and the first step on a long road toward tightening monetary policy). The Fed was apparently not swayed by negative market reactions in recent weeks and believes beginning the tapering process in the next few months is the most prudent course of action; unfortunately the market disagreed this week.

click to enlarge

Strengths

- The National Association of Homebuilders confidence index hit a seven-year high in June. Existing home sales in May rose 4.2 percent, hitting the highest level in more than three years.
- The Philadelphia Fed regional manufacturing index rose more than expected.
- The consumer price index rose a modest 0.1 percent in May. Year-over-year CPI rose 1.4 percent, allowing the Fed plenty of flexibility regarding policy.

Weaknesses

- The very sharp and abrupt sell off in bonds took many by surprise and damaged the psyche of many fixed income investors worldwide.
- The HSBC Flash Manufacturing PMI for China came in below expectations and indicated contraction in

the manufacturing sector.

- European car sales hit a 20-year low as registrations fell 5.9 percent year-over-year.

Opportunity

- The Fed continues to remain committed to an accommodative policy.
- Key global central bankers are still in easing mode such as the European Central Bank (ECB), Bank of England and the Bank of Japan. The Bank of Japan, in particular, is aggressively easing currently and the ECB recently cut interest rates.
- The recent sell off in bonds may be an opportunity as higher yields will act as a brake on the economy and potentially become self fulfilling, thus postponing Fed tapering.

Threat

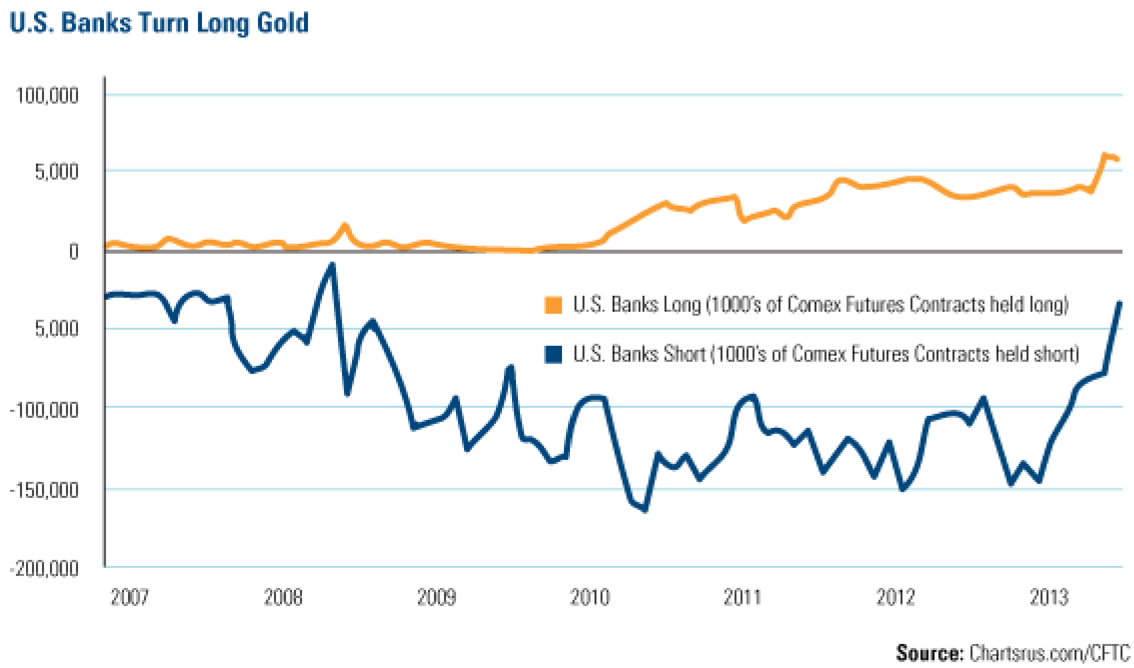
- Inflation in some corners of the globe is getting the attention of policy makers and may be an early indicator for the rest of the world.
- Trade and/or currency wars cannot be ruled out which may cause unintended consequences and volatility in the financial markets.
- The recent bond market sell off may be a "shot across the bow" as the markets reassess the changing macro dynamics.

World Precious Minerals Fund - UNWPX • Gold and Precious Metals Fund - USERX

Gold Market

For the week, spot gold closed at $1,296.40, down $94.34 per ounce, or 6.78 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, lost 11.72 percent. The U.S. Trade-Weighted Dollar Index rose 2.16 percent for the week.

Strengths



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- The chart above refers to a recent study of open interest figures in Comex that shows U.S. banks have turned their record short gold position into a record long position, according to Dutch journalist and founder of the Commodity Discovery Fund Willem Middelkoop. To note is that U.S. banks held their short positions since at least 2007 and have turned long at a time when technical indicators all show oversold levels and point to an imminent correction. According to Middelkoop, gold has gained at least 80 percent from the bottom of each correction within three years.

- Despite the Indian government's efforts to curtail the sale of bullion in the country, the fascination of Indians for the yellow metal remains unrivaled. Public sector banks across the country are reporting sales of more than one tonne of gold in the last fiscal year, while post offices continue to see a boom in sale of gold coins. At the Bank of India, officials report gold turnover soared to $593 million from the $472 million in the precious fiscal year. Similarly, Scotiabank analysts report that overnight on Thursday, premiums for gold physical delivery in Shanghai jumped to a staggering $34.82 per ounce. The likely conclusion is that China is buying the dip, and it is buying it large.

- Agnico Eagle Mines, one of Canada's major gold producers, in considering participation in joint ventures, as well as purchases of operating mines. The company may even look outside of North America for expansion, defying the acquisition criteria it has followed for decades according to a Bloomberg report. Sean Boyd, the company's CEO commented the company may reach beyond its usual acquisition criteria as long as it doesn't increase financial risk for the company. It is our opinion that successful leadership is cognizant of the recent changes in capital markets and the new role senior producers and royalty companies play in the financing and advancing of new projects.

Weaknesses

- Societe General reports 16 percent of world gold production is already loss-making and a staggering 44 percent of world production is estimated to be loss-making at a gold price of $1,150, based on its 2014 annual average forecast. SocGen has arguments stating why a marginal cost shouldn't be deemed appropriate to set price floors, especially in the case of gold; however, the fact that some producers have already shelved multiple exploration and development projects is testament to the hardships in the industry. In our view, this cost analysis suggests that there is little downside risk left for the gold price.

- Harmony Gold is assessing the carrying value of its assets to determine impairments to its assets resulting from a number of factors including: estimates of the future gold price and exchange rates, and operating and capital cost estimates. The company has warned it appears likely that there will be a write-down of a portion of the carrying value of Hidden Valley in Papua New Guinea, due to its recent poor performance and the reduction in the U.S. dollar gold and silver prices. Despite this expected non-cash charge, we remain confident the company is in a position to increase production and improve grade recoveries, at a time they benefit from the devaluation of the South African Rand.

- The first scheduled shipment from the massive Oyu Tolgoi project in Mongolia has been halted by order of the central government. The shipment, originally supposed to be made on June 21, was ordered to be halted by the government without providing any details. The speculation among analysts is that the shipment issue would be resolved rapidly as the government is in dire need of foreign exchange. Regardless, our experience has shown that governments elsewhere have in the past held gold shipments as ransom for bargaining power in negotiations for higher taxes and royalties.

Opportunities

click to enlarge

- TD Securities in its Precious Metals Outlook commentary provided an analysis of large cap gold equities and their current price-to-book value. As the chart above highlights, large caps are currently trading just below 1x book value, a level that has marked previous gold equity bottoms. Gold equities bottomed at about 1x book value during the global financial crisis and during the late 1990s gold bear market.

- The Chicago Mercantile Exchange has raised margin requirements on gold for the second time since April this year. The minimum cash deposit for gold futures will rise 25 percent to $8,800 per 100-ounce contract at the close of trading this Friday. Higher margin requirements have been traditionally deemed disruptive to the rise of gold prices, however, at this juncture we believe the increase in margin will give continuity to the transition of gold ownership from speculators to what we deem strong hands.

- Barclays reports that Zijin Mining Group out of China is interested in purchasing Barrick Gold's Australian mines that were previously announced for sale in January 2013. The Chinese gold producer is citing the recent drop in gold price as an opportunity to look at assets for sale overseas. Although Zijin has stated that it is interested in the mines, the company is still weighing its options and no formal offer has been made as of yet. This is a positive data point for Barrick which had previously announced that it was interested in selling certain non-core assets. The report also highlights the opportunity for gold producers to make meaningful growth acquisitions at this time.

Threats

- The Federal Reserve on Wednesday trimmed its inflation outlook, suggesting it saw little threat to prices from its ongoing quantitative easing program. The Fed projected inflation between 0.8-1.2 percent for 2013, instead of 1.3-1.7 projected in March. However, and despite the markets reaction to gold, the Fed predicted inflation will rise considerably in 2014 and 2015. Despite our opinion on the Fed's poor inflation forecasting track record, we believe the Fed's warning for a noteworthy rise in inflation for 2014 should not be taken lightly, and investors should continue to allocate funds to assets that offer inflation protection such as gold.

- Last week, the Santa Cruz province in Argentina passed a bill levying a 1 percent annual tax on mine resources in the province. The tax could cost mining companies in the province $100 million in new taxes next year, and would amount to about 8 percent of the total resources of a mine with a 15-year life, considering that it must be paid annually, according to local mining executive. Similarly, Brazil is considering doubling mining royalties from 2 percent to 4 percent to all mining companies, including precious metals producers. It has always been our position that such levies are a frontal attack towards an industry that assumes large risks while providing much needed capital and development to the most remote locations of the world.

- China's seven day repo rate rose to a record high of 10.77 percent in Shanghai in what appears to predict a coming liquidity squeeze in China. Despite the fact that the central bank's can practically provide unlimited liquidity it seems to be in no mood to support banks' constant demand for liquidity. The short term squeeze has the potential to affect the yellow metal's prices in the short run as investors may use gold as a source of liquidity amid the tightening. However, a sustained increase in rates in the long run would have funds flowing back to hard assets such as gold, in a similar fashion to the events of the 2008 crisis in the U.S.

In The News

A Conversation on Gold and Oil with CNBC's Squawk Box
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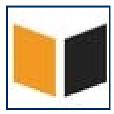

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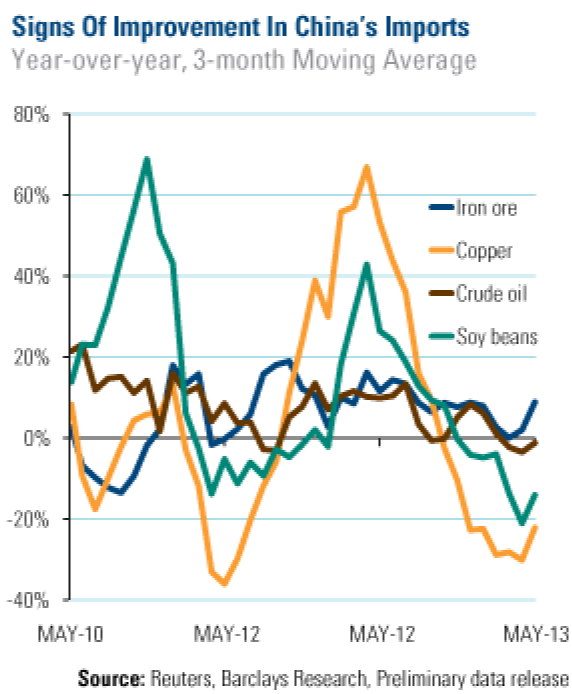
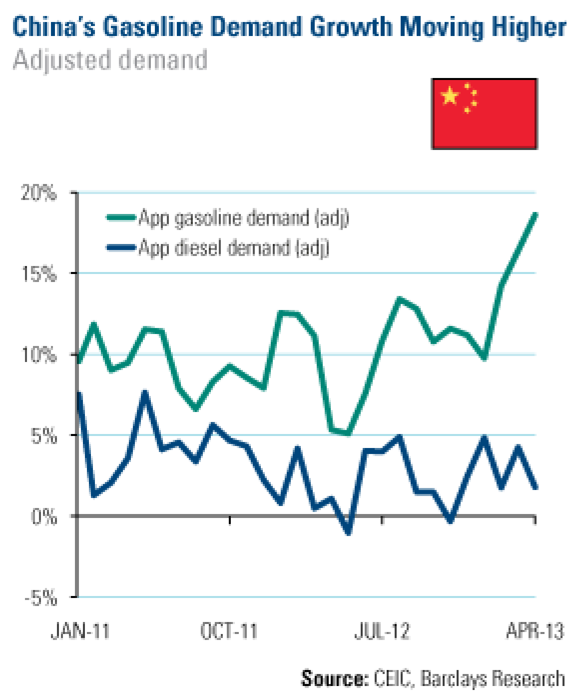
Energy and Natural Resources Market





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Strengths

- The Architecture Billings Index came in at 52.9 in May, up from 48.6 in April. For nine of the last ten months, the score has been above 50.

- Nymex natural gas futures gained 3 percent this week as warm weather boosted power demand.

- Imports of refined copper by China, the biggest user, rebounded in May from the lowest level in almost two years as the price difference between Shanghai and London prompted traders to place orders. Inbound shipments were 232,155 metric tons last month, data from the General Administration of Customs showed this week. That compared with 183,023 tons in April and 301,990 tons a year ago, according to data compiled by Bloomberg.

Weaknesses

- The HSBC flash manufacturing PMI fell sharply to 48.3 in June from 49.2 in May, much weaker than expected with consensus at 49.1.
- ChinaMining reported that "In the first four months of this year, total coal production in China was 1.15 billion tons, 23 million tons less than that in the same period of last year, a decrease of 2 percent. The situation this year is distinctively different from that of last year when the coal industry operated at full capacity in spite of slipping price in order to achieve quick turnover at low profit margins. This indicates that the depression of the market has impacted the production section of the coal industry, affecting the production enthusiasm of coal enterprises and restraining coal enterprises' investment in fixed assets."

Opportunities

- The Wall Street Journal reported that President Enrique Peña Nieto will in the coming months seek to end a taboo of nearly eight decades by opening the state-run oil and gas industry to private investment and competition, a move the government hopes will attract billions of dollars in investment. Mr. Peña Nieto's government wants to allow private energy firms to share the risks involved in developing increasingly complex energy reserves such as deep-water oil deposits by letting them produce oil and gas through profit-sharing deals and joint ventures with state monopoly Petroleos Mexicanos, or Pemex, according to three high-level government and ruling party officials who gave details of the proposed reform for the first time.
- The People's Daily reports that "As a major energy consumer, China's appetite for natural gas is growing rapidly as the country tries to raise the proportion of clean energy in its total mix." During the first four months of this year, China's natural gas production was 40.2 billion cubic meters, up 7.7 percent year-on-year, while natural gas consumption soared 13.2 percent to 56.8 billion cubic meters, according to the National Development and Reform Commission (NDRC). Natural gas imports for the first four months surged 32.3 percent year-on-year to 17.1 billion cubic meters. Due to the widening gap between natural gas consumption and production, China often faces gas shortages. The NDRC said on Wednesday that the three top oil and gas companies should increase the nation's natural gas supplies and ensure supplies for residential users. The domestic natural gas market has faced shrinking supplies and increasing demand since March, said Sublime China Information Co. Ltd., a local commodity consultancy. It said the situation will continue. To cope with increasing energy demand, China has been making efforts in upstream exploration, especially in the shale gas sector where it is believed that the country has the largest reserves in the world. However, Adi Karev, oil and gas global leader of Deloitte Touche Tohmatsu Ltd., said China faces three major obstacles in shale gas development: infrastructure construction, technology barriers and water shortages. Those problems mean that what happens in the U.S. cannot be easily replicated in China. "Shale gas is set to remain a largely regional resource over the next three years because of the increased technological challenges and higher development costs of the resource," he said on Thursday in Beijing."
- Global trade in liquefied natural gas (LNG) will grow by nearly a third by 2018, with supplies from the United States and Australia reversing a shortage expected over the next two years, according to the International Energy Agency (IEA). It warned that last year's record drop in LNG output could be replicated this year and in 2014, threatening to drive up fuel costs in some of the world's biggest economies. It said supplies will start to increase from 2015 when terminals in the United States begin exporting LNG due to a glut of domestic shale gas, followed by a wave of new Australian export projects. "LNG markets will face unprecedented tightness over 2013-14 as LNG demand from Asia will exceed the little additional LNG supply expected to come on line, while many existing LNG facilities could face declining supplies, repeating the situation of 2012," the IEA said in a report.

Threats

- Brazil, a major producer of iron ore, gold, copper and other metals, unveiled a long-awaited bill to reform its 46-year-old mining code on Tuesday, proposing a doubling of the current top royalty rate and stricter rules for opening new mines. Murilo Ferreira, chief executive of Vale SA, the world's largest iron ore exporter and Brazil's dominant mining company, said the bill would hit the industry hard. He expects the government's revenues from royalties to more than double to 4.2 billion reais ($1.93 billion) from 1.7 billion reais. Even so, provisions of the bill are less onerous than the industry feared when the discussion of reforms began nearly four years ago. The top royalty rate under the proposal of 4 percent is only one-third of typical rates charged in some Australian states and about half of proposals in Mexico and Ecuador.

- Declining metallurgical-coal prices, which are seen hitting a three-year low amid rising Australian exports to China, will lead U.S. producers to shut more mines, according to Alpha Natural Resources. “I wouldn’t be a bit surprised if we looked at changes in the back half of the year,” Alpha Chairman and CEO Kevin Crutchfield said in an interview with Bloomberg. “It’s going to affect everyone,” he added.

Emerging Markets

Strengths

- Russian President Vladimir Putin’s encouragement to increase the nation’s links to China materialized this week as Russian companies signed deals to supply China with crude oil and natural gas. Rosneft, the largest Russian oil producer, agreed to provide more than 2.6 billion barrels of crude oil to China over the next 25 years. Similarly, Beijing agreed to buy a 20 percent stake in a large liquefied natural gas project owned by Novatek, Russia’s second largest gas exporter. It is worth noting that China was responsible for 77 percent of the growth in global energy demand last year. This also provides business opportunities for Chinese domestic pipeline and energy service companies.

- In its second assessment of global shale resources, World Shale Gas and Shale Oil Resource Assessment (June 10, 2013), the U.S. Energy Information Administration (EIA) has again ranked China as the largest source of technically recoverable shale gas resources (1,115tcf, or 32tcm). The EIA has also introduced China as being ranked third globally for technically recoverable shale oil (32 billion barrels). Chinese domestic oil and gas field service companies will benefit in revenue and earnings growth once China starts to develop.

- China state council has issued 10 policy items to support solar energy, in which smart grid construction will accommodate alternative energy to be on grid.

- Macau’s gaming sector continues to do well with year-over-year revenue growth averaging 14 percent year-to-May and June, seemingly on track for 20 percent growth. The enclave’s casino operators benefit from tight industry supply, which allows them to convert revenue growth into earnings growth, a stark contrast to the oversupply in most Chinese consumer segments, such as sportswear and casual clothes.

- The Indonesian parliament approved fuel subsidy reduction, by which the fuel price will go up 44 percent to $0.6 a liter. This helps reduce the current account deficit since Indonesia became a net importer of crude and refined oil. The market welcomed the move.

- China’s total state-owned enterprise (SOE) revenue grew 10.4 percent in the period of January to May and profits grew 6.5 percent.

- As global interest rates begin to rise, Mexico appears to be in a privileged position. The country boasts one of the highest average maturities of its sovereign bonds; at 8.25 years, the duration of its debt is higher than that of its Latin American peers, as well as longer than the U.S., Canada and Switzerland.

The longer maturity means the country will be able to better withstand the jump in rates caused by speculation that the Federal Reserve will pace down its quantitative easing (QE) program as early as this fall.

Weaknesses

- Cornerstone Macro published comments on the recent weakness in Brazil, noting that despite having a nominal GDP growth of 7 percent, the largest economy in Latin America is only growing at a 2 percent pace in real terms. With all of this, inflation continues to spike upwards, and company earnings per share (EPS) growth is at -30 percent. The fiscal and monetary stimulus measures of the last two years were insufficient to reactivate growth, instead leading to higher inflation and worries of excessive credit growth.

- HSBC China flash June PMI was 48.3, down from 49.2 in May and below market consensus of 49.1, showing that the industrial activities are in contraction territory. New orders were down 1.6 percent month-over-month to 47.1, and new export orders were down 1.3 percent to 47.1, showing shrinking demand in the overseas market.

- China's interbank seven-day lending rate (SHIBOR) jumped as high as 25 percent intraday, and the one-day rate jumped as high as 30 percent on Thursday, showing liquidity stress in China's banking system. The cause was over expansion in off-balance sheet loans (so called shadow banking) by borrowing through short term interbank loans. CLSA estimated China's banking system invested 116 percent of deposits on average though the regulatory loan-to-deposit ratio (LDR) is capped at 75 percent, the excess of which is from shadow banking and bond purchases. According to Bank of China International (BOCI), the People's Bank of China (PBOC) met with 18 commercial banks to discuss the matter, but it wouldn't accede to the banks' request to inject liquidity. Many said the PBOC wanted to signal a warning that the banks cannot always count on the back up from the central bank on their own wrong doing, a moral hazard. The consequence of the liquidity event is for banks to slow down balance sheet expansion, i.e., reduce the loans book. That will negatively impact short term financing for SOEs and small and medium enterprises (SME).

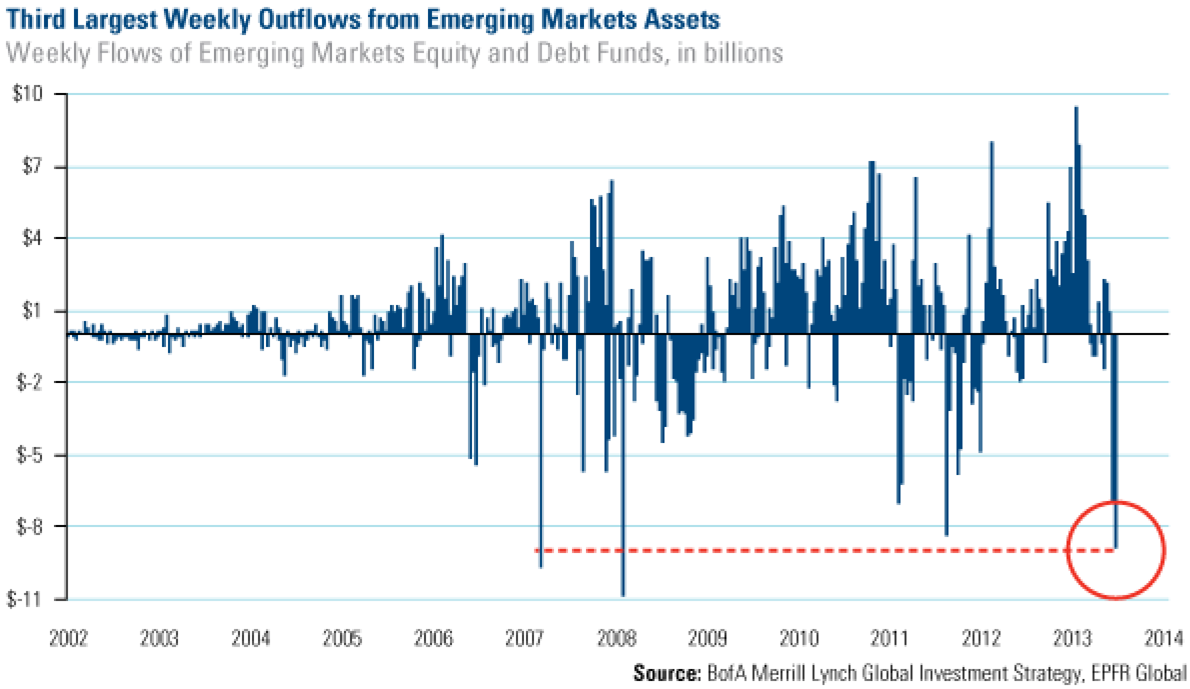
- China's power demand decelerated to 5 percent growth in May. China added 5.9 gigawatts from new power plants in May, a 72 percent growth year-over-year, mainly to add more hydro and winds. As a leading indicator, rail freight volume fell 7.2 percent year-over-year in May, worse than April's -6.5 percent, even close to the declines of 2008 to 2009; it is down 3.1 percent from January to May, worse than 0.5 percent for the full year of 2012. Another key indicator, traffic growth of China International Capital Corporation (CICC)-monitored roads, saw -5 percent year-over-year in April, lower than 4 percent in March. All above indicators are consistent with weak PMI numbers in the last two months in China.

- Thailand cut back its rice subsidy by 20 percent to contain fiscal loss from rice pledging schemes to Bt79 billion to 100 billion in fiscal year 2013 to 2014. The country lost Bt136.9 billion or 1.26 percent of 2012 GDP in the crop cycle of fiscal year 2011 to 2012. It signals to fade the off-budget stimulus and ease the government debt expansion which is positive to sovereign credit rating.

- Romania was among several emerging market economies that failed to sell, or rejected bids for bond sales, following the surge in credit spread among developing markets. The central bank commented all bids were turned down because of unacceptable price offers resulting from increased market volatility and overnight increase in rates. The recent widening of credit spreads could derail planned government expenditures in the short and medium term while credit conditions stabilize.

Opportunities

- The recent exodus from emerging market (EM) assets is evident by $14.5 billion outflows from EM Bonds and $8.5 billion outflows from EM Equities last week. Bank of America Merrill Lynch reports the level of outflows in the first two weeks of June, which doesn't consider this week's considerable outflows, are at a level close to triggering an emerging markets buy signal. This would be the first buy signal since February 2011, when emerging markets bounced over 10 percent in the six weeks following the buy signal.



click to enlarge

- Russian stocks fared better than most of the emerging market universe this week as UBS joined Bank of America in turning bullish on the country. Despite the weakness in commodities, UBS has named Russia its preferred emerging equity market in the region based on its cheap valuations and economic potential. After having turned bullish on Russia in May, Bank of America Merrill Lynch issued its Emerging Market Fund Manager Survey in which Russia ranked first in investor preference among emerging market investors; unprecedented.

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- As shown in the graph above, external debt to GDP for ASEAN countries (Thailand, Indonesia, Philippines and Malaysia) has trended down to much lower levels since after the 1997 Asian financial crisis. It was made possible after healthy GDP growth and reduction of corporate and government debts in the last decade. The recent money outflow from EM equity markets has caused the credit default swap premium to rise, which should not be an indication of deteriorating sovereign solvency or a negative credit event.

Threats

- Emerging market currencies were the main casualty of the Federal Reserve tapering speculation as money left emerging markets in favor of the U.S dollar. Amongst the hardest hit are the currencies of countries with large current account deficits such as Turkey, whose lira lost more than 4 percent for the week, and India whose rupee lost nearly 3 percent. The Brazilian real continued to devalue despite expectations for benchmark rate hikes at the next central bank meetings. The weakness in these currencies is likely to put pressure on emerging market nations that depend on international credit to finance their current account deficits. However, it is likely that after a volatile period, the lower currencies will increase the competitiveness of these nations' exports.

- The Brazilian Development Bank (BNDES) is seeking to raise around $1.5 billion in a local bond sale despite the unprecedented rise in benchmark rates, fueling speculation that it will not attract enough demand. The higher rates and lower credit availability could be reflected in tightening credit conditions for borrowers, not only in Brazil, but also in other parts of Latin America.
- China's interbank lending rate rose to 12.5 percent at market close on Thursday. A prolonged liquidity stress in the banking sector can spread to real economy by tightening loan supply and high interest rates. The market is in the opinion that the PBOC is aiding China economic structural transformation, and at the same time, punishing the banks by not providing liquidity in the system. We think the PBOC may have to interfere if things are getting out of hand.

Leaders and Laggards

The tables show the weekly, monthly and quarterly performance statistics of major equity and commodity market benchmarks of our family of funds.

Weekly Performance

Index	Close	Weekly Change($)	Weekly Change(%)
10-Yr Treasury Bond	2.54	+0.41	+19.39%
Natural Gas Futures	3.79	+0.06	+1.58%
S&P Energy	576.99	-9.25	-1.58%
DJIA	14,799.40	-270.78	-1.80%
Russell 2000	963.68	-17.70	-1.80%
Nasdaq	3,357.25	-66.31	-1.94%
S&P 500	1,592.43	-34.30	-2.11%
S&P Basic Materials	245.17	-6.14	-2.44%
Hang Seng Composite Index	2,803.49	-98.77	-3.40%
Korean KOSPI Index	1,822.83	-66.41	-3.52%
Oil Futures	93.93	-3.92	-4.01%
Gold Futures	1,294.80	-92.80	-6.69%
S&P/TSX Canadian Gold Index	170.95	-19.40	-10.19%
XAU	91.41	-11.15	-10.87%

Monthly Performance

Index	Close	Monthly Change($)	Monthly Change(%)
10-Yr Treasury Bond	2.54	+0.62	+31.97%

Oil Futures	93.93	-2.23	-2.32%
Russell 2000	963.68	-35.10	-3.51%
DJIA	14,799.40	-588.18	-3.82%
Nasdaq	3,357.25	-144.88	-4.14%
S&P 500	1,592.43	-76.73	-4.60%
S&P Basic Materials	245.17	-13.80	-5.33%
S&P Energy	576.99	-33.15	-5.43%
Gold Futures	1,294.80	-84.00	-6.09%
Korean KOSPI Index	1,822.83	-158.26	-7.99%
S&P/TSX Canadian Gold Index	170.95	-15.11	-8.12%
XAU	91.41	-8.82	-8.80%
Natural Gas Futures	3.79	-0.40	-9.54%
Hang Seng Composite Index	2,803.49	-332.01	-14.83%

Quarterly Performance

Index	Close	Quarterly Change($)	Quarterly Change(%)
10-Yr Treasury Bond	2.54	+0.63	+33.00%
Nasdaq	3,357.25	+134.65	+4.18%
S&P 500	1,592.43	+46.63	+3.02%
DJIA	14,799.40	+377.91	+2.62%
Russell 2000	963.68	+19.76	+2.09%
Oil Futures	93.93	+1.48	+1.60%
S&P Energy	576.99	+1.58	+0.27%
S&P Basic Materials	245.17	-1.38	-0.56%
Natural Gas Futures	3.79	-0.14	-3.63%
Korean KOSPI Index	1,822.83	-127.99	-6.56%
Hang Seng Composite Index	2,803.49	-272.59	-8.86%
Gold Futures	1,294.80	-322.60	-19.95%
XAU	91.41	-46.29	-33.62%
S&P/TSX Canadian Gold Index	170.95	-88.64	-34.15%

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 Emerging Europe 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 03/31/13:

Novatech OAO: Emerging Europe Fund, 2.62%
Bank of America Corp.: All American Equity Fund, 1.97%; Holmes Growth Fund, 2.32%; MegaTrends Fund, 2.27%
Rosneft OAO: 0.0%
Micron Technology, Inc.: 0.0%
Whirlpool Corp.: 0.0%
Vale SA: 0.0%
Agnico Eagle Mines Ltd.: Gold and Precious Metals Fund, 2.90%; World Precious Minerals Fund, 3.90%
Harmony Gold Mining Company Ltd.: Gold and Precious Metals Fund, 2.04%; World Precious Minerals Fund, 1.59%
Barrick Gold Corp.: Global Resources Fund, 2.03%; Gold and Precious Metals Fund, 2.61%; MegaTrends Fund, 0.00%; World Precious Minerals Fund, 0.73%
Zijin Mining Group Company Ltd.: 0.0%
LyondellBasell Industries NV: All American Equities Fund, 1.09%; Global Resources Fund, 1.21%
MSCI Emerging Markets Index ETF: 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 HSBC Flash China Manufacturing PMI is published a week ahead of the final HSBC China PMI every month. It analyzes 85-90 percent of the responses to the Final PMI from purchasing executives in more than 400 small, medium and large manufacturers, both state-owned and private enterprises.

The Architecture Billings Index (ABI) reflects the approximate nine-to-twelve month lag time between architecture billings and construction spending. The index is used as an economic indicator of construction activity.

The National Association of Home Builders Market Index is derived from a monthly survey that NAHB has been conducting for more than 20 years, the NAHB/Wells Fargo Housing Market Index gauges builder perceptions of current single-family home sales and sales expectations for the next six months as 'good,' 'fair' or 'poor.' The survey also asks builders to rate traffic of prospective buyers as 'high to very high,' 'average' or 'low to very low.' Scores from each component are then used to calculate a seasonally adjusted index where any number over 50 indicates that more builders view conditions as good than poor.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

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