USFunds.com • **December 13, 2013**

U.S. Global Investors
Investor Alert

Podcast RSS Subscribe on iTunes PDF Version

EMAIL TO A FRIEND

Table of Contents

One of the Most Notable Stories of the Year: Energy Renaissance in the U.S.A.

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

As we come to the end of 2013, it's a good time to reflect on some of the biggest resources stories of the year. One that immediately comes to mind is the U.S. energy resurgence and its tremendous effect on oil and gas.

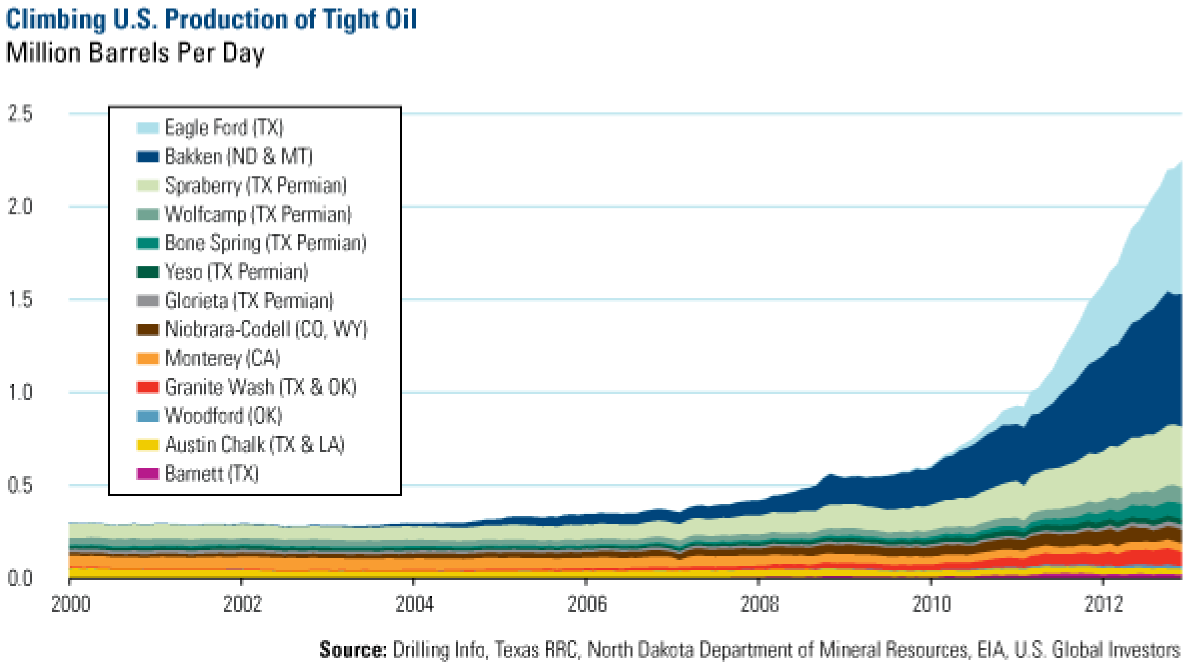
Only a few years ago, we were contemplating the supply constraints facing the petroleum industry, as many major oil fields around the world were facing a decline in production. Now, with the disruptive technology in shale oil and gas, we may be looking forward to decades of drilling.

We've published on this theme many times over the past several months, but if you are new to the Investor Alert or missed our previous articles, I encourage you to revisit the commentaries focused on this newfound energy surge:

- Why Growth is Deep in the Heart of Texas
- Being Contrarian Could Lead to Lucrative Energy Plays
- An American Energy Revolution
- The Bright Lights of Big Oil
- The Significant Impact of U.S. Oil Production

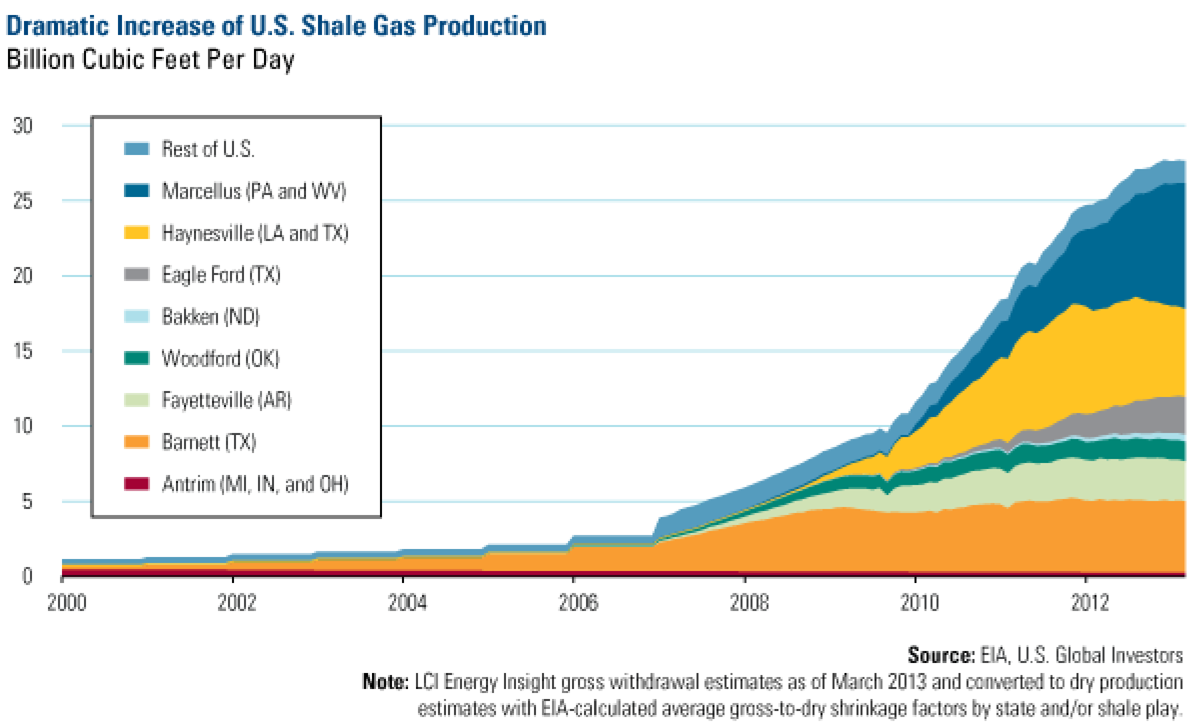
Two charts clearly illustrate this incredible growth in oil and gas. While there are many shale areas around the U.S., there are a few notable hot beds of activity. Regarding the domestic production of tight oil, most of the growth has been in the Eagle Ford area that's outside of San Antonio, Texas, the Bakken formation in Montana and North Dakota, and the Permian basin in West Texas.

At the beginning of 2011, the selected shale areas shown below were producing less than 1 million barrels of tight oil per day. Now, production is nearing 2.5 million barrels per day.



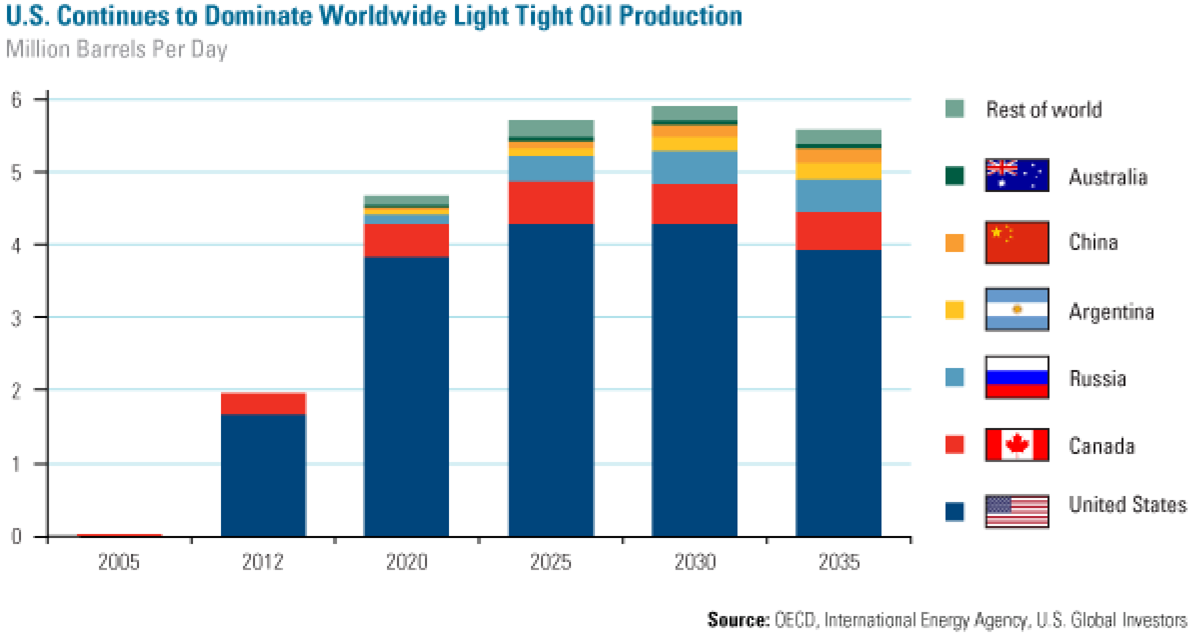
click to enlarge

Shale gas in the U.S. has also taken off in recent years, with the Marcellus shale in Pennsylvania and West Virginia, Haynesville in Louisiana and Texas, and Barnett in Texas contributing to the majority of the growth, according to the U.S. Energy Information Administration (EIA). Since 2010, natural gas production among the many shale areas jumped from under 10 billion cubic feet per day to about 27 billion cubic feet per day.



click to enlarge

America's ingenuity and success in extracting its oil and gas resources certainly seems to be unique. Even though shale areas are found around the world in Australia, Turkey, Russia and China, the U.S. is expected to supply the majority of light tight oil (LTO) to the world through 2035, as other countries are "struggling to replicate" the experience in the U.S., according to the International Energy Agency.



click to enlarge

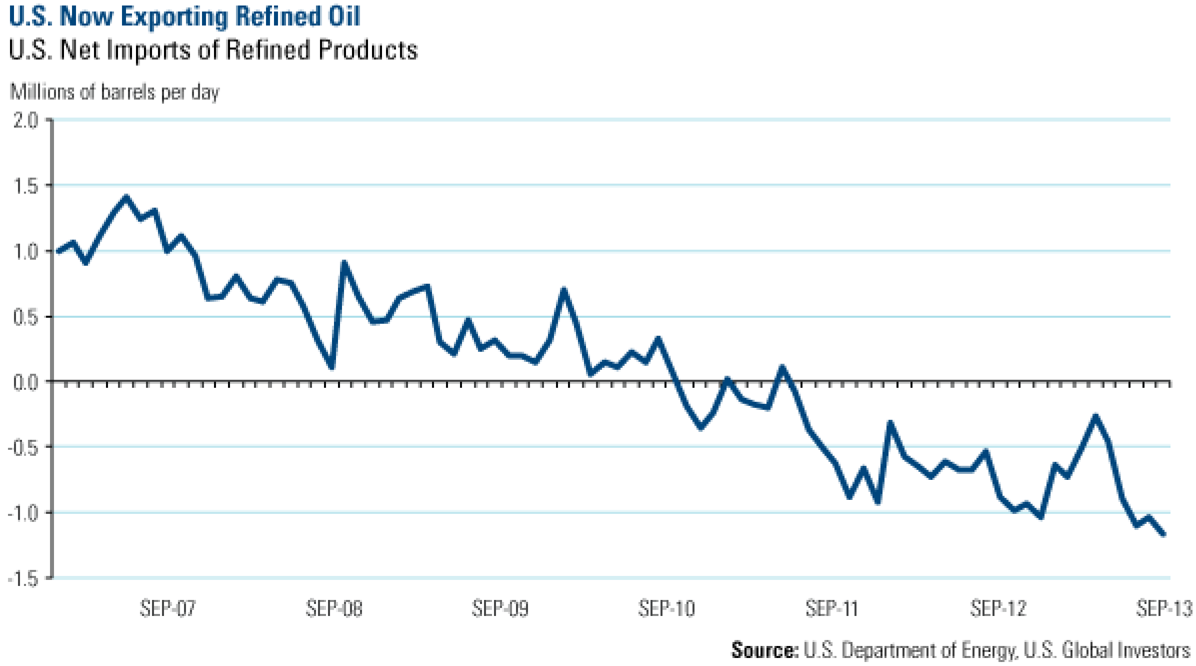
"Drilling Multiple Horizontal Wells from a Single Pad"
As our resident expert on the natural gas and oil opportunities spouting out across the U.S., Evan Smith, CFA, portfolio manager of the Global Resources Fund (PSPFX), discussed the many investment opportunities recently with Streetwise Reports

In the published article in The Energy Report, Evan says that lately, the shale activity has been more oil-directed, particularly in the Bakken and Eagle Ford. For 2014, he believes there will be a delineation of acreage, focusing on pad drilling:
"Continental Resources Inc. (CLR) is testing 16 wells per pad in the Williston Basin in North Dakota. The company will repeat that pattern and drive costs down. We've seen a big shift to multi-well pad drilling in 2013, but I think it's going to become much more standardized in 2014. The efficiencies that we've seen, which have led to more productivity with fewer rigs, will probably remain and perhaps even accelerate in 2014."

Earlier this year, we said that oil explorers such as Continental, EOG Resources and Pioneer Natural Resources that were focused on high-margin shale drilling from Texas to North Dakota were set to outperform big oil companies, such as Exxon Mobil and Royal Dutch Shell. We thought these explorers were poised to reap bigger returns than that of energy titans fifteen times their market value, as they devoted almost all of their drilling capital to higher-margin, domestic crude wells.

However, to make the most out of this energy renaissance, investors should look beyond these direct shale plays. As highlighted in *The Wall Street Journal*, "another boom" is being created in a key ingredient used in hydraulic fracturing: sand. The WSJ finds that companies that mine the ideal sand used to crack rocks and allow the oil and gas to flow out have increased substantially. For example, since going public in August 2012, shares of U.S. Silica have doubled, according to the WSJ.

Refiners also benefit tremendously. Because crude oil exports are mostly prohibited, the oil is refined before being shipped to the rest of the world. As you can see in the chart, in recent years, the U.S. has moved from importing refined petroleum products prior to 2010 to exporting more than 1 million barrels per day as of September 2013.



click to enlarge

In the Streetwise interview, Evan talks about more opportunities he sees in the pipeline. When you have some time this weekend, I encourage you to read the interview to stay curious and gain insight for your portfolio.

Index Summary

- Major market indices finished lower this week. The Dow Jones Industrial Average fell 1.65 percent. The S&P 500 Stock Index also fell 1.65 percent, while the Nasdaq Composite dropped 1.51 percent. The Russell 2000 small capitalization index declined 2.15 percent this week.
- The Hang Seng Composite fell 1.90 percent; Taiwan gained 0.11 percent while the KOSPI dropped 0.88 percent. The 10-year Treasury bond yield rose 1 basis point this week to 2.87 percent.

In the News

FT FINANCIAL TIMES — December 10, 2013 **Simplest Way to Play Gold Today**

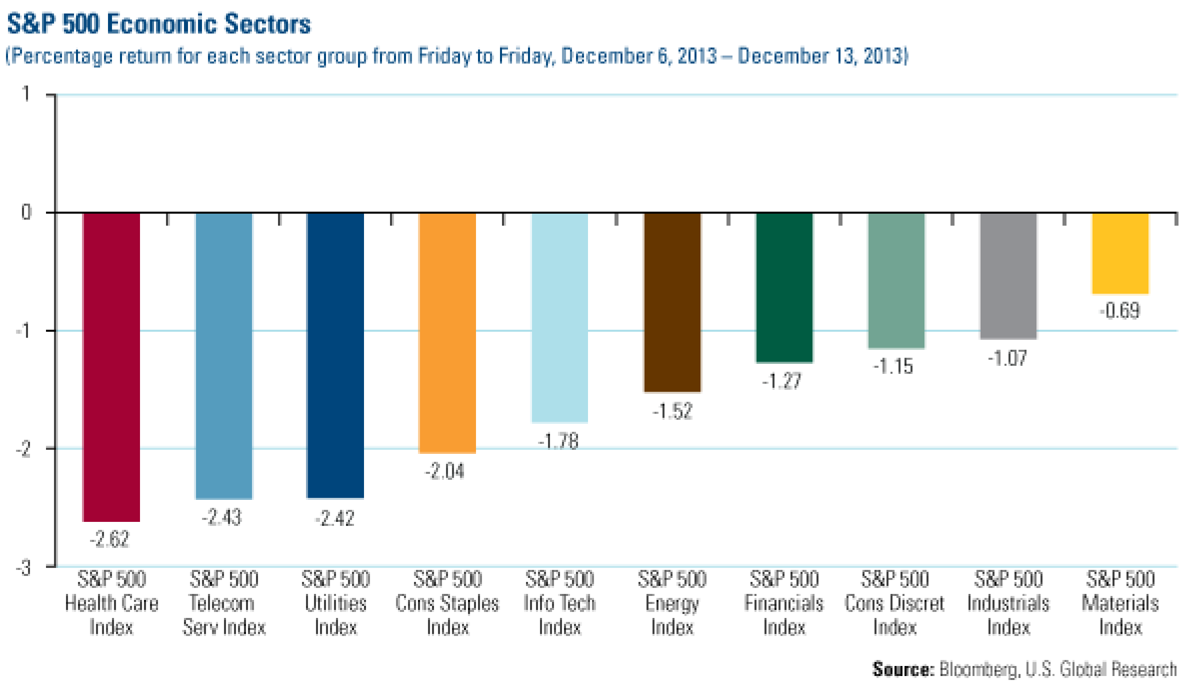
THE ENERGY REPORT — December 11, 2013 **The Best Ways to Capitalize on North American Shale Plays**

December 12, 2013 **Frank Holmes in Forbes: "Avoid the Drama and Follow the Money"**

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

Domestic Equity Market

The S&P 500 Index fell this week in a broad-based sell off. This appears to be a normal correction after advancing for eight weeks in a row. Interestingly, cyclical sectors tended to outperform, while traditional defensive areas underperformed. Expectations of better global growth and higher bond yields are likely the cause of this phenomenon.



click to enlarge

Strengths

- The materials sector was the best performer this week led by Dow Chemical, U.S. Steel and International Paper.
- The industrial sector also experienced relatively good performance, but was led by an eclectic group of stocks making it hard to generalize on industry drivers.
- Adobe Systems Inc. was the best performer in the S&P 500 this week, rising 9.51 percent. The company announced that its Creative Cloud web-based product was signing up customers at a faster pace than previously estimated.

Weaknesses

- The healthcare sector was the worst performer this week in a broad-based sell off. Laboratory Corp of America was the worst performer in the sector on a disappointing profit outlook. This news also dragged down Quest Diagnostics.
- The telecom and utilities sectors also fell this week, but it appears more related to general market weakness and a lack of investor interest in defensive areas of the market.
- Newfield Exploration was the worst performer in the S&P 500 this week, falling 11.62 percent. The company updated its three-year plan and investors were disappointed with the company's production and capital investment program.

Opportunities

- 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 Federal Reserve 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.
- The improving macro backdrop out of Europe and China could be the catalyst for a rally into year end.

Threats

- A market consolidation could occur in the near term after such strong performance year-to-date.
- 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.
- The debt ceiling and government shutdown have passed but the economic fallout will likely be felt over the next weeks and months, negatively affecting upcoming economic data releases.

The Economy and Bond Market

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

click to enlarge

Strengths

- Existing home sales advanced to their highest level since 2010, new data from the National Association of Realtors shows. The pace of sales jumped 7.8 percent in August to an annual pace of 4.82 million units, eclipsing expectations for a more modest 2.0 percent gain.
- The current account deficit in the U.S. narrowed more than forecasted in the second quarter, helped by a pickup in exports and a bigger income surplus. The gap, the broadest measure of international trade because it includes income payments and government transfers, shrank 12 percent to $117.4 billion from $133.6 billion in the prior quarter, a Commerce Department report showed today in Washington.

Weaknesses

- The Empire Fed Manufacturing Index came in at its lowest level since April 2009, and was well below expectations. The report confirms the biggest 6 month drop since records began. Manufacturing in the Philadelphia region contracted in August for a fourth consecutive month as orders and employment declined.
- The index of U.S. leading economic indicators fell in August, led by a decline in new orders for manufacturing. The Conference Board's gauge of the outlook for the next 3 to 6 months decreased 0.1 percent after a revised 0.5 percent increase in July, the New York-based group.

Opportunities

- The European Central Bank (ECB) appears ready to implement further quantitative easing in the near future to improve financial stability in the region.
- With further weak economic data out of China, odds of additional easing measures continue to move higher.
- Interest rates are likely to remain very low for the foreseeable future.

Threats

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

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

Gold Market

For the week, spot gold closed at $1,238.26, up $9.21 per ounce, or 0.75 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, rose 2.05 percent. The U.S. Trade-Weighted Dollar Index lost 0.15 percent for the week.

Strengths

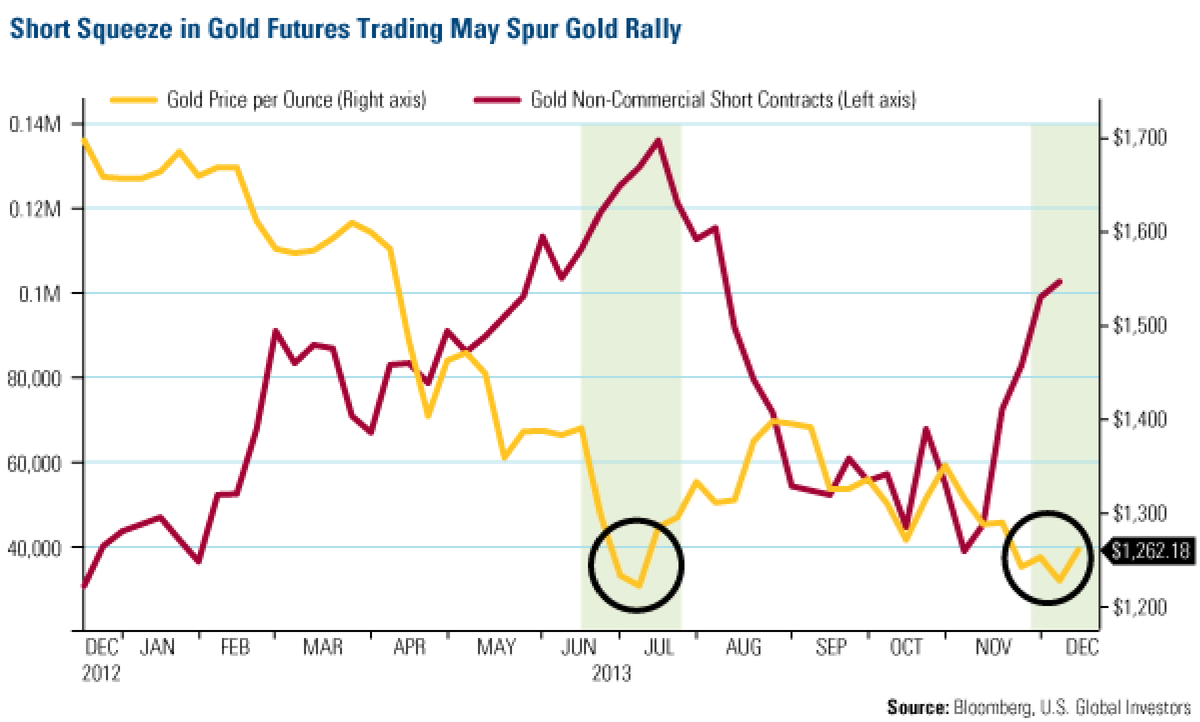
- The dollar will no longer be among the best performing currencies in 2014, according to Thomas Stolper, Goldman Sachs' Chief Currency Strategist. Stolper, who correctly predicted this year's dollar weakness against the euro, is challenging the strong consensus built around a stronger dollar next year. According to Stolper the dollar will continue to weaken, as any Federal Reserve tapering will be offset by interest rates being kept at about zero. In addition, Stolper is of the opinion that tapering is already priced in, and there seems to be no other source of dollar strength in sight. The dollar strength talk and expectation of higher interest rates has weighed heavily on gold and commodity prices throughout 2013, and a reversal in consensus will likely result in gold strength.
- The implementation of the Volcker Rule over the next two years is likely to reduce big banks' dealings in gold and silver for their own speculative purposes. The Rule prohibits banks with federally-insured deposits from trading activities undertaken for their own benefit, such as proprietary trading. According to a recent Mineweb article, the Rule should, in theory, prohibit banks such as JP Morgan and Goldman Sachs from trading in gold forwards, futures and options contracts, except on behalf of customers. Once the law is in full effect, gold and silver fundamentals should take a greater role in price determination, as speculative trades are reduced.

- Another intermediate producer is entering West Africa where merger and acquisition (M&A) activity is picking up. Centamin is making an all-share offer, off market for Ampella. The offer is valued at A$41MM, representing a 113 percent premium to the close on December 9. Ampella has a 1.7 gram per tonne, 3.2 million ounce deposit on the Batie West greenstone belt in Cote D'Ivoire. This marks the second transaction we have seen in West Africa in the past six weeks. This week Franco Nevada signed a new streaming deal with Teranga Gold, which will receive $135 million in exchange for 22,500 ounces of gold per year during the first six years, and 6 percent of production thereafter. Teranga Gold surged 31 percent on the news.

Weaknesses

- Gold prices fell mid-week as congressional negotiators reached a U.S. budget agreement. There had been lingering concerns over whether legislators would reach a budget agreement before having to shutdown government next January as the funding deadline approached. The approved budget will not reverse the growing U.S. fiscal deficit, but it has been interpreted as one less obstacle before the Federal Reserve can go ahead with its quantitative easing tapering program.
- BCA Research published a note in which it attempted to forecast gold price action based on historical averages, suggesting gold may trade down to the $1,000 level based on historical production premium, and to $660 when using the median, real-adjusted price since the Bretton-Woods era. The flaw with this type of reasoning is that gold cannot be valued in the context of commodities. The market has ruled that gold is a financial instrument as evidenced by gold trading historically with a contango, just like S&P 500 futures do. In other words, gold prices are not mean-reverting as are oil and copper, which typically trade in backwardation with forward prices converging towards an average. It is for that same reason that nobody forecasts future prices for the S&P 500 by using its long-term average.
- Iamgold's CEO Steve Letwin announced the company will be suspending its dividend payments until further notice, as current gold prices demand the company preserves its balance sheet. For the past five quarters the company has produced a negative free cash flow of $132 million per quarter. The dividend suspension, together with cost cutting measures implemented earlier this year, is expected to save the company just under $200 million per year. Following a recent visit to Lakeshore Gold's Bell Creek operations, BMO analysts are of the opinion that despite the positive operational improvements made recently, it appears unlikely that Lakeshore will be able to pay down its debt load without restructuring. At current spot prices, neither the company's credit facility with Sprott, nor the convertible debentures, can be repaid without external financing, concluded the note.

Opportunities



click to enlarge

- Gold rose strongly earlier in the week in what appeared to be a short-squeeze motivated rally. Gold rebounded from the $1,200 level and reached its highest level since mid-November. As seen in the chart above, open short positions as reported by the Commodity Futures Trading Commission rose back above the 0.1 million level, which was the level that led to a rebound off the $1,200 level in June. As BMO analysts report, that summer rebound off the $1,200 level led to a 40 percent rally in the GDM Index.

- The Wall Street Journal published an article saying China's reforms may boost gold investments in the country. Beijing pledged after its Third Plenum last month to give the market a more decisive role in a number of sectors, which could lead to policies that make it easier for investors to access gold investments. The implications are substantial. Despite China becoming the largest gold consumer this year, the per capita consumption is 4.5 grams, compared with a 24-gram global average. The low consumption level and the increase in investment demand for gold from the Asian nation will likely result in stronger global demand.

- Gold premiums continue to soar in India as the nation moves into wedding season. Gold importers are demanding record premiums for the scarce metal. Premiums reached $180 per ounce over London prices for immediate delivery, as jewelers argue there is no gold available anywhere in the country following a severe slowdown in the recycled gold trade. About 300,000 jewelers and bullion dealers are demanding the government ease import rules on gold with many jewelers being forced to shut down shop. The hope for change appears in the form of Narendra Modi, the main opposition party's candidate for next year's general election. Mr. Modi is not only a staunch Hinduist, where rites and ceremonies are abundant, he is also the head of India's most prolific Gujarat province, where he has led economic growth of 10 percent per year over the last decade on a platform of eliminating red tape, and limiting government interference with private enterprise.

Threats

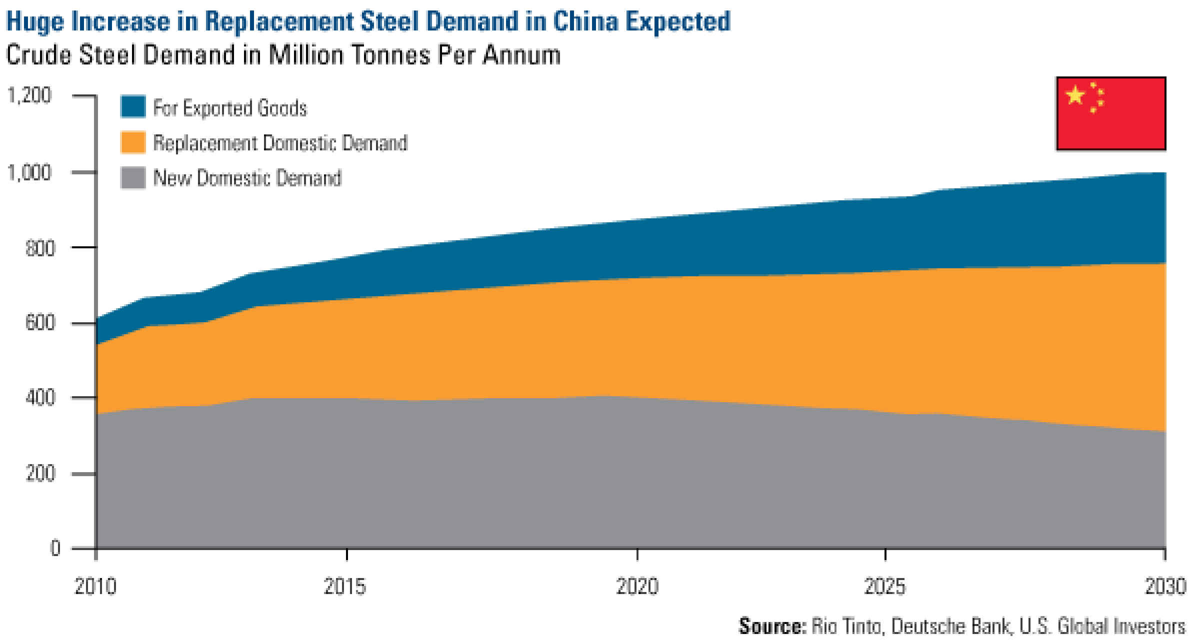
- David Rosenberg of Gluskin Sheff continues to argue that signals of imminent inflation can not be ignored any longer. Wage inflation will be the next driver as fast-food workers across the country are demanding $15 hourly wages, arguing that profit margins among public companies are at a record 11.1 percent, nearly doubling the historical average of 6 percent. But this is not the only inflationary pressure, according to Rosenberg. The current supply and demand dynamics of the labor market are reaching a boiling point. Rosenberg illustrates that the pool of labor supply is narrowing mostly due to a structural change in demographics. On the other hand, demand for labor continues to increase, and the laws of supply and demand are such that these curves dictate wage inflation is coming in the next few months.

- Fred Hickey, writer of The High-Tech Strategist, brings some market data that may have you rethinking your portfolio allocation strategy. For starters, the Investors Intelligence Sentiment survey reports that only 14.4 percent of respondents are bearish on the market; a level only seen leading into the 1987 crash. In addition, investors are pouring money into equity mutual funds at the fastest pace since the peak of 2000. Furthermore, the Shiller price-to-earnings (P/E) ratio for the S&P 500 is now over 25, a level seen only three times in the past; 1929, 2000 and 2007. Do you see the pattern? His conclusion is that fear has simply left the building. However, fear is exactly what investors should be feeling since a rise of interest rates to "normal" would destroy the housing market, and 27 percent of auto loans are subprime and back to 2007 levels. The cherry pick is the fact that the notional value of global derivatives is no longer in the trillions of dollars, as it was just before the 2007 crisis when Warren Buffet described them as weapons of mass destruction, but has rather soared into the uncharted territory of $1 quadrillion.

- Joy Global, the Milwaukee-based heavy equipment manufacturer, announced its fourth-quarter net income plunged 87 percent as customers sought to stretch their building plans and delayed regular maintenance. The weaker market conditions are a result of the weakness in gold and commodity prices, the correction has lasted longer than anticipated, leading to a 62 percent decrease in equipment orders from last year. The resulting impact on cash flows for most of Joy's customers mean that, even with a commodity rebound next year, the headwinds in terms of customers' orders will continue well into 2014 as miners seek to stabilize their balance sheets before commissioning any new project development.

Global Resources Fund - PSPFX • MegaTrends Fund - MEGAX

Energy and Natural Resources Market



click to enlarge

Strengths

- The International Energy Agency raised its 2014 global oil demand growth estimate by 240,000 barrels per day to 92.4 million barrels per day, reflecting signs of accelerating demand growth in Organisation for Economic Co-operation and Development (OECD) countries.
- The price of natural gas surged again the week on further cold weather throughout much of the nation. Natural gas closed at a two-year high of $4.41 per million British Thermal Unit (MMBtu) or 8 percent higher than last week.
- The Baltic Dry Freight shipping index, a measure of global economic activity, along with demand for steel and iron ore, climbed to its highest level in three years.
- The Energy Information Administration said that U.S. crude oil production reached 8.075 million barrels a day in the week ending December 6, which is the highest since October 1988.

Weaknesses

- Spot hard-coking coal peakedd at $171 per ton in February and has averaged $153.41 this year, according to data from Energy Publishing. However, spot prices have dropped 7 percent since September to $140.70 as supply continues to outpace global demand.
- Coal India Ltd., the nation’s biggest producer, fell the most in more than eight weeks after it was fined 17.7 billion rupees ($288 million) for abusing its dominant market position. The Competition Commission of India found the miner and its units had “undisputed dominance” in supply of power station coal and had unfair supply agreements with some power producers, according to a statement

from the Federal Ministry of Corporate Affairs. The antitrust body ordered Coal India to modify the agreements.

Opportunities

- Global nickel demand is expected to grow 4.5 percent in 2014 to 1.85 million metric tons while supply is estimated to increase 3 percent to a record 1.97 million tons, with new projects coming on stream and existing operations ramping up output, according to International Nickel Study Group.

- Exxon Mobil Corp., the nation's largest energy producer, is calling for the U.S. to lift restrictions on exporting domestic oil that date back to the Arab oil embargo of 1973. The Irving, Texas, company's public support for crude exports comes as it forecasts decades of abundant supplies of petroleum in the U.S. and elsewhere as well as increasing global demand for oil, according to its annual energy outlook set to be released on Thursday. "We are not dealing with an era of scarcity, we are dealing with a situation of abundance," Exxon's Vice President of Public and Government Affairs Ken Cohen said in an interview. "We need to rethink the regulatory scheme and the statutory scheme on the books."

- Mexico's lower house passed an energy bill that ends Petroleos Mexicanos's 75-year oil monopoly in a bid to attract foreign investment and boost growth. Lawmakers approved the bill in general terms in a 354-134 vote late yesterday and continue to discuss minority-party challenges to specific articles. If these are rejected, the initiative will be sent to Mexico's states, where it's likely to receive approval from more than half of the legislatures, the threshold for changing the constitution. The bill, passed by the Senate two days ago, would change Mexico's charter to permit companies such as Exxon Mobil Corp. (XOM) and Chevron Corp. (CVX) to drill for oil for the first time since 1938. It would allow production sharing and licenses for outside companies that will also be able to log crude reserves for accounting purposes. Supporters say it will boost economic growth, while opponents say it will funnel the nation's resource wealth to foreign investors.

Threats

- Freeport Indonesia warns of production cuts and layoffs if the government bans ore exports from January 2014. Freeport estimates output at its Grasberg mine would decline by 60percent in 2014 comprising a cut of 900 million pounds of copper and 1.7 million ounces of gold, along with layoffs of about half of its 15,000 employees in Indonesia.

- No improvement is in sight for states like Syria, Libya and Egypt, risk analysis warns. The past year has seen instability worsen across a number of states in the Middle East and North Africa. UK-based global risk analytics firm Maplecroft said that 2013 saw "a significant increase in conflict, terrorism and regime instability," in the MENA region. The analysts said that conflict-torn Syria had deteriorated the most in its global ranking of political risk, falling 42 places in the past four years to become the second-riskiest nation in the world. Egypt fell 12 places in the past year amid the post-coup violence and increased terrorist activity in the Sinai Peninsula, ranking as an extreme risk nation for the first time at fifteenth on the list.

China Region Fund - USCOX • Emerging Europe Fund - EUROX

Emerging Markets

Strengths

- China’s mid-December Central Economic Work Conference closed today. The government believes that economic growth will stabilize and improve, although downside risk continues to persist. The annual conference did not provide a GDP target in its general news release, leaving the economy to decide. Environmental risks and protections were addressed in the meeting.
- China’s November exports accelerated by 12.7 percent year-over-year, handily beating the market consensus of 7 percent. For November, China’s consumer price index (CPI) was 3 percent, slightly better than the market consensus of 3.1 percent. The producer price index (PPI) was -1.4 percent versus the consensus of -1.5 percent, showing slight easing of deflation in the mid-stream product price.
- China’s new bank loans for November were Rmb 624.6 billion versus the consensus of Rmb 580 billion. Total social financing was Rmb 1.23 trillion versus Rmb 920 billion. Money supply (M2) was up 14.2 percent and in line with the consensus.
- China’s industrial production was up 10 percent in November, slightly lower than estimate of 10.1 percent and 10.3 percent in October. Fixed asset investment rose 19.9 percent year-to-date, while the November fixed asset investment growth slowed to 18.2 percent, mainly due to de-capacity in the manufacturing sector. Property investments in China rose 19.5 percent in the first 11 months of 2013, up 0.3 percent from October, but investments in November increased 22.1 percent year-over-year (7.1 percent month-over-month) primarily driven by new housing starts growth, which was up 58.6 percent in November. Retail sales were up 13.7 percent in November, beating the market consensus of 13.2 percent. China’s macro data shows that the growth momentum continues, though it eased a bit in November.
- China introduced its own 401(k)-style tax-deferred corporate annuity system, with the individual contribution being up to 4 percent of a person’s monthly salary in the previous year (capped at 300 percent of the average salary in the local city). Investment income will be tax deferred, and at retirement when individuals start to withdraw their retirement annuity, income tax will be assessed. Corporate pension plans are using insurance companies as their trustees.
- China’s locally-made passenger car retail volume (excluding exports and minivans) was up by 17.7 percent year-over-year in November, and up 8.3 percent month-over-month.
- Korea’s November jobless rate declined to 2.9 percent, and Bank of Korea, the central bank, kept its benchmark rate unchanged this week.
- Malaysia’s industrial production in October was up 1.7 percent, above the consensus of 0.8 percent, and 1 percent in September.
- Bank of Indonesia kept interest rates unchanged this week, in line with the market expectation. A weak currency actually helped the foreign reserve account go up by $2 billion as businesses and individuals are saving foreign currencies.
- Turkey's economic growth rose 4.4 percent in the third quarter from the prior year, according to the Turkish Statistical Institute. The rate was below the second quarter's 4.5 percent rise, but above the expected 4.2 percent increase. Household consumption rose 5.1 percent, construction rose by 8.7 percent and manufacturing rose by 4.9 percent, while private sector investment increased for the first time in almost two years. Exports rose by 2.2 percent for the quarter, but may be set for a bigger boost as Western nations loosen trade sanctions with Iran, which has traditionally been a strong market for Turkish exports.
- Industrial production in the Czech Republic increased 3.5 percent in October from the prior year, with output of industrial companies growing steadily since July. Production of car manufacturers rose by almost 10 percent over the same period. This helped pull the Czech economy out of a record-long recession, as they captured improvements in demand from foreign markets.

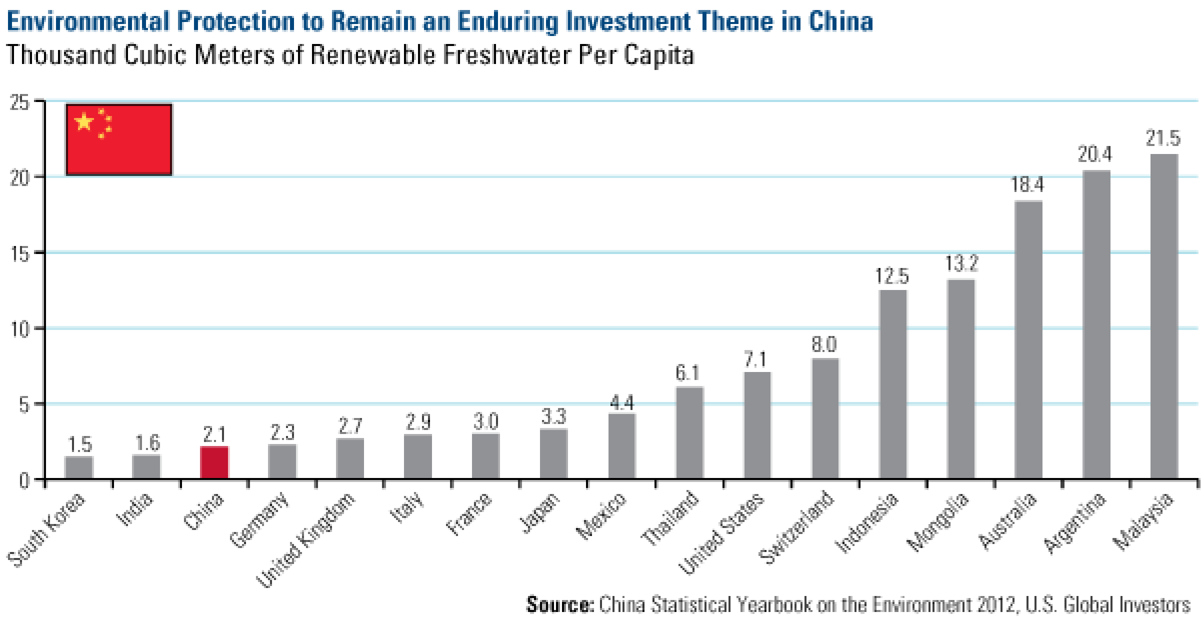
Weaknesses

- Taiwan exports recovered to flat year-over-year growth in November, but were below market expectations.
- Currencies in Indonesia, Thailand and the Philippines depreciated against U.S. dollar since the end of October.

- Industrial output in the eurozone surprisingly fell last month, with recovery continuing to remain shaky. Industrial production dropped 1.1 percent from last month after falling 0.2 percent the previous month, missing the consensus for a rise of 0.3 percent. From last year, output increased 0.2 percent, but came in well below forecasts of 1.1 percent. Among the member states for which data was made available, industrial production rose in 2012 and fell in 2011.

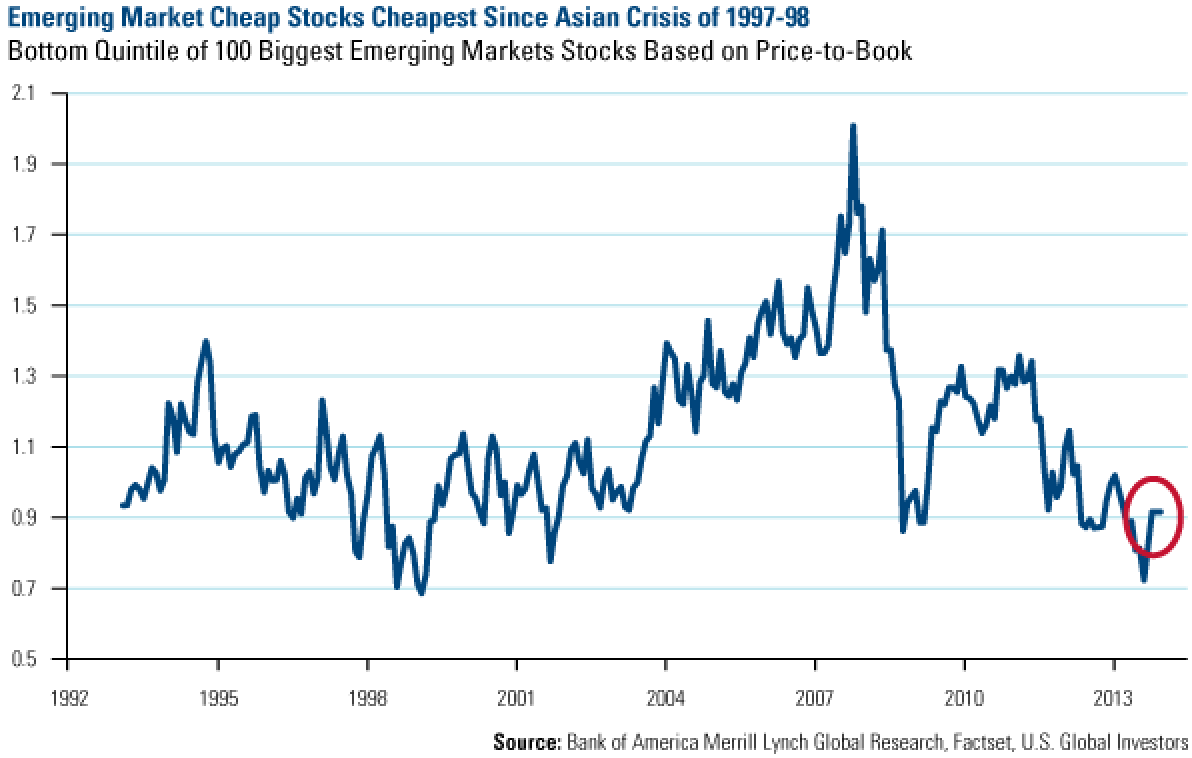
- Options prices for Brazilian stocks have risen to a five-year high relative to the U.S., as implied volatility on South America's largest nation doubles that of the S&P 500. The increase in options prices signals investors are positioning for continued underperformance of Brazil's stock market as economic growth falters. A Bloomberg Global poll last month shows investors have never been more pessimistic about Brazil, with only 10 percent of respondents saying the nation can avoid a credit downgrade next year, in addition to high inflation dampening earnings growth.

Opportunities



click to enlarge

- As shown in the chart above, China is facing a difficult environmental situation as industry develops, urbanization accelerates and population rises rapidly. Water shortage, among the lowest renewable freshwater per capital, is merely one of the environmental issues. China will continue to support clean energy and clean environment businesses.



click to enlarge

- As you can see in the chart, the bottom quintile of the biggest 100 emerging market stocks are currently trading at a median of 0.9x price-to-book, a level not seen since the Asian Crisis of 1997-1998. The majority of the stocks trading in this group are state-owned enterprises (SOEs). Bank of America Merrill Lynch believes the low valuations for SOEs are unwarranted for three reasons: 1) Sovereign balance sheets are thinning out and governments are being forced to cut subsidies and allow SOEs to charge market prices; 2) Recent political transitions in China, Mexico and other nations are getting the reform ball rolling in regards to privatizations, and in addition, 14 emerging nations will have general elections in 2014; 3) The SOE sector is often the epicenter of corruption perception, with policy makers understanding that an increase in SOE transparency is contributive to their constituency.

- India's stocks hit a new all-time high on Monday as election results confirmed the opposition Bharatiya Janata Party secured four of five seats in the regional elections held last month. The results increase momentum for the nation's main opposition party, and its prime minister candidate Narendra Modi, who has overseen annual economic growth of 10 percent on average in his province of Gujarat. The main economic driver behind this impressive growth has been infrastructure spending, of which India has a substantial deficit. A nationwide implementation of his model for development, together with his platform of limiting bureaucracy and minimizing government interference with private enterprise, could drive a new economic growth boom for the world's second-most populated nation.

Threats

- Thailand's parliament dissolved although political uncertainties continue. This may affect the plan to build the country as a trade hub for Association of Southeast Asian Nations (ASEAN) by connecting China with high-speed trains.

- Russia's central bank will likely continue to leave interest rates unchanged for a fifteenth month after inflation accelerated more than forecasted by economists in November. CPI accelerated to 6.5 percent in November, breaching the central bank target of 5 percent to 6 percent for a fifteenth consecutive month. Central Bank Chairman Nabiullina has defied predictions that she would reduce borrowing costs to stimulate the economy, instead using alternative monetary policy tools to try to spur anemic economic growth in Eastern Europe's largest nation.

- The Czech market was pulled up by banks and financials mid-week after several days on the downside, as the emerging government coalition failed to reach an agreement on a proposed financial sector tax. After six weeks of negotiations, the Czech Social Democrats agreed to create a coalition with the Christian Democrats and the ANO party, putting aside differences and focusing on finding ways to fund an economic stimulus program following a record-long recession. Despite strong lobbying by the Social Democrats to introduce higher taxes on banks, the other coalition parties succeeded in pushing the discussion until next year, arguing time constraints won't allow a timely change to the 2014 tax regime. While the current decision is positive for banks and financials, it is safe to assume the Social Democrats will continue to lobby for the introduction of the tax increase, a possibility that cannot be ruled out for a later time.

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(%)
Natural Gas Futures	4.39	+0.28	+6.73%
S&P/TSX Canadian Gold Index	154.34	+3.38	+2.24%
XAU	82.15	+1.35	+1.67%
Gold Futures	1,237.60	+8.60	+0.70%
10-Yr Treasury Bond	2.87	+0.01	+0.35%
S&P Basic Materials	276.43	-1.93	-0.69%
Korean KOSPI Index	1,962.91	-17.50	-0.88%
Oil Futures	96.41	-1.24	-1.27%
Nasdaq	4,000.98	-61.55	-1.51%
S&P Energy	623.30	-9.63	-1.52%
S&P 500	1,775.32	-29.77	-1.65%
DJIA	15,755.36	-264.84	-1.65%
Hang Seng Composite Index	3,247.62	-63.03	-1.90%
Russell 2000	1,107.05	-24.33	-2.15%

Monthly Performance

Index	Close	Monthly Change($)	Monthly Change(%)
Natural Gas Futures	4.39	+0.77	+21.40%
Oil Futures	96.41	+3.37	+3.62%
10-Yr Treasury Bond	2.87	+0.09	+3.32%
Nasdaq	4,000.98	+81.05	+2.07%
Russell 2000	1,107.05	+5.58	+0.51%
S&P 500	1,775.32	+7.63	+0.43%
DJIA	15,755.36	+4.69	+0.03%
S&P Basic Materials	276.43	-1.10	-0.40%
S&P Energy	623.30	-6.33	-1.01%

Korean KOSPI Index	1,962.91	-32.57	-1.63%
Gold Futures	1,237.60	-34.70	-2.73%
XAU	82.15	-8.69	-9.57%
S&P/TSX Canadian Gold Index	154.34	-16.94	-9.89%
Hang Seng Composite Index	3,247.62	-332.01	-14.83%

Quarterly Performance

Index	Close	Quarterly Change($)	Quarterly Change(%)
Natural Gas Futures	4.39	+0.71	+19.42%
Nasdaq	4,000.98	+278.79	+7.49%
S&P 500	1,775.32	+87.33	+5.17%
Russell 2000	1,107.05	+53.07	+5.04%
S&P Basic Materials	276.43	+11.25	+4.24%
Hang Seng Composite Index	3,247.62	+99.78	+3.17%
DJIA	15,755.36	+379.30	+2.47%
S&P Energy	623.30	+12.68	+2.08%
10-Yr Treasury Bond	2.87	-0.02	-0.69%
Korean KOSPI Index	1,962.91	-31.41	-1.57%
Gold Futures	1,237.60	-71.90	-5.49%
Oil Futures	96.41	-11.80	-10.90%
S&P/TSX Canadian Gold Index	154.34	-23.78	-13.35%
XAU	82.15	-13.53	-14.14%

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.

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 9/30/13:

Franco-Nevada Corp.: Gold and Precious Metals Fund, 2.85%; World Precious Minerals Fund, 1.13%
Centamin Plc: 0.0%
Ampella Mining Ltd.: 0.0%
Teranga Gold Corp.: Gold and Precious Metals Fund, 0.31%
IAMGOLD Corp.: Gold and Precious Metals Fund, 0.17%; World Precious Minerals Fund, 0.08%
Lakeshore Gold Corp.: 0.0%
Joy Global Inc.: 0.0%
Dow Chemical Co.: 0.0%
United States Steel Corp.: 0.0%
International Paper Co.: Global Resources Fund, 1.62%
Adobe Systems Inc.: 0.0%
Laboratory Corp. of America: 0.0%
Quest Diagnostics Inc.: 0.0%
Newfield Exploration Co.: MegaTrends Fund, 1.11%
Exxon Mobil Corp.: All American Equity Fund, 0.83%
Chevron Corp.: All American Equity Fund, 0.88%
Freeport McMoRan Copper & Gold, Inc.: Global Resources Fund, 3.27%; Gold and Precious Metals Fund, 0.14%; World Precious Minerals Fund, 0.23%
Continental Resources Inc/OK.: All American Equity Fund, 3.11%; Global Resources Fund, 2.41%; Holmes Growth Fund, 3.32%
EOG Resources Inc.: 0.0%
Pioneer Natural Resources Co.: Global Resources Fund, 2.36%
Royal Dutch Shell PLC: 0.0%
Coal India Ltd.: 0.0%
*The above-mentioned indices are not total returns. These returns reflect simple appreciation only and do not reflect dividend reinvestment.
The Dow Jones Industrial Average is a price-weighted average of 30 blue chip stocks that are generally leaders in their industry.
The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies.
The Nasdaq Composite Index is a capitalization-weighted index of all Nasdaq National Market and SmallCap stocks.
The S&P BARRA Growth Index is a capitalization-weighted index of all stocks in the S&P 500 that have high price-to-book ratios.
The S&P BARRA Value Index is a capitalization-weighted index of all stocks in the S&P 500 that have low price-to-book ratios.
The Russell 2000 Index® is a U.S. equity index measuring the performance of the 2,000 smallest companies in the Russell 3000®, a widely recognized small-cap index.
The Hang Seng Composite Index is a market capitalization-weighted index that comprises the top 200 companies listed on Stock Exchange of Hong Kong, based on average market cap for the 12 months.
The Taiwan Stock Exchange Index is a capitalization-weighted index of all listed common shares traded on the Taiwan Stock Exchange.
The Korea Stock Price Index is a capitalization-weighted index of all common shares and preferred shares on the Korean Stock Exchanges.
The Philadelphia Stock Exchange Gold and Silver Index (XAU) is a capitalization-weighted index that includes the leading companies involved in the mining of gold and silver.
The U.S. Trade Weighted Dollar Index provides a general indication of the international value of the U.S. dollar.
The MSCI Russia Index is a free-float weighted equity index developed in 1994 to track major equities traded in the Russian market.
The S&P/TSX Canadian Gold Capped Sector Index is a modified capitalization-weighted index, whose equity weights are capped 25 percent and index constituents are derived from a subset stock pool of S&P/TSX Composite Index stocks.
The S&P 500 Energy Index is a capitalization-weighted index that tracks the companies in the energy sector as a subset of the S&P 500.
The S&P 500 Materials Index is a capitalization-weighted index that tracks the companies in the material sector as a subset of the S&P 500.
The S&P 500 Financials Index is a capitalization-weighted index. The index was developed with a base level of 10 for the 1941-43 base period.
The S&P 500 Industrials Index is a Materials Index is a capitalization-weighted index that tracks the companies in the industrial sector as a subset of the S&P 500.

The S&P 500 Consumer Discretionary Index is a capitalization-weighted index that tracks the companies in the consumer discretionary sector as a subset of the S&P 500.

The S&P 500 Information Technology Index is a capitalization-weighted index that tracks the companies in the information technology sector as a subset of the S&P 500.

The S&P 500 Consumer Staples Index is a Materials Index is a capitalization-weighted index that tracks the companies in the consumer staples sector as a subset of the S&P 500.

The S&P 500 Utilities Index is a capitalization-weighted index that tracks the companies in the utilities sector as a subset of the S&P 500.

The S&P 500 Healthcare Index is a capitalization-weighted index that tracks the companies in the healthcare sector as a subset of the S&P 500.

The S&P 500 Telecom Index is a Materials Index is a capitalization-weighted index that tracks the companies in the telecom sector as a subset of the S&P 500.

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

The NYSE Arca Gold Miners Index is a modified market capitalization weighted index comprised of publicly traded companies involved primarily in the mining for gold and silver.

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

The NYSE Arca Gold BUGS (Basket of Unhedged Gold Stocks) Index (HUI) is a modified equal dollar weighted index of companies involved in gold mining. The HUI Index was designed to provide significant exposure to near term movements in gold prices by including companies that do not hedge their gold production beyond 1.5 years.

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

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

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.

Empire Fed Manufacturing Index is based on the monthly survey of manufacturers in New York State – known as the Empire State Manufacturing Survey – conducted by the Federal Reserve Bank of New York. The headline number for the NY Empire State Index refers to the survey's main index, which summarizes general business conditions in New York State.

The S&P/Case-Shiller Index tracks changes in home prices throughout the United States by following price movements in the value of homes in 20 major metropolitan areas.

The Conference Board index of leading economic indicators is an index published monthly by the Conference Board used to predict the direction of the economy's movements in the months to come. The index is made up of 10 economic components, whose changes tend to precede changes in the overall economy.

The Baltic Dry Freight Index is an economic indicator that portrays an assessed price of moving major raw materials by sea as compiled by the London-based Baltic Exchange.