USFunds.com • **September 13, 2013**

U.S. Global Investors
Investor Alert

Podcast | RSS | Subscribe on iTunes | PDF Version

EMAIL TO A FRIEND

Table of Contents

Press Release:
U.S. Global Investors Announces Fund on Transamerica's Preferred Provider List

Russia is Tough to Love, Easier to Hate, Hard for Investors to Ignore. Here's Why

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

Russian President Vladimir Putin created a stir recently when he shared his thoughts with Americans in an op-ed printed in *The New York Times*. According to *The Times*, very few pieces written by heads of state have been published by the paper and very few received the attention Putin attracted.


Tim Steinle at a pumping station in Vyborg

But will the plea be influential? Will it change President Barack Obama's or Americans' opinion on the matter of Syria?

In recent years, Russia's political stability and rule of law have been called into question, causing many investors to avoid the area. Yet, while Russia is a tough market to love and even easier to hate, the country is hard to ignore, says Tim Steinle, portfolio manager of the Emerging Europe Fund (EUROX).

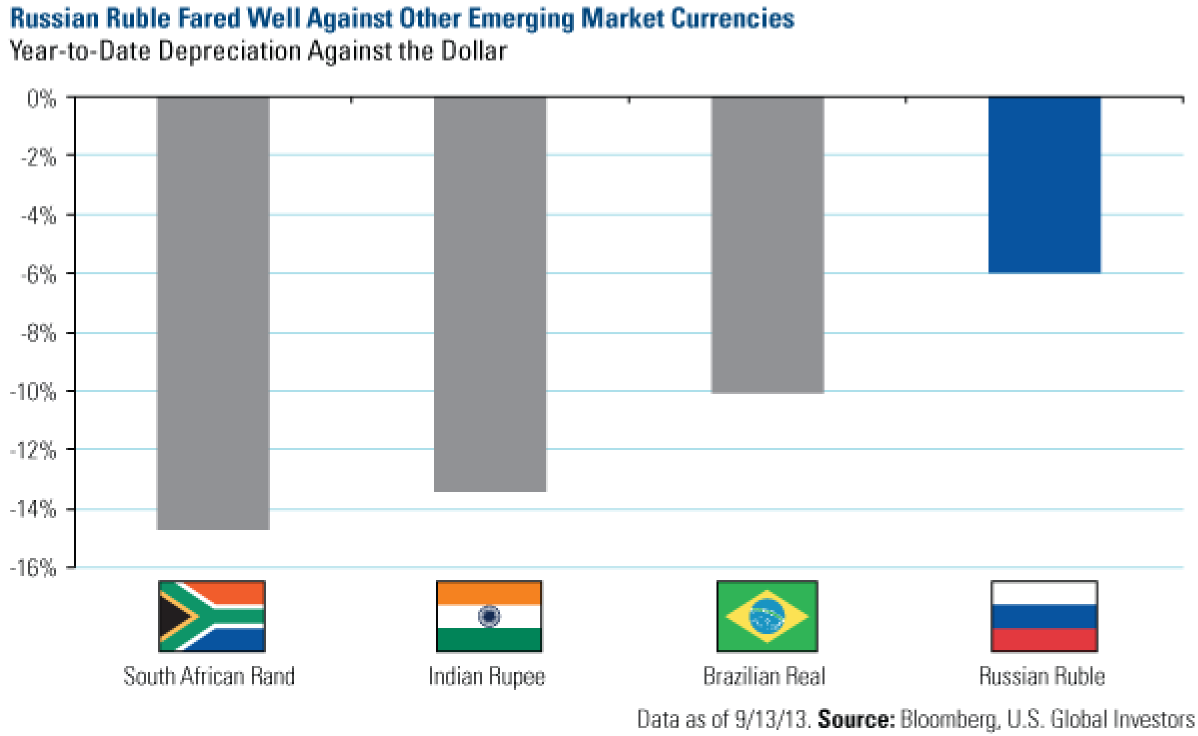
This week, while I was at Cambridge House's Toronto Resource Investment Conference talking to investors about gold and resources, Tim was in San Antonio, Texas discussing his perspective on Russia on Canadian Business News Network with host Howard Green, Richard Jenkins from Black Creek Investment Management and John Hsu from John Hsu Capital Group. It was an insightful debate on finding opportunities in the sometimes challenging emerging countries of Russia, China and the Middle East.

Here is a summary of Tim's perspective on the emerging Europe giant.

Q. A lot of big, sophisticated, institutional investors say it's not worth the trouble to put your money in Russia. What do you say to them?

Since the Federal Reserve suggested ending its bond purchases, many emerging markets have suffered. Year-to-date through September 12, the MSCI Emerging Markets Index lost about 8.5 percent. Over the same time frame, Russian stocks have declined less than that, about 4 percent.

The Russian ruble also fared relatively well against emerging market currencies, as the country does not depend on external funding. Since the beginning of 2013 through today, the South African rand declined more than 14 percent, the Indian rupee lost 13 percent and the Brazilian real is down 10 percent. Comparably speaking, the Russian ruble looks stable.



click to enlarge

Additionally, over the last 60 days, Brent crude oil increased about 15 percent, and a major oil-producing country such as Russia benefits from higher oil prices.

For these reasons, we believe people are taking another look at Russia.

Q: Novatek, an independent gas producer in Russia, is close to breaking the Gazprom monopoly on the gas export market. Will Gazprom fight that?

Surprisingly, it hasn't yet. What's interesting is that the Russian MICEX Index is heavily populated by oil names, but these companies tend to carry a very heavy tax burden. They are basically all running to stand still, drilling to replace the decline from existing wells while net production remains flat.

The gas market is a different animal. Novatek is Russia's largest independent gas producer and "one of the best-run global emerging market oil and gas companies," says UBS. The company has grown its domestic market share in leaps and bounds to the tune of about 20 percent per annum. It has developed smaller fields where Gazprom has not been successful. In the last three years, Novatek doubled reserves and some of those fields were formerly Gazprom fields.

In addition, Novatek is venturing into an inherently profitable LNG project with China located on the Yamal peninsula. According to UBS, the Yamal project might be able to "unlock significant long-term production upside for Novatek, partially liberating it from its dependence on Gazprom's pipeline network."

The media has been focusing on China's deals on an inland pipeline in Siberia with Gazprom, yet there's a huge discrepancy in price. China wants to pay only $3 per thousand British Thermal Units (mBtu), but Russians want to charge $12 per mBtu.

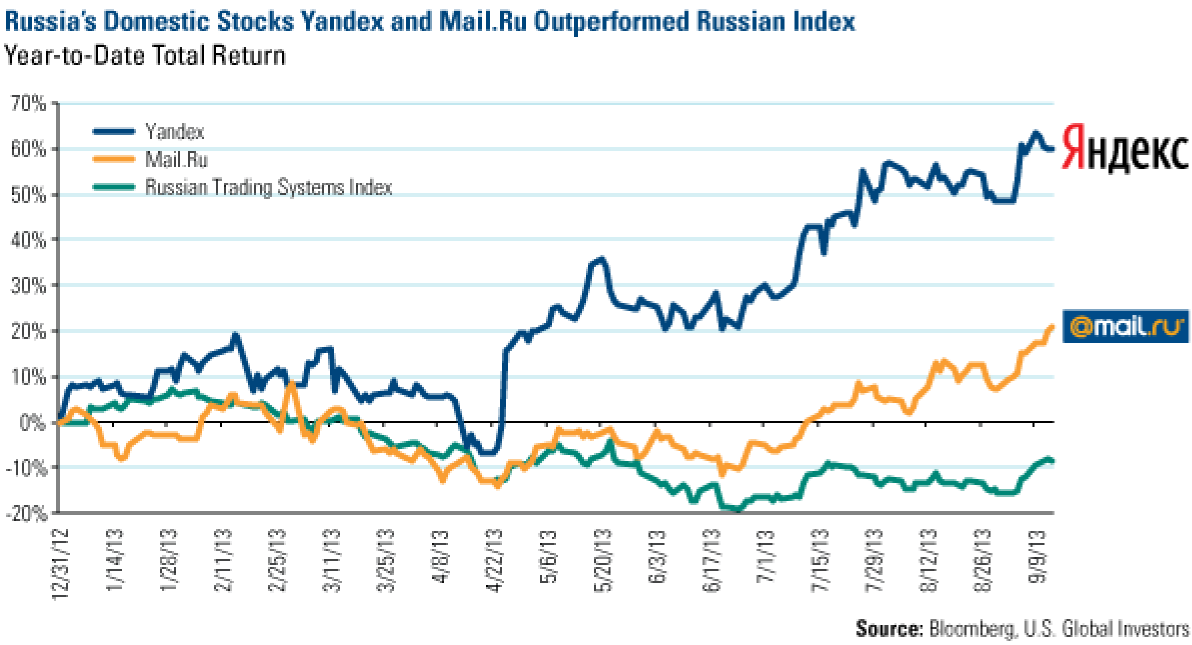
While the Chinese want a stake in both areas, as well as some flexibility, Novatek is a clear winner so far. For the first time in Russia history, the Gazprom monopoly will be broken. This is a big deal for an independent company, as it allows Novatek to become "an energy player of genuine global standing," says UBS.

Q. So, if you put your money in Russia, what about political stability?

A key to investing in Russia is to focus on domestic areas of the market that are profitable and growing. While China's urbanization gets a lot of attention today, in the case of the Soviet Union, urbanization happened back in the thirties. Russia has a middle class and its GDP per capita is much higher than that in China.

Within domestic markets, one promising company is Mobile TeleSystems, which provides mobile and fixed line voice and data telecommunications services for Russian customers. So far this year, the stock has climbed 16 percent.

Russian internet companies, such as Yandex and Mail.Ru have also done spectacularly well in 2013, significantly outperforming the overall Russian Index. While overall Russian stocks are down, Yandex, the "Google of Russia," rose about 60 percent and Mail.Ru increased 20 percent.



click to enlarge

Search engine company Yandex has seen success lately, as they've been able to defend their 60 percent market share against Google, a fierce global competitor. And Mail.Ru, which is a Russian Internet company focused on social networks and gaming, currently captures about 96 percent of Russian Internet users on a monthly basis, and 74 percent on a daily basis, according to JP Morgan.

In addition, Mail.Ru may likely to pay a 10 percent dividend on the proceeds of the Facebook sale, which it had successfully invested in prior to the IPO.

It's a longer interview, but worth checking out. See the video clip now and then take a closer look at the Russian stocks in the Emerging Europe Fund (EUROX).

Index Summary

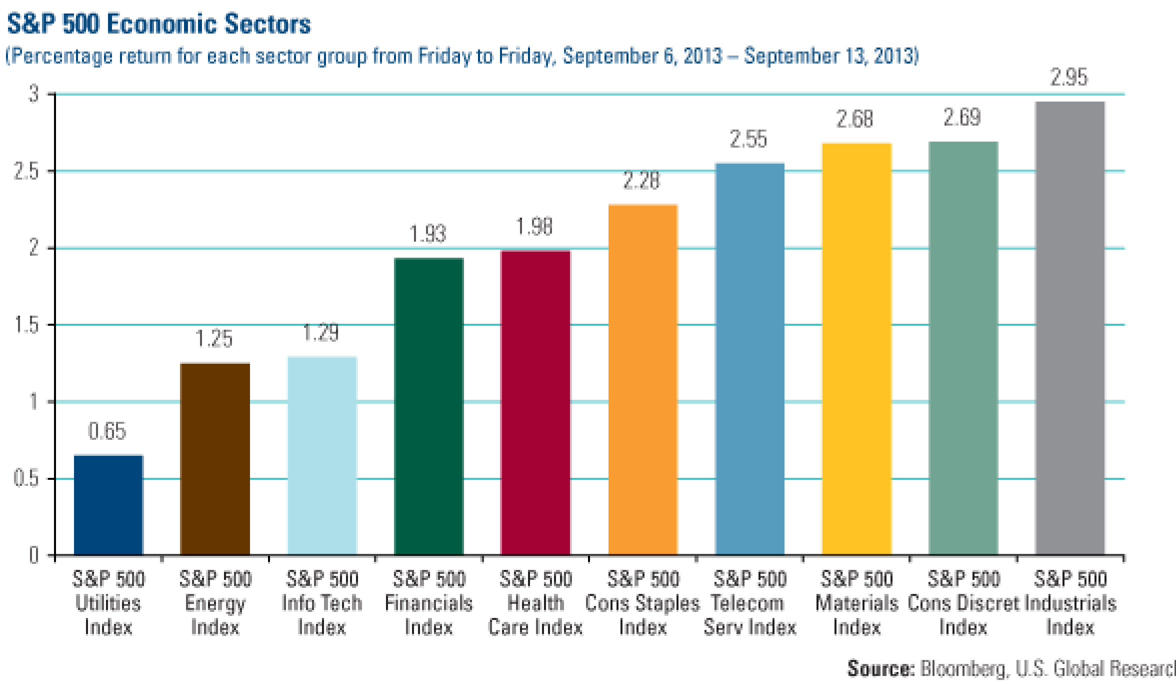
- Major market indices finished higher this week. The Dow Jones Industrial Average rose 3.04 percent. The S&P 500 Stock Index gained 1.98 percent, while the Nasdaq Composite appreciated 1.70 percent. The Russell 2000 small capitalization index rose 2.37 percent this week.
- The Hang Seng Composite rose 1.28 percent; Taiwan gained 0.05 percent while the KOSPI appreciated

2.00 percent.

- The 10-year Treasury bond yield fell 6 basis points this week to 2.88 percent.

Domestic Equity Market

The S&P 500 posted a solid performance this week rising by nearly 2 percent. The S&P 500 crossed back above the closely watched 50-day moving average and is not far from the highs reached in early August. Economic data was mixed and earnings announcements were light, so all eyes were focused on the Federal Reserve and what it may or may not decide. The Fed announcement is scheduled for next Wednesday, holding the potential to act as a market driver no matter the decision.



click to enlarge

Strengths

- Cyclicals outperformed this week as the improving global growth story gains more traction. The industrials sector was the best performer as it experienced broad-based gains. Airline stocks were strong as Delta was added to the S&P 500 this week, rising nearly 13 percent. Southwest Airlines was also strong, rising by more than 6 percent.
- The consumer discretion and materials sectors were not far behind. Within consumer discretion, housing stocks were strong with Lennar, Pulte Group and DR Horton among the leaders for the week. Steel and fertilizer names were relative outperformers in the materials sector.
- Molex was the best performer in the S&P 500 this week rising 31.73 percent. The company is being bought by Koch Industries.

Weaknesses

- The utilities sector was a relative underperformer as higher interest rates and less cyclical characteristics weighed on the shares.
- Energy was among the laggards as refiners were generally down for the week. Technology also lagged as Apple's new iPhone release was underwhelming, with the stock falling by more than 6 percent.
- Urban Outfitters was the worst performer in the S&P 500 for the week falling 9.82 percent. The company disclosed in a regulatory filing that third quarter, same-store sales are running behind plan.

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 their way into domestic U.S. equities and out of bonds and emerging markets.
- An improving macro backdrop out of Europe and China could be the next catalyst for the market to move higher.

Threat

- A market consolidation could occur in the near term after such a strong year.
- Higher interest rates are a threat for the whole economy. The Fed must walk a fine line and the likelihood for policy error is potentially large.
- Seasonally, September is one of the worst months of the year for domestic equities. Volatility coming into the Federal Open Markets Committee (FOMC) meeting in mid-September should be expected.

The Economy and Bond Market

Treasury yields fell modestly for the week with the 10-year Treasury bond back below 2.90 percent after briefly touching the 3 percent level in the middle of last week. Economic data was mixed and did not move the market much. The focus remains on the FOMC meeting next week and the speculation on the size of the expected quantitative easing (QE) tapering. The key issue for the Fed is to walk that fine line of removing stimulus while the economy is still muddling through. The chart below is a great example. The University of Michigan Consumer Confidence Sentiment Index has fallen sharply over the past two months, highlighting the fact that the economy doesn't "feel" like it is accelerating. The risk is that the Fed removes stimulus too early and the economy falls back into recession. The flip side of that coin is if the Fed waits too long to make a decision and inflation begins to pickup. Then it would be too late and there would be an inflation problem to deal with.

click to enlarge

Strengths

- Economic data out of China continues to impress with industrial production rising 10.4 percent in August, while fixed asset investment grew 20.3 percent.
- Japan is also in the middle of a rebound with second quarter GDP being revised higher to 3.8 percent, after growing 4.1 percent in the first quarter. This is a positive change in direction for one of the largest economies in the world.
- Weekly initial jobless claims fell to 292,000, well below the recent trend. Some technical issues in California and Nevada were largely responsible for the big drop, but overall the trend remains intact and positive.

Weaknesses

- August retail sales disappointed rising 0.2 percent, well below the expected reading of 0.5 percent.
- Consumer confidence indicators have been flat to down recently as consumers appear less optimistic about the future. This was likely translated into the weak retail sales numbers.
- Mortgage applications fell 13.5 percent last week as higher mortgage rates are taking their toll.

Opportunity

- Despite recent conflicting commentary, the Fed continues to remain committed to an overall accommodative policy, unlikely to raise interest rates in 2013 or 2014.
- Key global central bankers remain in easing mode such as the European Central Bank, Bank of England and the Bank of Japan.
- The recent selloff in bonds is likely an opportunity as financial markets tend to overreact in the short term.

Threat

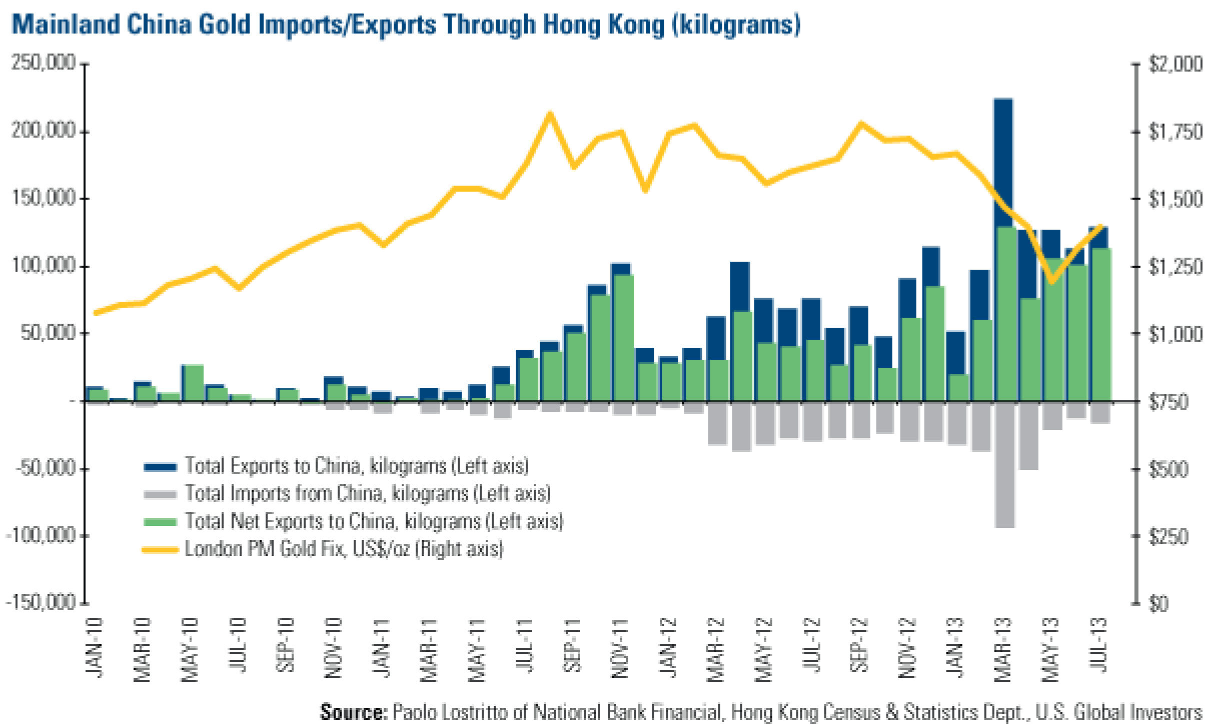
- Inflation in some corners of the globe is getting the attention of policy makers and may be an early indicator for the rest of the world.
- Trade and/or currency “wars” cannot be ruled out which may cause unintended consequences and volatility in the financial markets.

- The recent bond market selloff 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 $1,326.39, down $65.51 per ounce, or 4.71 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, lost 8.42 percent. The U.S. Trade-Weighted Dollar Index lost 0.79 percent for the week.



click to enlarge

Strengths

- Paolo Lostritto, Director at National Bank, shared his most recent physical gold research with our team. According to Paolo, notwithstanding all the taper talk, physical gold continues to migrate east. Year-to-date net physical imports by China equate to approximately 37 percent of global mine supply. This in addition to the reports from GFMS suggesting that China is the world's largest gold producer, with an estimated 400-plus tonnes annually, or roughly 14 percent of global mine supply. This suggests that China on its own, is amassing nearly half of the world's annual gold supply within its borders.

- Gran Colombia Gold just provided an update of its production numbers showing August production was 9,988 ounces of gold; bringing year-to-date total production to 70,939 ounces, on track to achieve 2013 guidance of 110,000 ounces of gold. All-in sustaining costs remain on target to less than $1,150 as cost reduction efforts continued in August with additional workforce reductions. Pan American Silver Corp has decided to close out its outstanding silver and gold hedges by entering into forward contracts for 5.3 million ounces of silver and 24,000 ounces of gold, at average prices of $20.43 per ounce of silver and $1,323 per ounce of gold. The transaction highlights renewed confidence by producers in higher precious metals prices.

- Mandalay Resources tabled a Preliminary Economic Assessment (PEA) for the development of the Cuffley Lode at its Costerfield mine. The PEA assumed a minable resource of 509,000 tonnes of gold grading 10.5 grams per tonne. The study assumed gold prices of $1,300 per ounce and resulted in an IRR greater than 3,300 percent. Osisko Mining confirmed the throughput at its Canadian Malarctic mine has reached levels above 1 gram per tonne, reassuring investors following a 0.88 gram per tonne average during the first half of the year. Sulliden Gold announced that Peru's Ministry of Energy and Mines has approved the Environmental Impact Assessment (EIA) for the Shahuindo gold and silver project in northern Peru. The approval of the EIA is the key milestone in the advancement of the project towards the construction phase.

Weaknesses

- The bullion plunge this week sent the yellow metal breaking below the 100- and 50-day moving average. The decline is certainly an indicator that the focus is now on the upcoming FOMC meeting and away from the recent Syrian tensions. However, Lawrence Williams of Mineweb has reported strange dealing patterns are adversely affecting the gold price. These dealings revolve around the “flashing” of massive gold contracts for sale to traders, at a time of day that there is normally little or no activity in the markets, and no news story being released. This has happened for both of the past two days, between the Asian market close and the European bourses opening. Some even reckon China may be behind the manipulations; perhaps as yet another way of moving physical gold from West to East as part of an ongoing pattern to corner the global supply of gold.

- Macquarie issued a report to give gold investors an indication of how much exploration activity has declined this year. Major Drilling, a sizeable market player, has reported that usage of its rigs is currently sitting at 33 percent, a far cry from the 75 percent utilization rate twelve months ago. The company has taken up to 20 percent cut on pricing for jobs, and admits that it is only a breakeven business in this market. The order book is wide open in case anyone wants to book a drill, leading to the conclusion that reserve replacement will be negative this year.

- Sales of Perth Mint gold coins and minted products for August 2013 totaled 30,430 ounces. This amount represented a decline both from the prior month when 56,488 ounces were sold. This has given room for gold bears to say the increase in physical buying is unsustainable. However, year to date, gold sales have reached an unprecedented 492,543 ounces.

Opportunities

- HSBC commodities research is of the opinion investment demand is no longer determining gold prices; instead they believe the price is now being driven by physical demand for jewelry, coins, and bars from China. Indeed, greater losses were staved off by a massive increase in physical demand emanating mostly from China where we estimate imports may be as much as 1,000 tonnes this year. China imported 647 tonnes of gold in the first seven months of 2013, according to available data. To put the scope of buying in context, the largest gold ETF holds 919 tonnes of physical gold, and China has imported over two thirds that amount in just seven months.

- HSBC update its gold supply and demand forecasts for 2013 and 2014, saying tepid mine growth supply, lower scrap supplies, and steady central bank demand will support gold prices. In terms of supply, mine production delays, cost pressures, and lower scrap supply will be price-supportive for gold.

- The most recent elections in Australia have elected a new pro-mining government. While expected, the confirmation of Tony Abbott’s Liberal-National coalition is certainly big news this week. According to our contacts in the country, the incoming government is very much viewed as pro-business, and pro-resources. Evidence of which is their election platform, which included not only the promise to abolish the 30 percent tax on mining sector profits, but also the dismantling of the carbon pricing mechanism.

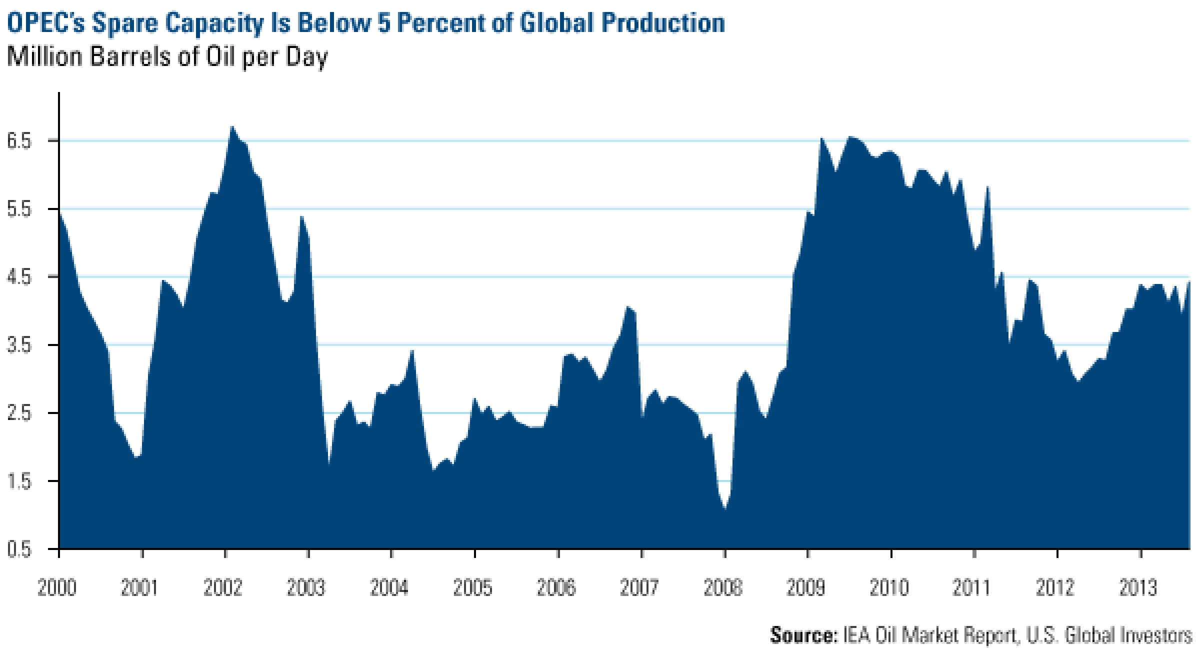
Threats

- President Obama will name former Treasury Secretary Larry Summers as Fed Chairman as early as next week, according to a Japanese newspaper. The White House denied the report without a visible market response. The market views Summers as hawkish as analysts say he may provide less stimulus than Bernanke.

- According to Goldman Sachs’s head of commodities research Jeffrey Currie, the bank’s new target for gold price in 2014 is $1,050, adding the commodity may overshoot to the downside. UBS went on to say a $1,000 level is “on the cards.” Credit Suisse joined to bandwagon by adding there is a possibility of gold trading below $1,000 as bullion faces downward pressure as inflation risks remained muted. Societe Generale, Citigroup, ABN Amro and Macquarie are among banks predicting lower prices in 2014, while JPMorgan and Bank of America said bullion may be bottoming as the rout boosts demand.

- In April, Mexico's lower house of Congress approved a new royalty framework to redistribute mining profits to the states and municipalities. However, before the bill could make its way through Senate, it was added to President Pena Nieto’s comprehensive fiscal reform, which is now proposing a royalty of 7.5 percent of earnings before interest, taxes, depreciation and amortization (EBITDA). Miners were already disconcerted by the original 5 percent royalty proposal, and this new take is granted to disgruntle mining investors to a greater extent.

Energy and Natural Resources Market



click to enlarge

Strengths

- U.S. oil production jumped last week to the highest level since May 1989, cutting consumption of foreign fuel and putting the U.S. closer to energy independence. Drilling techniques including hydraulic fracturing pushed crude output up by 124,000 barrels per day or 1.6 percent. Output rose to 7.745 million barrels a day in the seven days ended September 6, according to the Energy Information Administration (EIA).

- Chinese power output hit a record high in August with 498.7 billion kilowatt-hours (kWh), up 13.4 percent year-over-year. This brought total generation growth in the period of January to August to 6.4 percent year-over-year.

- U.S. crude oil output was 7.745 million barrels a day last week, which is the highest since May 1989, according to the EIA.

Weaknesses

- Crude oil prices pulled back from a 52-week high last week to close at $107.90, down approximately $2.50 per barrel or 2.4 percent this week.
- Copper futures fell 1.3 percent this week to a five-week low. This came on speculation that the Fed will start to scale back U.S. monetary stimulus after its meeting next week, signaling slower economic growth.

Opportunities

- Gold prices are unlikely to fall below $1,200 per ounce for very long because many producers would be forced to shut mines, former BHP Billiton COO Alberto Calderon told Bloomberg TV. Calderon sees gold in the $1,200 to $1,500 per ounce trading range. Nickel and aluminum are oversupplied and no one should invest in these, Calderon advised while also adding that copper demand has a long way to grow.
- The U.S. Department of Energy awarded a fourth liquid natural gas (LNG) export license to Cove Point LNG (approximately 1 billion cubic feet per day) to export LNG to non-free trade agreement countries from planned liquefaction facilities alongside its existing Cove Point LNG terminal in Maryland. Total U.S. permitted export capacity now totals approximately 6.6 billion cubic feet per day (bcf/d).
- According to the International Energy Agency (IEA), the demand for crude oil from OPEC will be 29.2 million barrels a day, as supplies from North America surge. Global crude oil consumption will increase by 1.1 million barrels a day to 92 million barrels a day next year.

Threats

- China will aim to lower coal consumption to less than 65 percent of the country's total energy use by 2017, reported Platts, also citing a comprehensive plan to tackle air pollution which was posted on the website of the Chinese government. The country will not approve any new coal-fired power plants, except for heat and power facilities in the Beijing-Tianjin-Hebei, Yangtze River Delta and Pearl River Delta regions. By 2017 the country will increase its installed nuclear capacity to 50 gigawatts, and will raise the share of non-fossil energy consumption to 13 percent of the total energy consumption, according to the plan. China will also stop importing low quality coal with a high ash or sulfur content, though no specific thresholds or details were provided.

China Region Fund - USCOX • Emerging Europe Fund - EUROX
Global Emerging Markets Fund - GEMFX

Emerging Markets

Strengths

- Brazil posted a $299 million trade balance surplus in the first week of September. Deutsche Bank's Chief Economist J.C. Faria reports that average daily exports fell 2.1 percent, led by a 19 percent drop in shipments of mining products. Daily imports declined by 2.7 percent, led by a 22 percent fall in imports of cars and car parts, along with a 10 percent drop in oil imports. The moderation in imports is encouraging considering gasoline and other refined oil imports have been the main headwind driving the nation's trade balance to a deficit of $3.47 billion year-to-date.
- Turkey posted a 4.4 percent year-on-year GDP growth in the second quarter, considerably stronger than

the consensus estimate of 3.5 percent. The reading may have surprised to the upside due to a noticeable increase in inventory building, whose contribution to GDP growth in the second quarter was about 2.3 percent, and due to an unusually high public spending contribution to economic growth. We feel that the reading is encouraging considering the cyclically-extended current account deficit shaved 3 percent off GDP in the second quarter, and due to private consumption growing at 4.2 percent during the first six months of the year.

- China's August industrial output went up 10.4 percent versus the estimate of 9.9 percent, while retail sales were up 13.4 percent versus the 13.3 percent estimate. Fixed asset investments were up 20.3 percent versus the estimate of 20.2 percent, and money supply (M2) was up 14.7 percent versus the 14.6 percent estimate. Total social financing was Rmb 1.57 trillion in August versus Rmb 809 billion in July. Power output for August was up 13.4 percent versus 13.3 percent. These better-than-expected macro numbers boosted market bullishness and confidence on government policy.

- China's exports rose 7.2 percent in August, higher than the consensus of 5.5 percent growth. China's August CPI was 2.6 percent and in line with the market expectation, while PPI deflation eased further to -1.6 percent from -2.3 percent in July.

- China's passenger vehicle sales were up 13.2 percent in August, while heavy duty truck sales increased 35 percent, showing strong recovery in construction.

- China State Council announced The Airborne Pollution Prevention and Control Action Plan this week, in which all cities will aim to reduce the intensity of PM10 by at least 10 percent by 2017. This also includes coal in the energy mix to decline from 70 percent in 2012 to 65 percent in 2017. Environmental protection related sectors should see investment increase.

- It was reported that all banks in China can now apply for preferred stock issuance which can save banks from earning dilution and will raise the tier-one capital ratio. This action can certainly improve banks' liquidity.

- The Philippines kept its rate unchanged at 3.5 percent, as was expected.

- Malaysia's July industrial production rose 7.6 percent above the consensus of 4.9 percent, which points to a bullish third quarter GDP growth.

- Bank of Korea kept its policy rate on hold at 2.5 percent after seeing improving exports and an improving housing market. The jobless rate edged down to 3.1 percent in August after staying at 3.2 percent for three consecutive months.

- The Philippines fiscal deficit grew 35.6 percent in July to underscore a faster pace of expenditures, which bodes well for third quarter GDP growth.

- Taiwan's August exports grew 3.6 percent year-over-year, up from 1.6 percent growth in July, but did miss the Bloomberg consensus of 4 percent.

Weaknesses

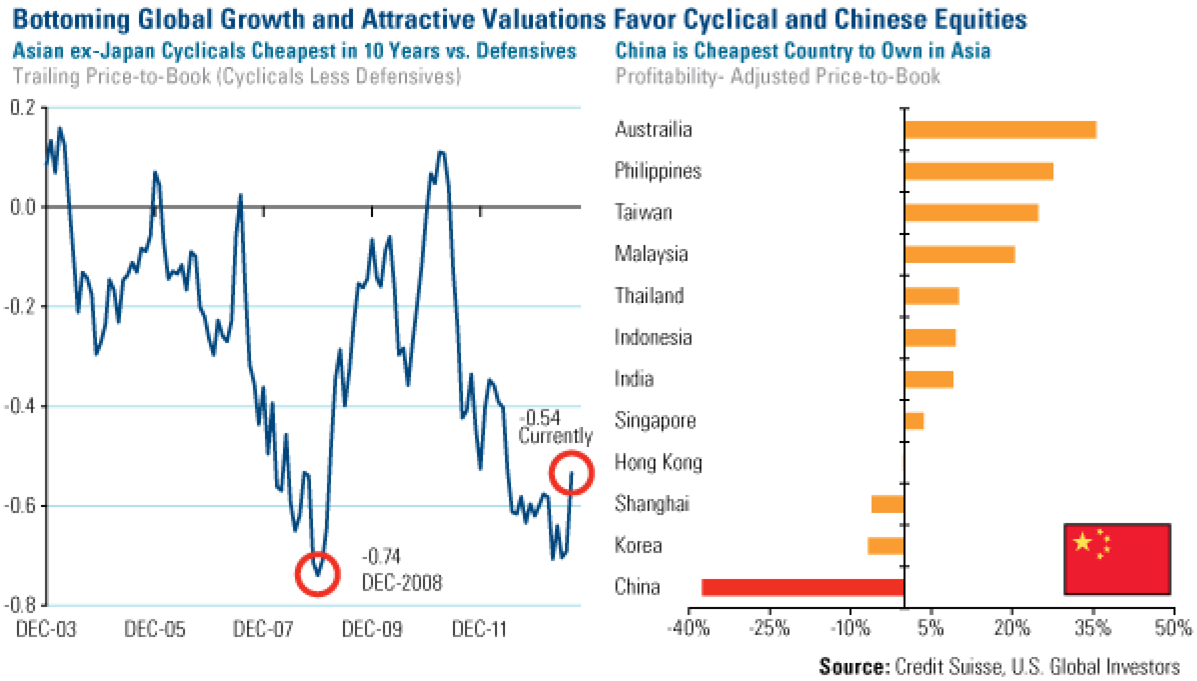
- The preview of Brazil's September IGP-M inflation index came in at 1.02 percent, well above 0.13 percent which was reported in the first August preview. Deutsche Bank economists are of the opinion that recent Brazilian real appreciation could eventually bring some relief, however the short-term outlook for wholesale prices and therefore the IGP indices, remains negative. Of further concern is the fact that the foreign exchange market posted a $2.1 billion deficit in the first week of September, pointing to a deterioration of the terms of trade.

- Turkey's current account deficit widened to a larger-than-expected $5.8 billion in July, weakening the Turkish lira, according to an official release by the Central Bank. The total deficit rose to $42.1 billion in the first seven months of this year, $8 billion higher than last year. A major increase in gold imports was the driver behind the deterioration in year-to-date trade numbers. Local analysts however, were quick to add that a fall in tourism income, resulting from the Taksim Square protests, also played a significant role in widening the current account deficit.

- Bank of Indonesia, the central bank, raised its benchmark rate by 25 basis points to 7.25 percent. It also cut its GDP growth forecast, reducing the numbers to be 5.5 to 5.9 percent, from 5.8 to 6.2 percent for 2013.

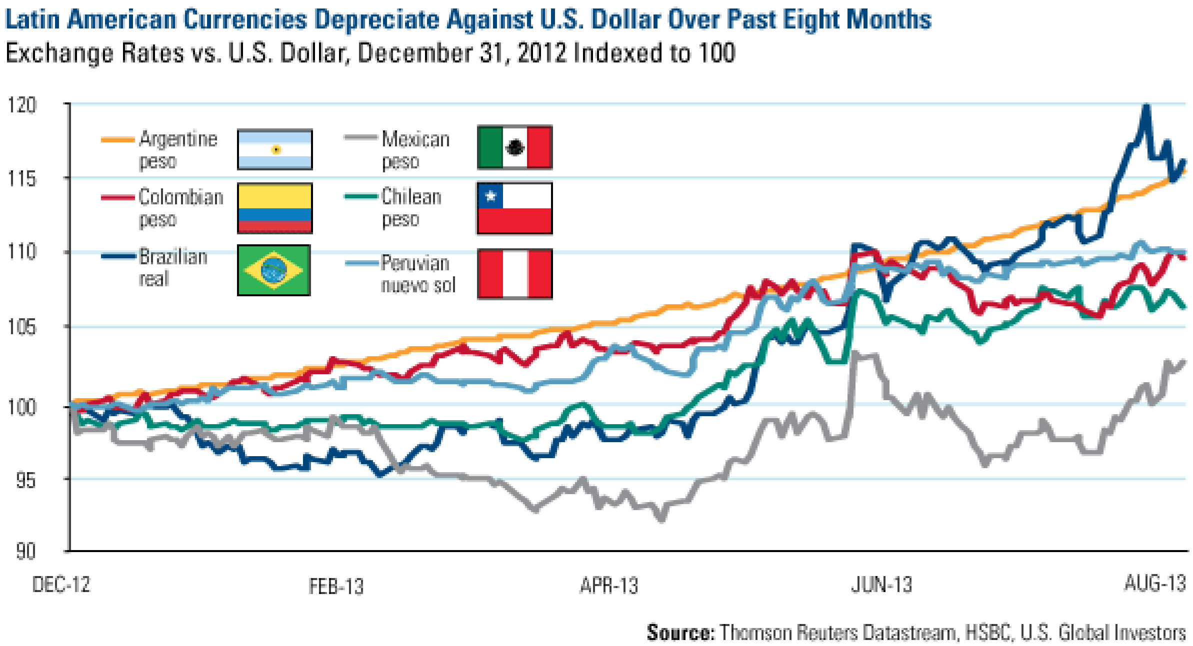
- The Philippines' jobless rate for July edged up to 7.3 percent from 7 percent a year ago. This is in spite of a strong GDP growth rate of 7.5 percent in the second quarter.
- China's August imports pulled back up 7.2 percent versus the market expectation of 11.3 percent.
- Taiwan's August imports contracted by 1.2 percent, up from -7.6 percent in July and below the consensus expectation of rising 2.6 percent.

Opportunities



click to enlarge

- As shown in the chart above to the left, Asian cyclical stocks are trading close to the cheapest price-to-book valuation versus defensive stocks in the last ten years. In the chart to the right above, it shows that China is by far the cheapest country to own in Asia right now, based on profitability-adjusted price-to-book valuation.
- The front page of the Financial Times this week highlights that U.S. investors are piling into European equities at the fastest pace since 1977. U.S. investors deployed $65 billion into European stocks in the first six months of 2013, the highest rate in at least 36 years according to Goldman Sachs. A 15 percent undervaluation across large cap equities in the continent, as estimated by HSBC, is set to drive performance in the near term. Europe, as China's main trading partner, is also set to benefit directly from China's recovery.



click to enlarge

- As shown in the chart above, a combination of macroeconomic factors has led to currency depreciation for most Latin American currencies against the U.S. dollar over the past three months. These short-term movements could raise concerns regarding the inflationary pressures in some parts of the continent. However, HSCB reports that there may also be benefits to this weakening of currencies. Given that most countries of the region have floating foreign exchange regimes, the depreciation drive could help to rebalance the external accounts, limiting and eventually reverting, the recent trend of current account deterioration.

Threats

- Mexican President Enrique Peña Nieto unveiled a long-awaited tax reform promising to create a universal social security system and unemployment insurance in exchange for a series of tax increases. The proposal introduces a capital gains tax and aims to raise rates on top earners. There is widespread agreement that a fiscal overhaul was urgently needed in order to address the abysmally-low tax base and root out widespread corruption. There remains huge controversy over the recipe however, considering Peña Nieto's party lacks a congressional majority and will be relying on the left wing to pass the reform. The main end of the reform is to increase state spending by around $35 billion per year, or 3 percent of GDP. However, we feel that the reform contradicts the president's campaign promises to introduce a set of strategic reforms to boost competition.

- Vodafone and Verizon officially announced the terms of a transaction in which Verizon will pay Vodafone around $130 billion for its stake in the joint venture. Upon closing the transaction, Vodafone would have more cash to back up its expansionary strategy. Bank of America Merrill Lynch is of the opinion that Vodafone, as a global group and with fingers in EEMEA (the Europe, Middle East and Africa region), may have negative implications for the competitive environment in key markets as it deploys the recently acquired liquidity. In addition, Vodafone's operations in existing markets will now become more significant contributors to the bottom line and will increase the company's focus on these remaining markets. With a large capital expenditure budget available, Vodafone will invest in strengthening its competitive position, effectively disrupting previously stable pricing markets, and resulting in increased competition for existing players.

- The anti-corruption campaign in China has widened to probe business practice and individual professional conduct among state-owned enterprises (SOEs). Although it is extremely positive for the economy to clean up corruptions, it may increase short-term risk premium for some H-share stocks. For example, the wide-spread physician bribery in the healthcare sector in China is not a secret and needs to be stopped, but the lack of public supervision on government officials along with the compensation structure for physicians are ultimately to blame.

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(%)
DJIA	15,376.06	+453.56	+3.04%
S&P 500	1,687.99	+32.82	+1.98%
S&P Energy	610.62	+7.51	+1.25%
S&P Basic Materials	265.18	+6.93	+2.68%
Nasdaq	3,722.18	+62.17	+1.70%
Russell 2000	1,053.98	+24.43	+2.37%
Hang Seng Composite Index	3,147.84	+39.64	+1.28%
Korean KOSPI Index	1,994.32	+39.01	+2.00%
S&P/TSX Canadian Gold Index	178.12	-17.36	-8.88%
XAU	95.68	-7.33	-7.12%
Gold Futures	1,326.00	-60.50	-4.36%
Oil Futures	108.54	-1.99	-1.80%
Natural Gas Futures	3.67	+0.14	+4.08%
10-Yr Treasury Bond	2.88	-0.05	-1.74%

Monthly Performance

Index	Close	Monthly Change($)	Monthly Change(%)
DJIA	15,376.06	-74.95	-0.49%
S&P 500	1,687.99	-6.17	-0.36%
S&P Energy	610.62	+8.28	+1.37%
S&P Basic Materials	265.18	+4.32	+1.66%
Nasdaq	3,722.18	+37.74	+1.02%
Russell 2000	1,053.98	+1.99	+0.19%
Hang Seng Composite Index	3,147.84	-332.01	-14.83%
Korean KOSPI Index	1,994.32	+81.29	+4.25%
S&P/TSX Canadian Gold Index	178.12	-9.15	-4.89%
XAU	95.68	-4.61	-4.60%
Gold Futures	1,326.00	+5.50	+0.42%
Oil Futures	108.54	+1.71	+1.60%
Natural Gas Futures	3.67	+0.39	+11.84%
10-Yr Treasury Bond	2.88	+0.16	+6.03%

Quarterly Performance

Index	Close	Quarterly Change($)	Quarterly Change(%)
DJIA	15,376.06	+199.98	+1.32%
S&P 500	1,687.99	+51.63	+3.16%
S&P Energy	610.62	+18.64	+3.15%
S&P Basic Materials	265.18	+12.24	+4.84%
Nasdaq	3,722.18	+276.82	+8.03%
Russell 2000	1,053.98	+64.29	+6.50%
Hang Seng Composite Index	3,147.84	+260.89	+9.04%
Korean KOSPI Index	1,994.32	+111.59	+5.93%
S&P/TSX Canadian Gold Index	178.12	-15.13	-7.83%
XAU	95.68	-8.57	-8.22%
Gold Futures	1,326.00	-54.10	-3.92%
Oil Futures	108.54	+11.85	+12.26%
Natural Gas Futures	3.67	-0.14	-3.67%
10-Yr Treasury Bond	2.88	+0.73	+34.14%

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 6/30/13:

Delta Airlines, Inc.: 0.0%
Southwest Airlines Co.: 0.0%
Lennar Corp.: 0.0%
PulteGroup, Inc.: 0.0%
D.R. Horton, Inc.: 0.0%
Molex Inc.: 0.0%
Apple Inc.: MegaTrends Fund, 0.91%
Urban Outfitters, Inc.: 0.0%
BHP Billiton Ltd.: Global Resources Fund, 0.15%
Vodaphone Group plc: 0.0%
Verizon Communications Inc.: All American Equity Fund, 1.15%
Gran Colombia Gold Corp.: Global Emerging Markets Fund, 0.08%; Global Resources Fund, 3.19%; Gold and Precious Metals Fund, 6.31%; Holmes Growth Fund, 1.35%; MegaTrends Fund, 0.49%; World Precious Minerals Fund, 7.66%
Pan American Silver Corp.: Gold and Precious Metals Fund, 2.00%; World Precious Metals Fund, 0.25%
Mandalay Resources Corp.: Gold and Precious Metals Fund, 1.30%; World Precious Minerals Fund, 1.11%
Osisko Mining Corp.: Gold and Precious Metals Fund, 0.57%
Sulliden Gold Corporation Ltd.: World Precious Minerals Fund, 0.51%
Bank of America Corp.: All American Equity Fund, 1.96%; Holmes Growth Fund, 2.46%; MegaTrends Fund, 1.99%
NovaTek: Emerging Europe Fund, 3.51%
Gazprom: Emerging Europe Fund, 3.06%
Mail.Ru Group Ltd.: Emerging Europe Fund, 2.19%
Yandex NV: Emerging Europe Fund, 3.50%
Google Inc.: All American Equity Fund, 1.78%
Facebook Inc.: 0.0%
Mobile TeleSystems OJSC: Emerging Europe Fund, 5.74%

*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.
M2 Money Supply is a broad measure of money supply that includes M1 in addition to all time-related deposits, savings deposits, and non-institutional money-market funds.
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.
The MICEX Index is the real-time cap-weighted Russian composite index. It comprises 30 most liquid stocks of Russian largest and most developed companies from 10 main economy sectors. The MICEX Index was launched on September 22, 1997, base value 100. The MICEX Index is calculated and disseminated by the MICEX Stock Exchange, the main Russian stock exchange.
IGP-M – Market General Price Index calculated by the Fundação Getúlio Vargas (FGV). The collecting of prices is carried out between the 21st of the previous month and the 20th of the current month and it is published on the 30th of the current month It is composed of three indexes: Wholesale Prices Index (IPA), Consumer Price Index (IPC) and Construction Cost National Index (INCC) that represent 60%, 30% and 10% respectively of the IGP-M.