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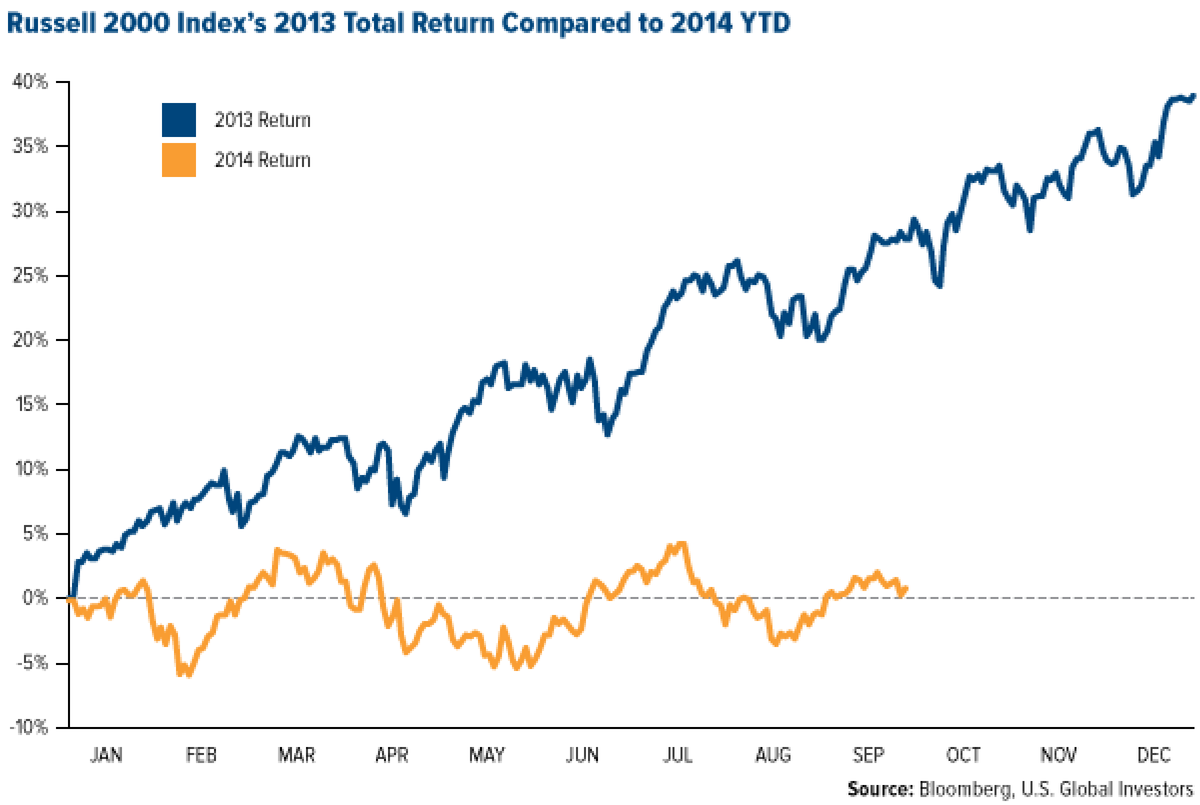
Patiently Waiting for Mean Reversion

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

So far this year, small-cap growth stocks have surprisingly been lackluster. After 2013, when it gained a scorching 38.8 percent, the Russell 2000 has delivered a tepid 0.62 percent year-to-date (YTD).



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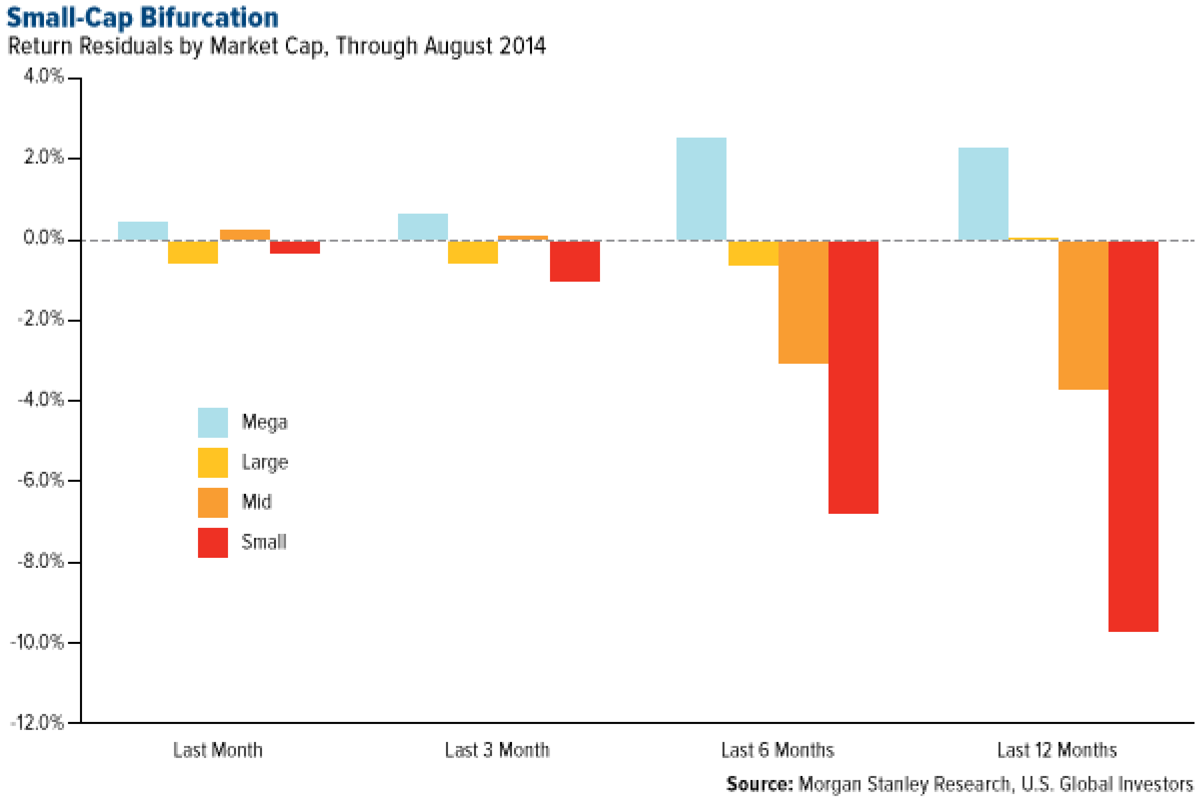
Performance has been so poor, in fact, that the spread, or bifurcation, between the 12-month return residuals of small and large caps is at its widest since the dotcom bubble of the late 1990s and early 2000s. This bifurcation is one of the largest since 1975.

According to Morgan Stanley, we're in the worst beta-adjusted period for small-cap stocks since the late 1990s. The 12-month return in August for small-caps was -9.7 percent, placing it in the bottom 6 percent of any 12-month period since the mid-1970s.



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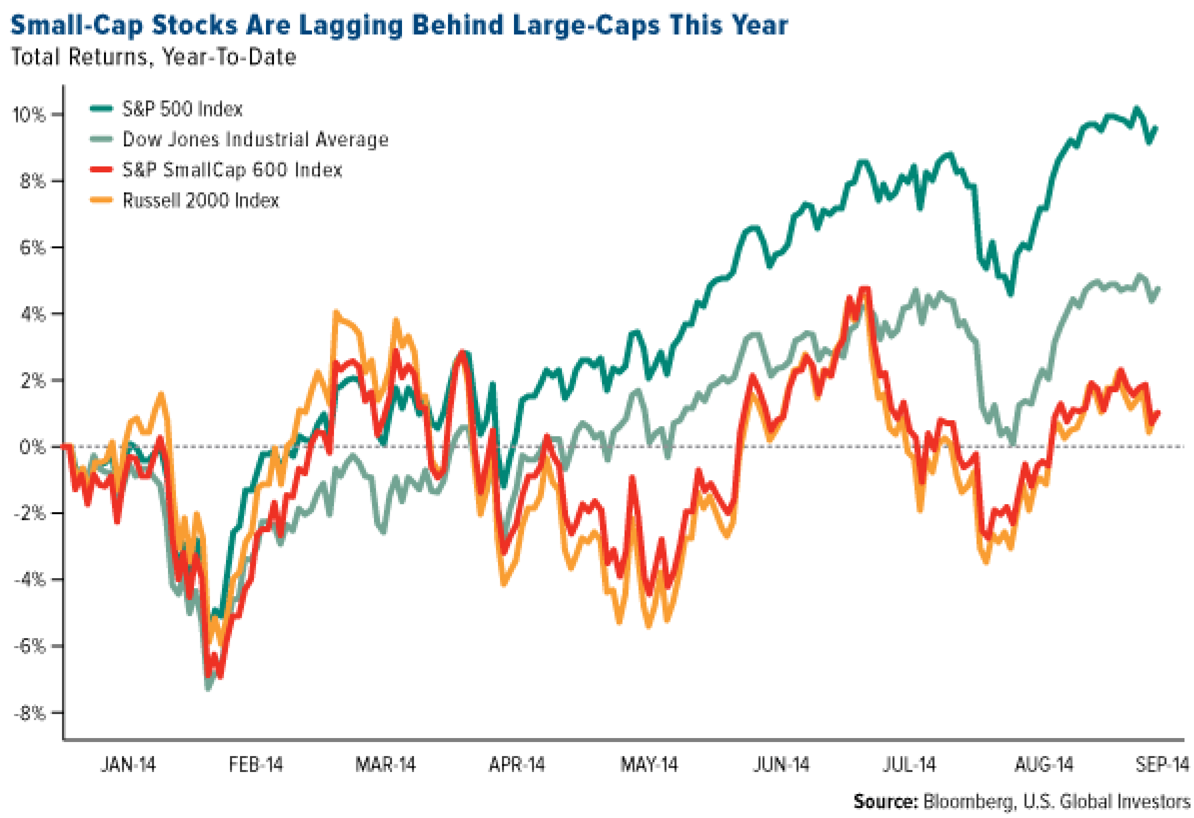
The bifurcation is more than apparent when you compare the year-to-date (YTD) total returns of the big boys (those in the S&P 500 Index and Dow Jones Industrial Average) to their little brothers (those in the Russell 2000 and S&P SmallCap 600 Index). The Russell, though it led the other indices in March, has failed to reach a new record high, which the S&P 500 and Dow managed to achieve in the last couple of months.



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Are We on the Verge of Another Bubble?

We don't think so. History shows bubbles are associated with excessive leverage and lofty valuations. That is not the case this time.

In July, Federal Reserve Chairwoman Janet Yellen stated in her semiannual report to Congress that small caps appear to be "substantially stretched," even after a drop in equity prices at the beginning of the year.

Fed Chairwoman Janet Yellen questions the valuation of small-cap stocks, specifically in the biotech and social media spaces.

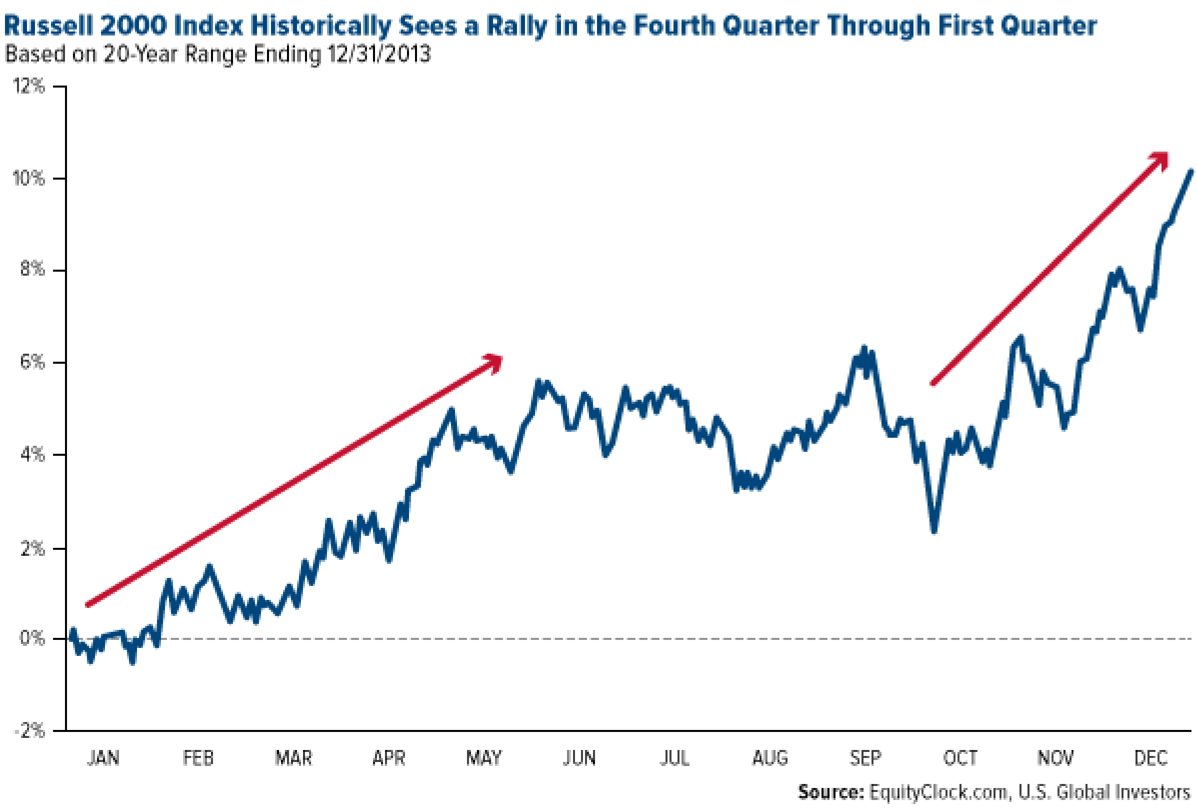
There may be some truth to Yellen's remark, an ideological echo of former Fed Chairman Alan Greenspan's now-famous "irrational exuberance," his description of investors' rosy attitude toward dotcom startups of the late 1990s and early 2000s.

Much of the valuation gap has evaporated. Looking at the price/earnings to growth ratio—20x for the Russell 2000 and 18x for the S&P 500—small caps have slightly higher yet reasonable multiples and may offer better long-term growth prospects.

Mean Reversion to the Rescue
The recent underperformance among small caps has been a headwind for a few of our funds, most notably our Holmes Macro Trends Fund (MEGAX), whose benchmark, the S&P 1500 Composite, tracks the performance of not just large- and mid-cap U.S. companies, but small-cap as well. With a bias toward small-cap companies, the fund has underperformed compared to last year, when such stocks were doing well.

Because small caps tend to have higher beta than blue chips, you would expect them to outperform in a generally rising market—which we're currently in. So it appears that a major rotation out of these riskier, more volatile stocks has inexplicably occurred, leading to the wide bifurcation between small and large companies.

The good news is that, based on 20 years of historical data, stocks in the Russell 2000 tend to rally in the fourth quarter and continue steadily until around the end of the first quarter. Over this 20-year period ending in December 2013, the Russell has generated an impressive annualized return of approximately 10 percent.



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Whether or not this fourth-through-first-quarter rally will recur in 2014 and early 2015 is impossible to forecast. What can be said, however, is that prices and returns do tend to revert back to their mean over time.

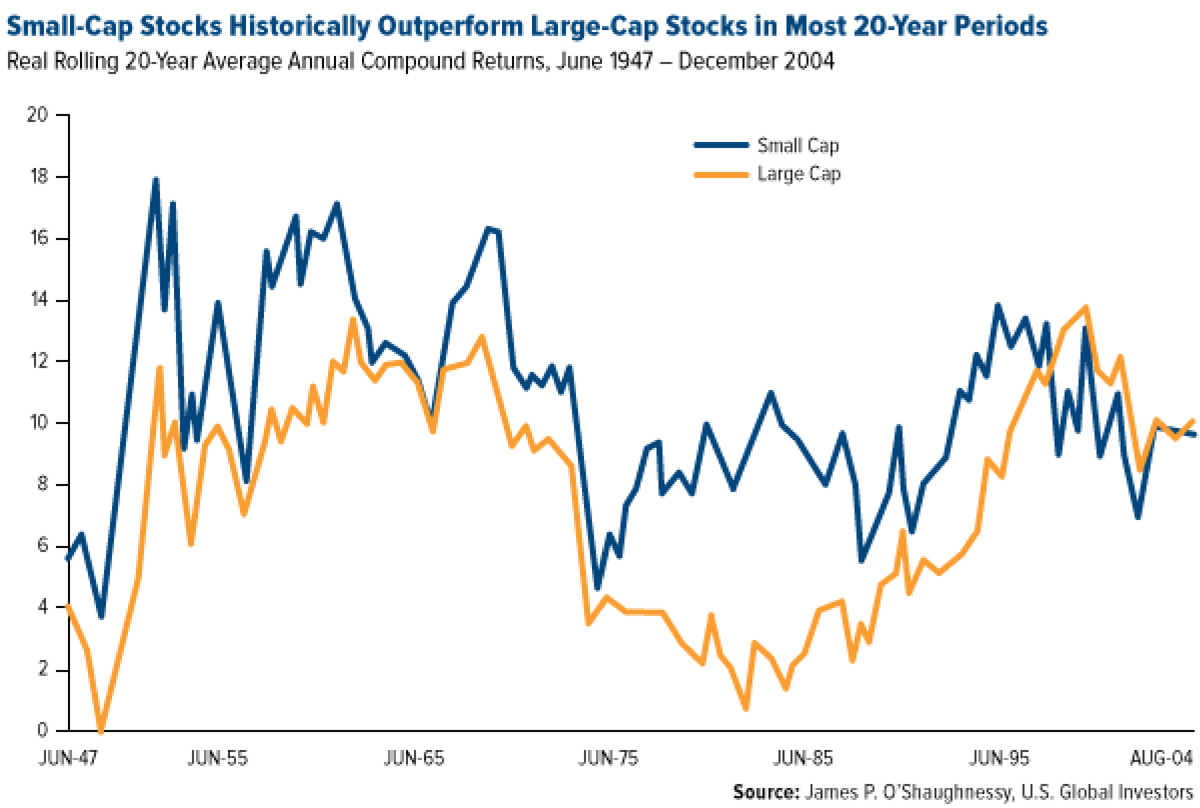
I discussed this concept in full last month in the second part of my "Managing Expectations" series, "The Importance of Oscillators, Standard Deviation and Mean Reversion." Although small caps are underperforming right now, the concept of mean reversion suggests that they'll return to their historical relationship with large caps eventually—just as they did following the dotcom bubble.

In his 2006 book *The New Rules for Investing Now: Smart Portfolios for the Next Fifteen Years,* investor James P. O'Shaughnessy makes the case that small stocks have a performance advantage over large stocks simply because, well, they're *small*. This might sound like circular logic, but as he writes:

> *A company with $200 million in revenues is far more likely to be able to double those revenues than a company with $200 billion in revenues. With large companies, each increase in revenues becomes a smaller and smaller percentage of overall revenues. Small stocks, on the other hand, have a much easier time delivering great percentage growth in revenues and earnings.*

"[S]mall-cap stocks traditionally outperform large-cap stocks in most twenty-year periods," O'Shaughnessy writes.
Photo courtesy of Adam Jeffery | CNBC

O'Shaughnessy examined every 20-year rolling time period beginning each month between June 1947 and December 2004. That's 691 20-year rolling time periods. What he found is that "small stocks outperformed the S&P 500 84 percent of the time."



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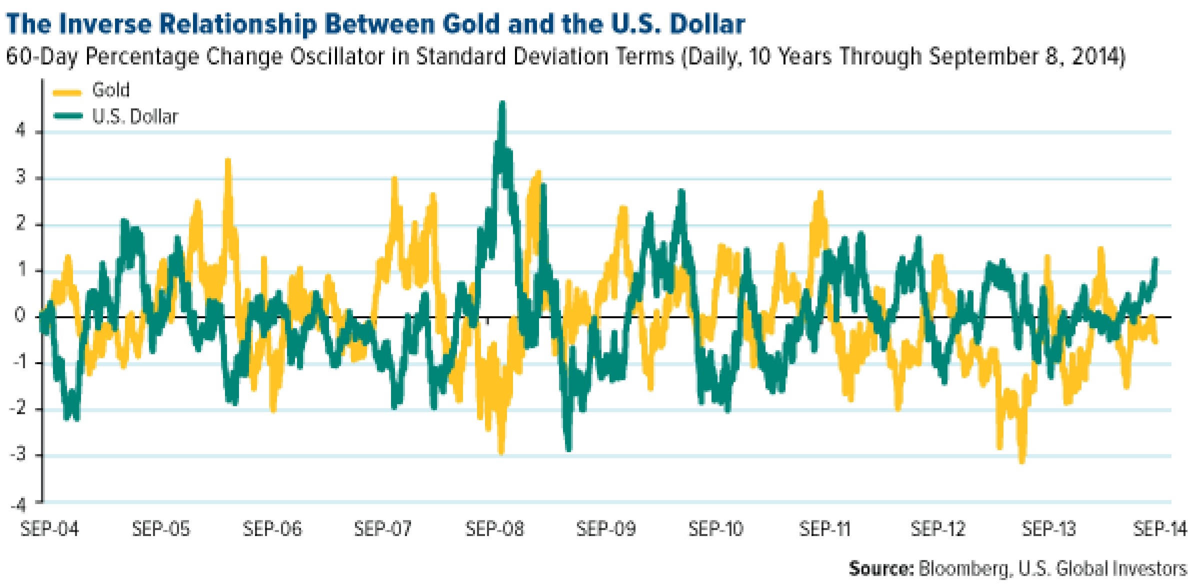
If O'Shaughnessy's research is accurate, it seems very reasonable to be optimistic in the long term. It would be myopic to look only at the Russell 2000's recent underperformance and impulsively rotate out of small caps without also considering the decades' worth of data showing the growth that can be achieved.

Why It's Important to Have Your Funds Actively Managed
Comparing index funds to actively managed funds, Kiplinger columnist Steven Goldberg wrote last month: "[I]ndex funds are designed to give you all the upside of bull markets and every bit of the downside of bear markets. Only good actively managed funds can protect you from some of the pain of a bear market."

We at U.S. Global Investors agree with Goldberg's attitude toward good active management. Although MEGAX might be temporarily underperforming right now as a result of the sentiment-driven and disappointing performance of small-cap stocks, we're confident that they will eventually revert back to their historical pattern as fear over Fed tightening settles down and fundamentals prevail.

In the meantime, we will continue to apply our dynamic management strategy of picking stocks in the fund using the 10-20-20 model: we focus on companies that are growing revenues at 10 percent and generating a 20 percent growth rate and 20 percent return-on-equity. This approach has served us very well in the past and enabled us to select the most attractive growth-oriented companies for our clients.

A Note on the Strong U.S. Dollar and Gold
As I explained in a recent Frank Talk, a strong U.S. dollar could spell trouble for commodities such as gold, which tend to have a historic inverse relationship to the dollar.



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When the dollar does well, investors often choose to store their money in paper rather than bars. Though September is statistically the best month for gold, with the dollar rising almost two standard deviations above its mean, this month might not be kind to the yellow metal and other commodities. In the Gold Market section below you can see how gold is faring far better in euro terms.

Index Summary

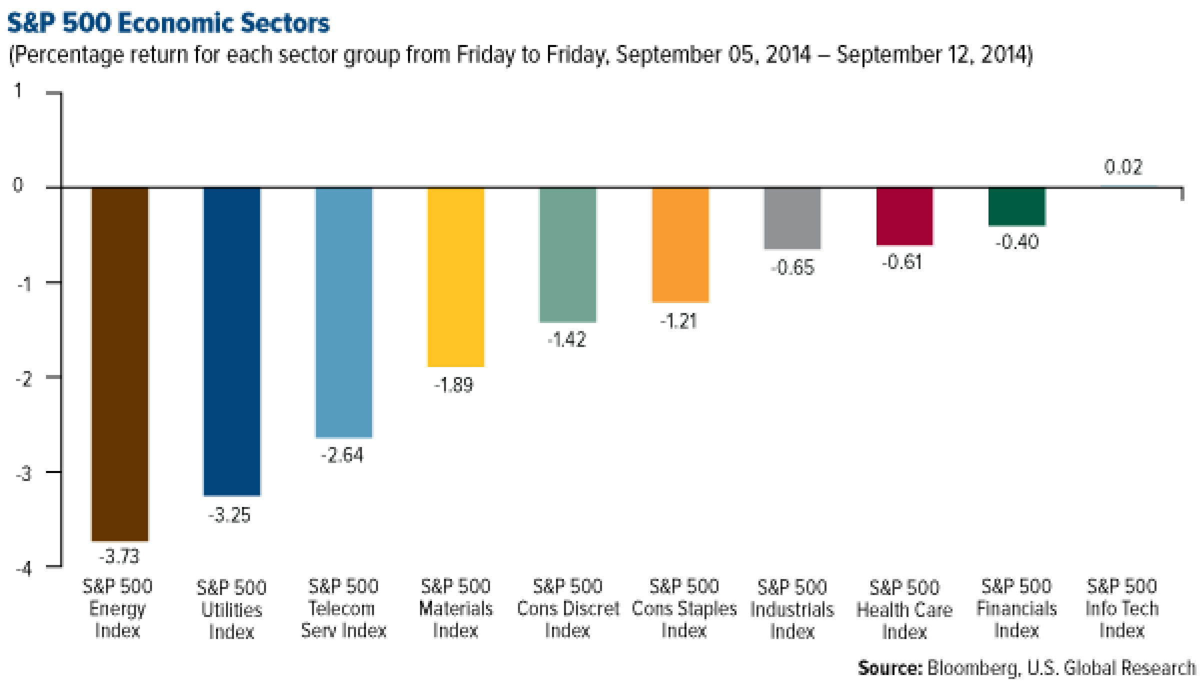
Major market indices finished higher this week. The Dow Jones Industrial Average fell 0.87 percent. The S&P 500 Stock Index dropped 1.10 percent, while the Nasdaq Composite declined 0.33 percent. The Russell 2000 small capitalization index fell 0.81 percent this week.

- The Hang Seng Composite fell 2.23 percent; Taiwan declined 1.96 percent and the KOSPI dropped 0.37 percent.
- The 10-year Treasury bond yield rose 15 basis points to 2.61 percent.

All American Equity Fund - GBTFX • Holmes Macro Trends Fund - MEGAX

Domestic Equity Market

The S&P 500 Index pulled back from recent highs this week as investors speculate that the Federal Reserve is moving closer to raising interest rates and could telegraph that message to the market at next week's Federal Open Market Committee (FOMC) meeting.



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Strengths

- The technology sector outperformed this week with nearly breakeven performance on the back of Apple's roll out of the new iPhone 6, watch and electronic-payments service. Yahoo! was the best performer in the S&P 500 as the highly anticipated Alibaba Group initial public offering (IPO) is well received by the market and is expected to price next week. Yahoo! owns roughly 22.5 percent of Alibaba Group.
- The financial sector also outperformed as investment banks and brokerage-related names such as E*Trade Financial, Bank of America, Charles Schwab and Goldman Sachs were up. Regional banks showed strength this week as higher, short-term interest rates were positive for the group.
- Technology and financials dominated the best-performers list in the S&P 500 this week. Other areas

with good performance included health care facilities, airlines and computer and electronic retailers.

Weaknesses

- The energy sector was hit hard again this week in another broad-based sell off. The only difference between this week and last week was that refiners were not spared. Talk of allowing U.S. oil producers to export oil pulled refiners lower this week. Refiners benefit from the relatively cheap price of domestically produced oil versus the international market price. These two prices could converge if oil exports were allowed, hurting refiners' margins.
- The utility sector was also a laggard this week as treasury yields moved higher on fears that the Fed is moving closer to raising interest rates.
- Discovery Communications was the worst performer in the S&P 500 this week, falling by 8.98 percent. Ratings for Discovery's networks were lower in July and August, which could hurt future ad revenue.

Opportunities

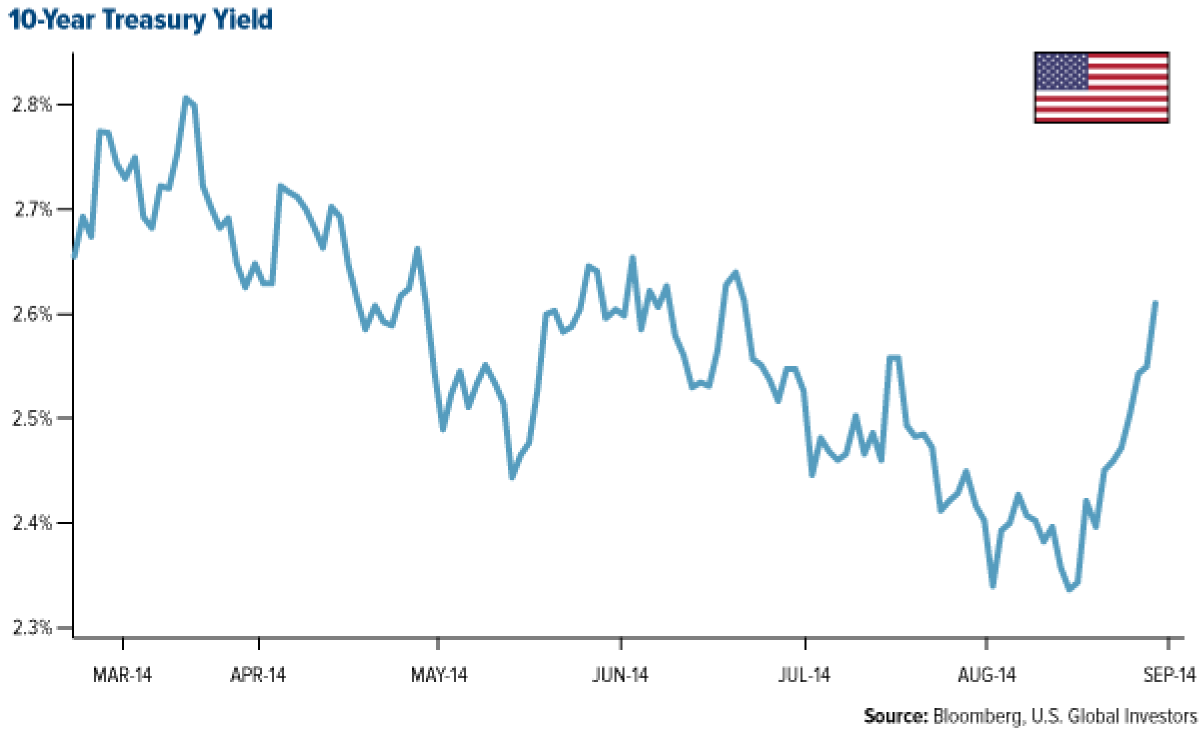
- Bank of Japan governor Kuroda stated that the central bank will take any steps needed to meet its 2 percent inflation target. This comes on the heels of last week's surprise interest rate cut from the European Central Bank (ECB). This is good for risky assets and global equities in particular.
- The U.S. economy is currently a bright spot in the developed world, potentially allowing money to funnel back into the U.S. equity market.
- The path of least resistance for the market appears higher as this "classic" bull market phase of grinding higher with lower volatility remains intact for now.

Threats

- Volatility has been remarkably low and this bull market has been an abnormally smooth ride. This calmness won't last forever and late summer early fall has traditionally been more volatile.
- The big identifiable threat next week is Wednesday's FOMC meeting, with the Fed potentially shifting to more hawkish language and signaling to the market that higher interest rates are coming, potentially within the next six months.
- Geopolitical tensions remain high, and while the market has been able to shrug off these events so far, an escalation could be the catalyst for a long-awaited correction.

The Economy and Bond Market

Treasury yields rose sharply this week as expectations of an interest rate hike got pulled forward. The 10-year Treasury rose by 15 basis points this week as the market braces for next week's FOMC meeting where speculation is building that the Fed will remove the "considerable time" reference in the statement, potentially bringing the Fed a step closer to actually raising interest rates.



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Strengths

- Retail sales in August rose 0.6 percent after an upward revision to July data. This is very supportive of the idea that we are in a self-sustaining positive economic dynamic.
- The Labor Department reported that hiring in July rose to the highest levels since December 2006.
- Bank of Japan governor Kuroda stated that the central bank would take any steps needed to achieve its 2 percent inflation target. This argues for continued aggressive monetary policy out of Japan.

Weaknesses

- U.S. bond yields rose again this week and the 10-year Treasury rose 27 basis points over the past two weeks.
- Housing data continues to disappoint. Mortgage applications declined to the lowest level of activity in 14 years. A Fannie Mae survey also indicated deterioration in the number of consumers who believed thisis a good time to buy a home.
- Weekly initial jobless claims rose last week to 315,000.

Opportunities

- Bond yields in Europe remain exceptionally low, with some short-term European bond yields trading in negative territory. U.S. fixed income yields are attractive and will likely attract money flows from overseas.
- The ECB followed through sooner than expected and cut interest rates last week, pledging to implement a quantitative easing (QE) program. This highlights the deflationary pressure around the world. Prospects for materially higher interest rates seem unlikely in the near future.
- With key global central banks back into easy policy mode and inflation trending lower in many parts of the world, the path of least resistance for bond yields likely remains down.

Threats

- The U.S. economy has some positive momentum and appears poised to continue to build on that as we move into the fall. Recent indications from some Fed officials point to the potential for higher interest rates sooner than many were expecting.

- The Federal Reserve meets on September 17, and the market is bracing for a more hawkish message.
- Several Fed speakers have become more vocal in recent weeks, indicating a potential shift in Fed thinking toward normalizing interest rates.

Gold Market

For the week, spot gold closed at $1,229.70 down $39.22 per ounce, or -3.09 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, fell 4.21 percent. The U.S. Trade-Weighted Dollar Index rose 0.57 percent for the week.

Date	Event	Survey	Actual	Prior
Sept 11	Germany CPI YoY	0.8%	0.8%	0.8%
Sept 11	US Initial Jobless Claims	300K	315K	304K
Sept 16	US PPI Final Demand YoY	1.8%	--	1.7%
Sept 17	Eurozone CPI Core YoY	0.9%	--	0.9%
Sept 17	US CPI YoY	1.9%	--	2.0%
Sept 17	FOMC Rate Decision	0.25%	--	0.25%

Strengths

- Koos Jansen, a well-known Chinese gold demand analyst, pointed out on Bullionstar.com that weekly gold withdrawals from the Shanghai Gold Exchange for the last two weeks in August have increased substantially from previous levels. This is a positive sign that gold jewelry demand in China is on the move again.
- Goldman Sachs officially removed African Barrick Gold from its sell list. The stock has climbed 50 percent over the last 16 months, causing Goldman to reverse the prior recommendation.
- Klondex Mines Ltd. announced this week that it has appointed Richard J. Hall as Chairman of the Board of Directors. Hall's guidance will be exceptionally valuable as he is an experienced mining executive with over 40 years of leading precious metals companies in the Americas and in Australia.

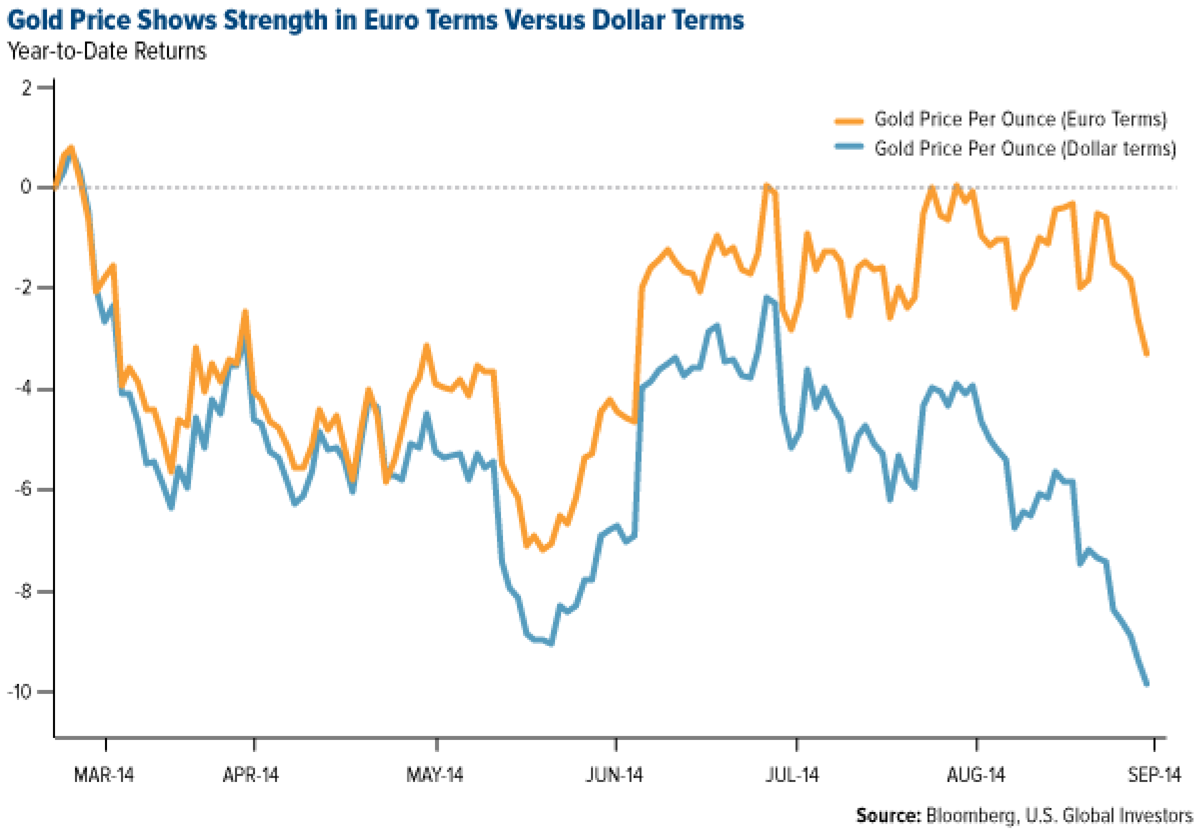
Weaknesses

- Gold prices continue to be depressed in the current economic environment, falling to the lowest level since January. Down 2.59 percent for the week, gold continues to face significant headwinds from an increasingly strong dollar. Accordingly, gold stocks fell for the second straight week.

- A report out of the San Francisco Federal Reserve this week said that investors may be underestimating how soon rates will rise in the United States. The thought of sooner-than-expected interest rate increases spooked markets, particularly for precious metals and related equities.
- Inflation expectations, as measured by the benchmark five-year Treasury Inflation-Protected Securities (TIPS) yield, fell to the lowest level this year, significantly pressuring gold and silver prices. The breakeven rate reached a year-to-date low of roughly 1.79 on Wednesday.

Opportunities

- Although the rapidly appreciating dollar has caused concern for gold investors, the recent data provides positive prospects for gold moving forward for two reasons: First, if one looks at gold in dollar terms compared to gold in euro terms, investors will see that gold as an asset has not depreciated significantly when priced in euros. Therefore, the rapid decline in gold prices, which are priced in dollars, is simply due to the unusually rapid rise in the value of the U.S. currency. In other words, fundamental supply and demand factors remain unchanged.



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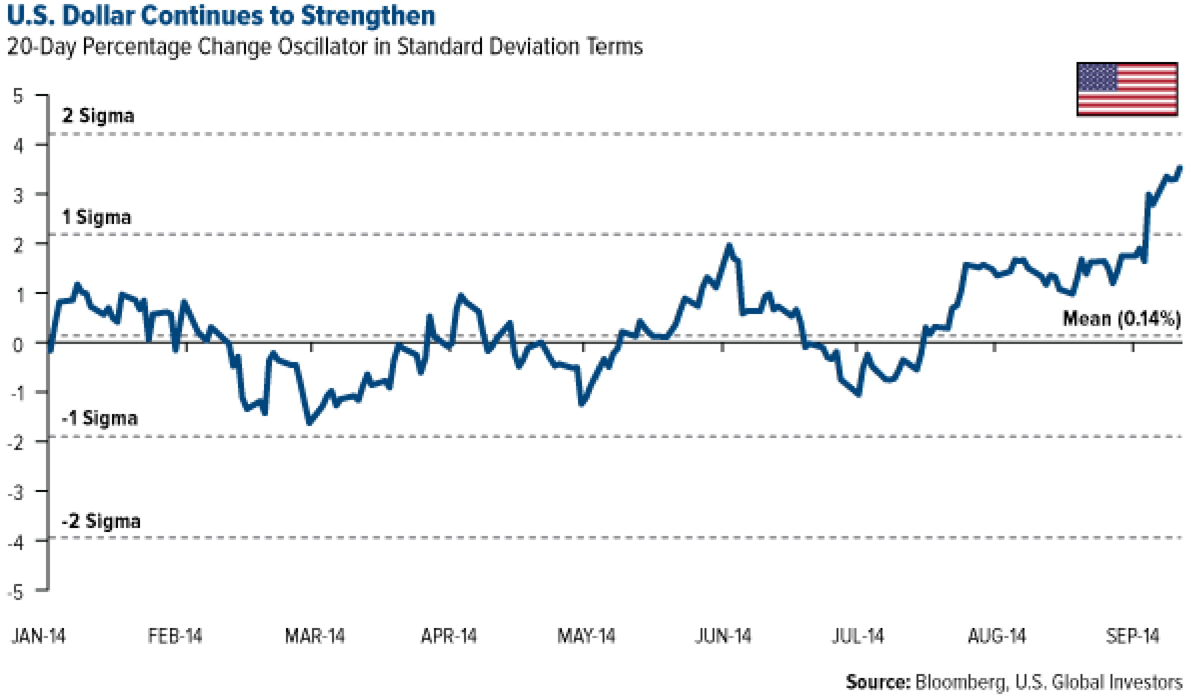
- Second, and more importantly, the dollar's 20-day return has moved well past 1.5 standard deviations of its five-year average. Clocking in at roughly 1.66 standard deviations from the mean, the 20-day return on the dollar should revert to the mean in the near future. A coming decline in the dollar could cause gold prices to reverse and rally.



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- Gold trading in the Shanghai free-trade zone will begin on September 29. The deregulatory step should help boost demand for the precious metal in what recently became the largest gold consuming country in the world. According to the World Gold Council, China has overtaken India in consumption of gold. This combination of increased consumption and deregulation of the gold market in China serves to boost gold prices in the future.
- Agnico Eagle Mines is set to acquire 100 percent of Cayden Resources for C$205 million. This news reveals that merger and acquisition (M&A) activity in the gold sector is heating up in the fall, creating opportunities for other deals to occur.

Threats

- The new sanctions on Russia may cause the Russian government to sell some of its massive gold reserves in order to secure liquidity. As Russia's central banks rank fifth in terms of outstanding gold reserves, increased selling would depress gold prices.
- Two tax bills have found their way onto the ballot in Nevada. Aimed at the mining sector, the first law would remove a cap on the net proceeds of mines that are taxed. The second would impose a 2-percent gross-margins tax on corporations. The increased tax pressures could prove to be very expensive for the mining sector in Nevada.
- The National Mining Association president, Hal Quinn, said that the number one challenge to the U.S. mining industry is the domestic regulatory bureaucracy. While it typically takes seven to 10 years to permit a mine in the United States, other countries with similar environmental standards do so within two to three years. Bureaucracy in the U.S. continues to weaken the domestic mining industry.

Global Resources Fund - PSPFX

Energy and Natural Resources Market

Strengths

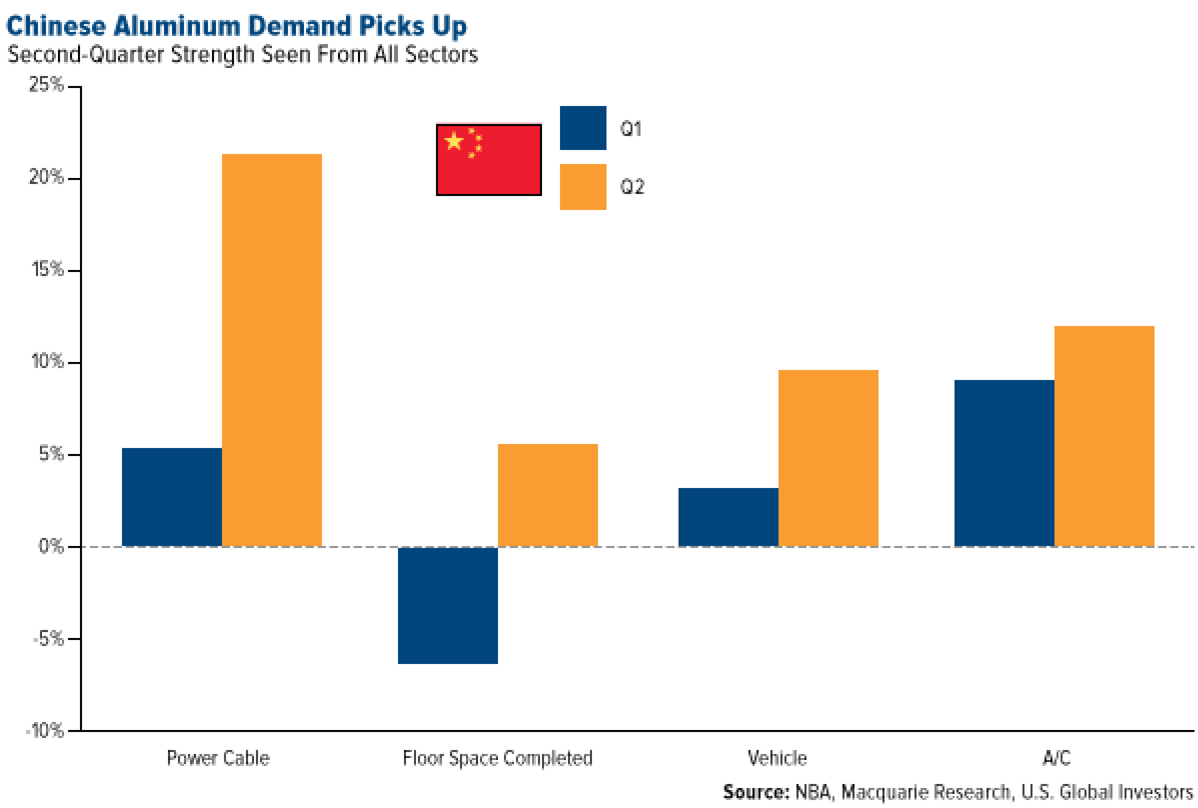
- Despite declining global growth and weak commodity prices, rail stocks outperformed relative to other resource-related sectors. Union Pacific Corp. saw a 52-week high on Thursday.
- Conifex Timber Inc., a manufacturer of forest products, rose 4.62 percent this week. The stronger U.S. dollar has been a tailwind for the company with respect to improving margins.
- Emerge Energy Services LP outperformed this week, up 1.44 percent. The company is involved in sand and fuel processing and distribution.

Weaknesses

- Oil and gas refining stocks fell this week, down 6.29 percent. The decline comes on the back of increased support for, and discussion about, U.S. oil exports. Proponents are pushing for a relaxation of the export restrictions, which could harm U.S. refiners.
- Precious metals continue to take hits. Slower growth prospects and a rapidly rising dollar have weighed on precious metal stocks in general, particularly on gold stocks. The NYSE Arca Gold Miners Index was down 4.21 percent this week.
- Oil stocks continue to face headwinds and underperform as lower oil prices weaken margins. West Texas Intermediate (WTI) crude was down for the second week in a row as prospects for global demand decrease.

Opportunities

- Chinese aluminium demand rose significantly in the second quarter. The boost comes from the automotive and infrastructure sectors, which have seen growth as a result of economic stimulus in China.



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- China Railway Corporation reported that Chinese railway fixed-asset investment in the first eight months of the year, increased 20 percent year-over-year. The boost in railway construction spending should prop up demand for metals in China.

Threats

- The Environmental Protection Agency (EPA) may raise the renewable fuel quotas that were issued last year as a response to rising gasoline prices. The quotas, which require a minimum amount of ethanol to be blended the overall fuel supply, serve as a headwind for refiners, who argue that they are limited in their capacity to meet a higher quota.
- A fresh new set of sanctions for Russia have been delivered. Despite the threat of weaker global economic growth as a result of sanction wars, the European Union (EU) may make the energy threat more severe by restricting service probision of oil field services to Russian oil companies at deepwater, Artic and shale oil fields. It seems the geopolitical environment in eastern Europe continues to plague global growth.
- Noble Corp. signed a 200-day contract with Danny Atkins' UDW rig in the Gulf of Mexico this week, at a dayrate of $317,000 per day according to RBC. This is much lower than the prior rate of $500,000 per day. The company expects rig rates to move lower and sees offshore drillers underperforming in the near future.

China Region Fund - USCOX • Emerging Europe Fund - EUROX

Emerging Markets

Strengths

- Despite significant headwinds for emerging markets recently, fund flows are gaining traction. For the week ending September 10, emerging market equity funds reported substantial inflows of $3.41 billion. This is a significant improvement from the prior week, which saw inflows of just $0.69 billion. Furthermore, this week's inflows trump the 10-week average of $2.25 billion.
- Argentina announced a plan allowing citizens to use credit cards to buy selected goods and services produced domestically. The cards will bear no interest on the 12 monthly installments the government plans to deliver. This should help spur demand in the struggling economy. The Buenos Aires Stock Exchange Merval Index was up 6.14 percent this week.
- Despite recent market corrections, global equity fund flows to China returned to positive territory with $1.13 billion influx for the past week ending September 10. This was the largest absolute amount within emerging markets as well as a reversal from marginal outflows recorded the previous week.

Weaknesses

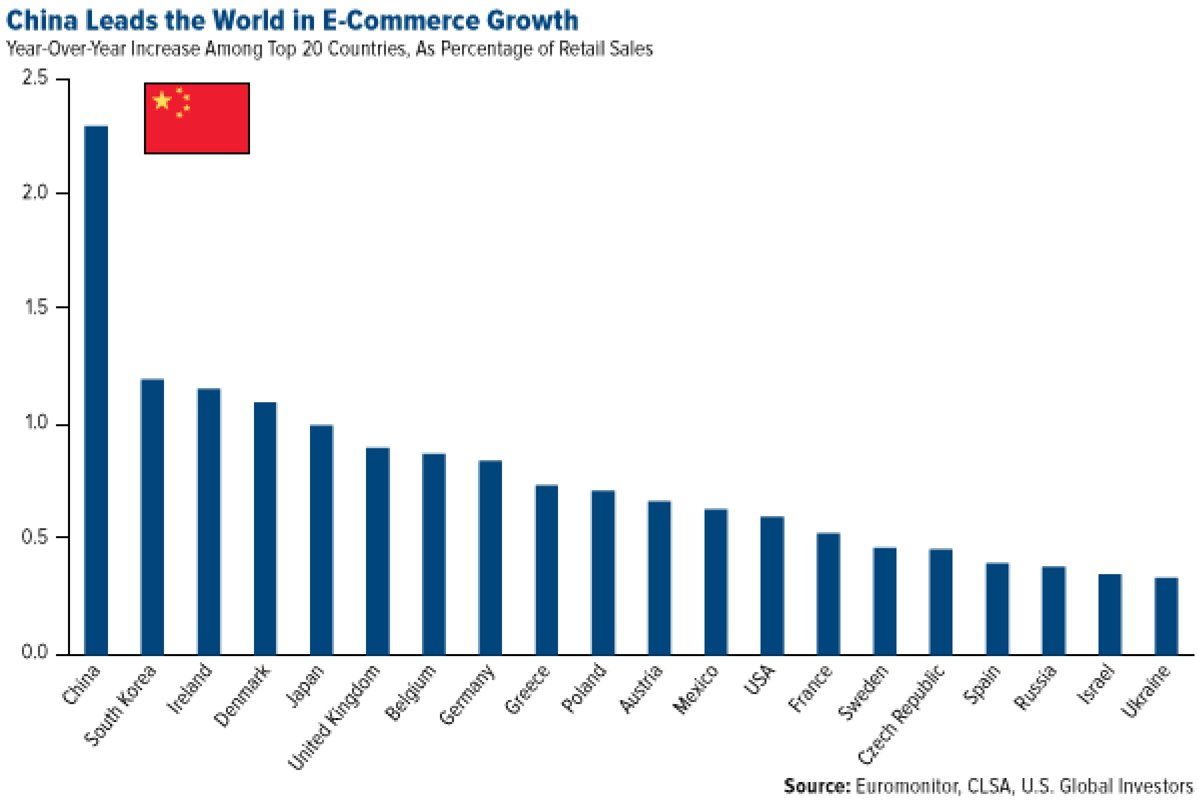
- Brazilian equities suffered significantly this week on the back of poll data showing that incumbent President Dilma Rousseff is more-or-less tied with challenger Marina Silva. Previous polls, which showed Silva leading over Rousseff, were a positive sign for investors who view the incumbent's socialist policies as counterproductive. However, now it seems that there is nothing but bad news coming out of Brazil, which is currently in recession and was recently downgraded by Moody's. The Ibovespa Brasil Sao Paulo Stock Exchange Index was down 6.19 percent this week.
- Colombia is planning on implementing a 2.25-percent annual tax on its wealthiest citizens. The tax reform will also extend a 0.4-percent financial transactions tax through 2018. The government' tax reform is aimed at addressing budgetary concerns and is designed from proposals made by Thomas

Piketty, in his bestselling book “Capital in the Twenty-First Century.” Colombia’s stock exchange, the Indice General de la Bolsa de Valores de Colombia, fell 1.99 percent this week.

- Hong Kong was among the worst-performing countries in Asia this week. Weaker-than-expected August data on Chinese imports, inflation and aggregate financing rekindled investor concerns over sluggish domestic demand growth from China, incrementally diminishing efficacy of a targeted easing policy from its government.

Opportunities

- Interest rate cuts and plans for a European Central Bank (ECB) asset-backed purchasing program continue to be an opportunity for growth in the struggling eurozone. Assuming the policies are successful in inciting inflation and stimulating growth in the eurozone, emerging markets will benefit as well. A significant export destination for many emerging markets, the eurozone’s strength is closely related to the health of the global economy overall.
- The success story from Alibaba Group disseminated in its pre-initial public offering (IPO) roadshow, should remind investors of China’s world-leading growth in e-commerce and further monetization potential of the mobile Internet. Leading Chinese Internet franchises may continue to benefit from positive investor sentiment heading into Alibaba’s debut next week.



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Threats

- A report issued this week by the San Francisco Federal Reserve spooked markets. According to the report, low volatility in financial markets is a sign that investors may be underestimating how soon the Federal Reserve will raise interest rates. The report caused a selloff in emerging markets this week and, should it be accurate, poses a significant headwind for emerging markets which are vulnerable to higher rates in the U.S.
- Since the Second-Child policy was approved in China earlier this year, eligible couples have been slow to embrace looser restrictions based on provincial statistics. Growth prospects of China’s mass-consumer sector, such as infant foods and diapers, has significantly diminished due to structural migration to e-commerce and rising competition to name brands.
- Weaker-than-expected Chinese imports growth in August may continue to be a challenge for neighboring countries in Asia that are more reliant on Chinese demand, especially Taiwan and South

Korea, in the near term.

In the News

September 9, 2014
Casey Research Highlights Frank Holmes' Pattern to Success

September 9, 2014
What Is Frank Holmes' Touchdown Pass for Gold?

September 9, 2014
What Will It Take for Junior Gold Stocks to Take Off?

Leaders and Laggards

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

Weekly Performance

Index	Close	Weekly Change($)	Weekly Change(%)
10-Yr Treasury Bond	2.61	+0.15	+6.14%
Natural Gas Futures	3.85	+0.05	+1.42%
Nasdaq	4,567.60	-15.30	-0.33%
Korean KOSPI Index	2,041.86	-7.55	-0.37%
Russell 2000	1,160.61	-9.53	-0.81%
DJIA	16,987.51	-149.85	-0.87%
S&P 500	1,985.54	-22.17	-1.10%
Oil Futures	92.23	-1.06	-1.14%
S&P Basic Materials	312.60	-6.02	-1.89%
Hang Seng Composite Index	3,369.18	-77.02	-2.23%
S&P/TSX Canadian Gold Index	184.20	-4.22	-2.24%
Gold Futures	1,230.00	-37.30	-2.94%
S&P Energy	678.33	-26.31	-3.73%
XAU	91.66	-3.64	-3.82%

Monthly Performance

Index	Close	Monthly Change($)	Monthly Change(%)
10-Yr Treasury Bond	2.61	+0.19	+7.98%
Nasdaq	4,567.60	+133.47	+3.01%
DJIA	16,987.51	+335.71	+2.02%
S&P 500	1,985.54	+38.82	+1.99%
Russell 2000	1,160.61	+18.83	+1.65%
Natural Gas Futures	3.85	+0.02	+0.42%
S&P Basic Materials	312.60	+0.28	+0.09%
Korean KOSPI Index	2,041.86	-20.50	-0.99%
S&P Energy	678.33	-21.77	-3.11%
Oil Futures	92.23	-5.36	-5.49%
Gold Futures	1,230.00	-84.50	-6.43%
S&P/TSX Canadian Gold Index	184.20	-23.60	-11.36%

XAU	91.66	-12.17	-11.72%
Hang Seng Composite Index	3,369.18	-332.01	-14.83%

Quarterly Performance

Index	Close	Quarterly Change($)	Quarterly Change(%)
Nasdaq	4,567.60	+256.95	+5.96%
Hang Seng Composite Index	3,369.18	+170.71	+5.34%
Korean KOSPI Index	2,041.86	+51.01	+2.56%
S&P 500	1,985.54	+49.38	+2.55%
DJIA	16,987.51	+211.77	+1.26%
S&P Basic Materials	312.60	+3.57	+1.16%
S&P/TSX Canadian Gold Index	184.20	+0.63	+0.34%
10-Yr Treasury Bond	2.61	+0.01	+0.27%
Russell 2000	1,160.61	-2.08	-0.18%
XAU	91.66	-0.64	-0.69%
Gold Futures	1,230.00	-44.90	-3.52%
S&P Energy	678.33	-36.50	-5.11%
Oil Futures	92.23	-14.68	-13.73%
Natural Gas Futures	3.85	-0.89	-18.82%

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.

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.

Bond funds are subject to interest-rate risk; their value declines as interest rates rise. 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. The Near-Term Tax Free Fund may invest up to 20% 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. The Near-Term Tax Free Fund 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.

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.

Past performance does not guarantee future results.

Some link(s) above may be directed to a third-party website(s). U.S. Global Investors does not endorse all information supplied by this/these website(s) and is not responsible for its/their content.

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

Fund portfolios are actively managed, and holdings may change daily. Holdings are reported as of the most recent quarter-end. Holdings as a percentage of net assets as of 6-30-2014:

African Barrick Gold 0.00%
Agnico Eagle Mines Ltd. (Gold and Precious Metals Fund 1.61%, World Precious Minerals Fund 0.57%)
Apple Inc. (All American Equity Fund 2.75%, Holmes Macro Trends Fund 2.68%)
Bank of America 0.00%
Cayden Resources 0.00%
Charles Schwab 0.00%
China Railway Corporation 0.00%
Conifex Timber Inc. (Global Resources Fund 0.96%)
Discovery Communications 0.00%
Emerge Energy Services LP (Global Resources Fund 1.21%, Holmes Macro Trends Fund 1.02%)
E Trade Financial 0.00%
Goldman Sachs 0.00%
Klondex Mines Ltd. (Global Resources Fund 1.34%, Gold and Precious Metals Fund 6.58%, World Precious Minerals Fund 6.60%)
Noble Corp. 0.00%
Union Pacific Corp. (Global Resources Fund 2.00%)
Yahoo! 0.00%

*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 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 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 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 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 MERVAL Index is a price-weighted index of the Buenos Aires Stock Exchange.
The Ibovespa Index is gross total return index weighted by trade volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange.

The Indice de la Bolsa de Valores de Colombia is the main index of Bolsa de Valores de Colombia consisting of the 30 most actively traded shares of the market.