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U.S. Global Investors
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Table of Contents

Bad News Is Good News: A Contrarian View of China Investing

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

When China celebrates its new year next month, we will transition into the Year of the Ram, also known as the Year of the Goat or Sheep. If you believe in luck, this could be a good sign. The ram comes eighth in the 12-zodiac cycle, and in Mandarin, "eight" sounds very similar to the words meaning "prosper," "wealth" or, in some dialects, "fortune." As you might imagine, the Chinese consider the number to be very lucky.

But of course successful investing involves so much more than luck. In a time when not only China but much of the rest of the world is trying to get its groove back, it's important to be cognizant of the factors that shape the markets, including changing government policy. We often say that government policy is a precursor to change, so it's important to follow the money.

With that in mind, I asked Xian Liang, portfolio manager of our China Region Fund (USCOX), to outline a few of the most compelling cases to remain bullish on the Asian giant.

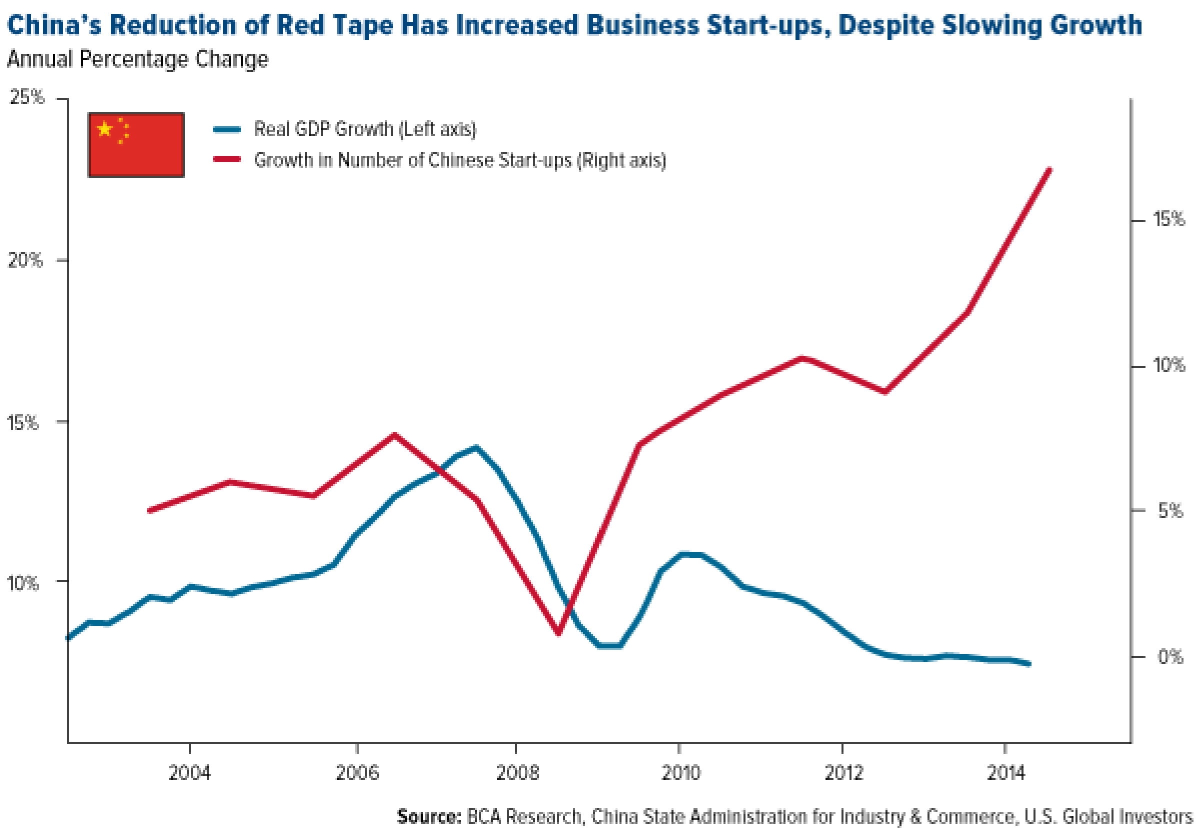
Below are some highlights from our discussion.

A Healthy Balance Between Monetary and Fiscal Support

Back in October, I pointed out that one of the main contributors to the European Union's sluggish growth is its inability to balance its monetary and fiscal policies. They have been eager to tax everything and everyone who moves. Waiting for European Central Bank (ECB) President Mario Draghi to act often feels a little like waiting for Godot. Investors' patience is wearing thin.

China, on the other hand, is much more responsive and actively committed to making full use of both policies in its arsenal to spur its cooling economy.

On the monetary side, according to Xian, are interest rate cuts and a loosening of reserve requirements for certain deposits. The goal is to ease access to loans for businesses and individuals seeking to purchase big-ticket items such as homes. As a result, Chinese entrepreneurs have increasingly been able to start more businesses.



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Jobs growth has been so robust, in fact, that the government has managed to attain its job creation target outlined in its current Five-Year period ahead of schedule and by a wide margin. The country has managed to grow millions of jobs with great efficiency, even as GDP sags.

Although the Chinese housing market has stagnated in recent months, these new monetary measures will help it pick up steam. Already we're seeing some improvement, with home property stocks moving higher.

Regulations are an indirect taxation of the economy, whereas deregulation unleashes entrepreneurial spirit.

click to enlarge

On the fiscal front, the government is reportedly planning to spend $1.6 trillion over the next two years on infrastructure projects in various industries—300 separate infrastructure programs, to be exact, according to BCA Research.

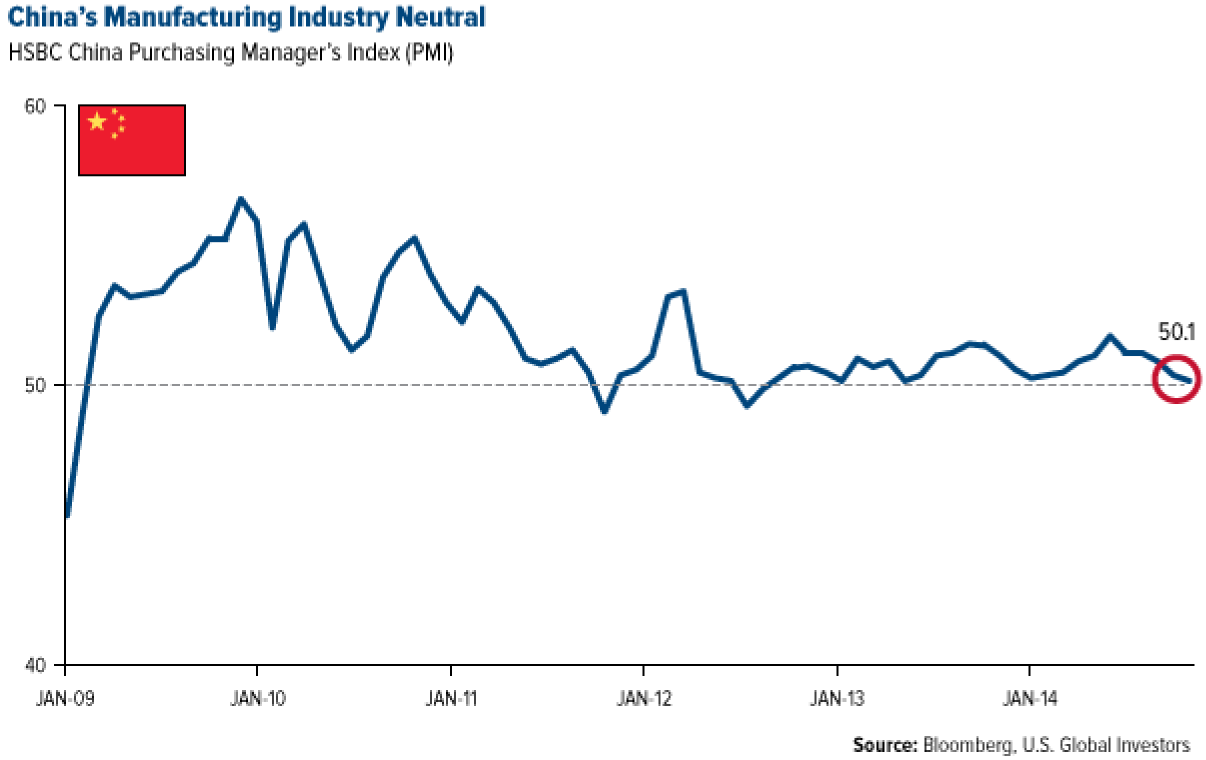
As I pointed out last month, many of these projects will largely involve high-speed rail, both domestically and abroad. China has already secured multiple construction deals with countries ranging from Brazil, South Africa, Nigeria, India, Russia, the U.S. and others.

Government to Remain Accommodative

There are a couple of reasons the Chinese government has accelerated support to capital markets, according to Xian:

> *One, a significant deflationary threat has been driven by slumping energy prices. And two, there are potentially lower exports to commodity producing nations.*

Indeed, sluggish global demand has contributed to China's weak December purchasing manager's index (PMI), which dropped to an 18-month low of 50.1. China has been quick to respond to lower PMI data with a drop in interest rates.



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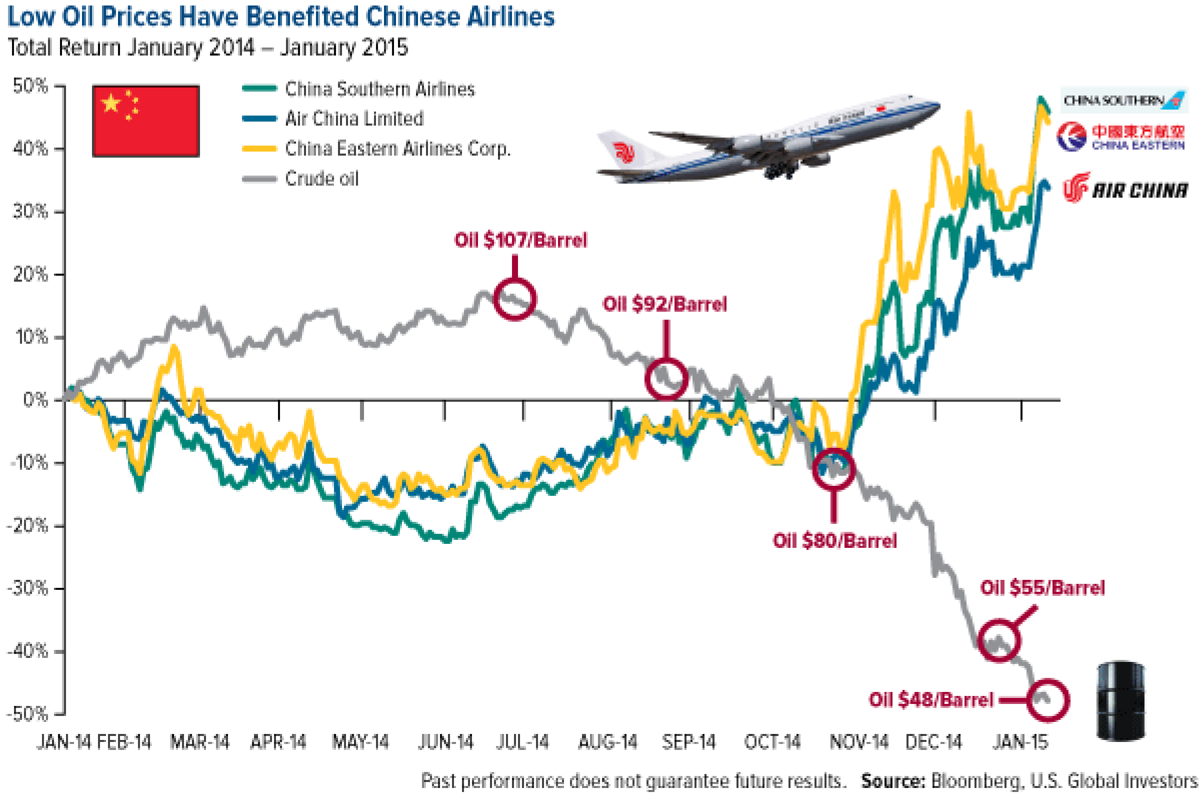
But Where There's Bad News, Good News Is Often Not Far Behind

The silver lining to falling commodity prices is that since China is a net-importer of raw materials—crude oil especially—the country has been able to save tremendously on its oil and gas bills. Back in November, I reported that for every dollar the price of a barrel of oil drops, China's economy saves about $2 billion annually. From its peak in June, crude has slipped close to $50—you do the math. This has served as a major wealth transfer from oil-producing countries into China's coffers.

Oil Sinks, Airlines Take Flight

Speaking of crude, declining oil prices—they're currently below $50 per barrel—have been good for airlines, Chinese companies included. As you can see, there's been a clear inverse relationship between crude oil returns and airline stocks.



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China is the largest investor in U.S. government bonds. It has accumulated close to $1.3 trillion, so a strong dollar and falling oil prices benefit its economic flexibility.

More middle-class Chinese might be able to afford to travel abroad, specifically here to the U.S., where inevitably they will spend their money.

click to enlarge

According to Carl Weinberg, founder and chief economist of High Frequency Economics:

> *Chinese President Xi Jinping has estimated that there will be more than a half-billion Chinese tourists*

traveling to the West in the next 10 years. You can work out the impact if all of them came to New York and spent $2,000 or $3,000 each. That would be enough to add a half-percentage point to U.S. GDP every year over the next decade.

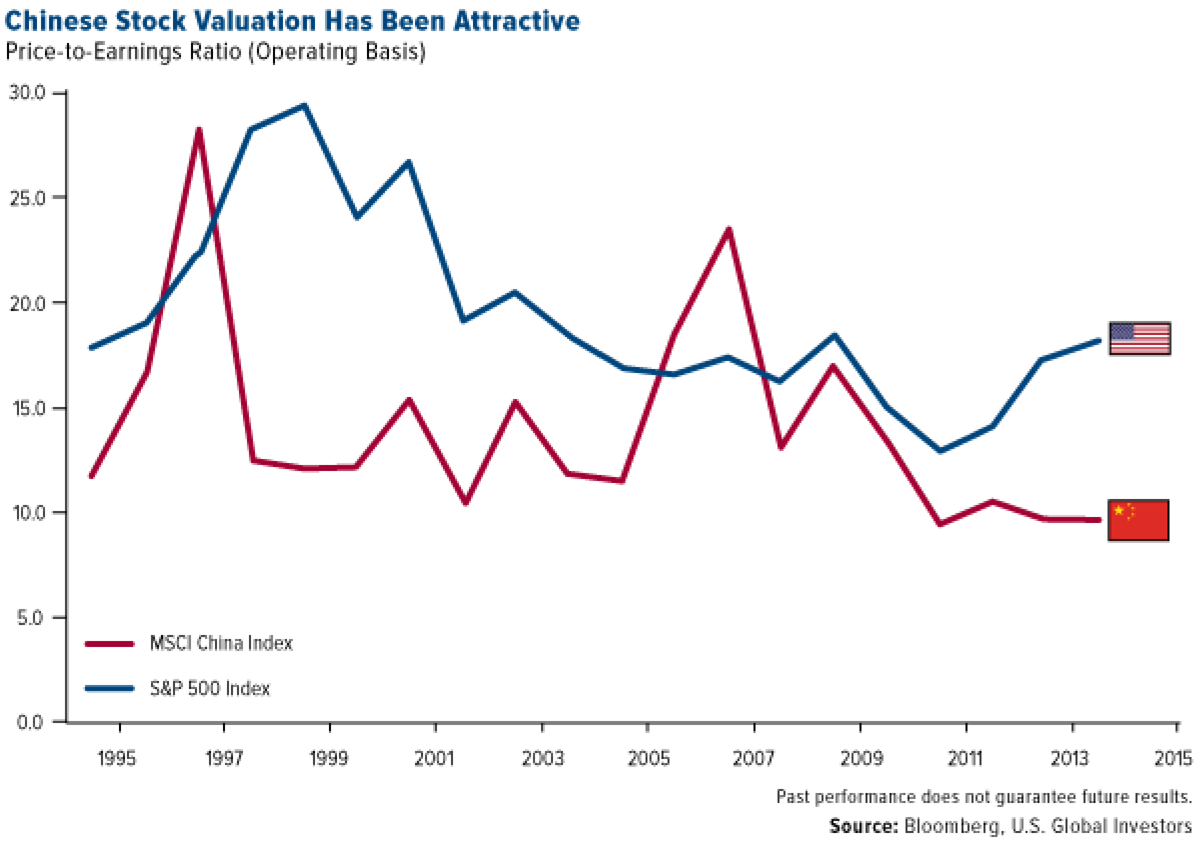
Reasonable Stock Valuation

Chinese stocks are currently valued below their own historical averages as well as those among other global emerging markets, making them both attractive and competitive.

"Odds favor mean reversion to continue," Xian says. "The better the Chinese markets perform, the more global liquidity they might attract."

Or, as Charter Trust Company Investment Advisor Mark Ungewitter puts it: "Every investor dreams of identifying cheap or reasonably-priced securities in the early stages of a bull market. Chinese equities may soon meet both criteria."

As you can see below, Chinese stocks, as expressed in the MSCI China Index, are currently a much better value than those in the S&P 500 Index, trading at 10 times earnings whereas the U.S. is trading at 18 times.



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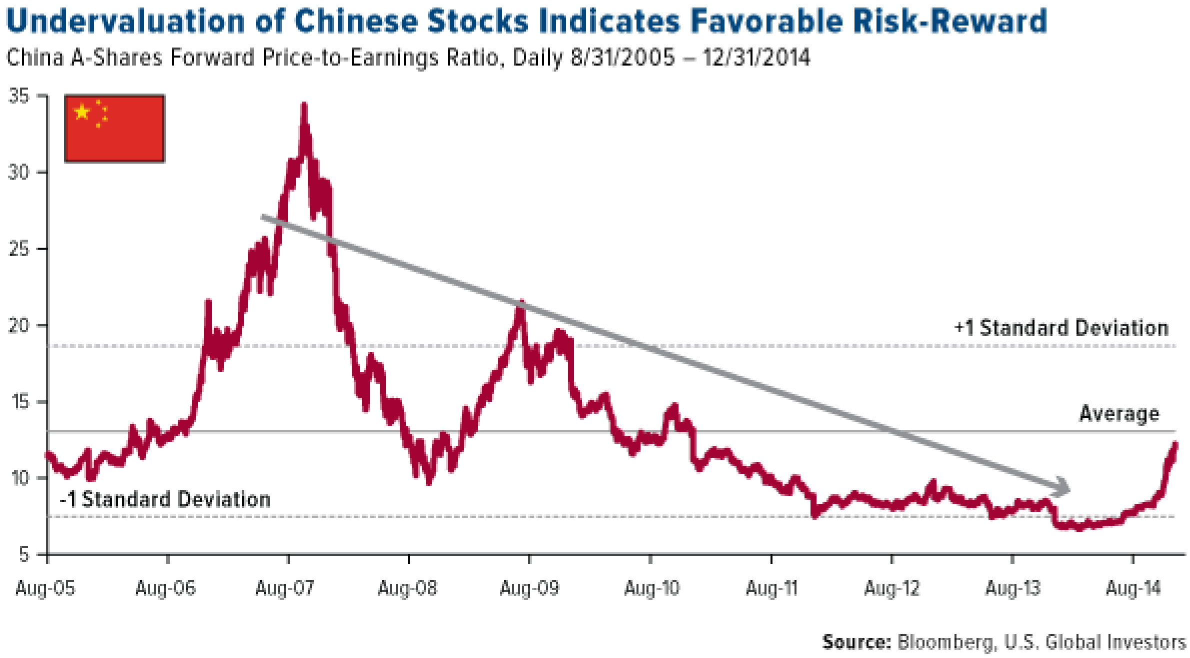
A-Shares Still a Huge Draw

Chinese A-Shares surprised the market by breaking out last summer, having delivered 66 percent for the 12-month period. It looks like a breakout from the long-term bear market.



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What's more, the upside is unlikely to have been exhausted. Although they aren't as stellar of a bargain as they once were, they're not yet overvalued, and retail and institutional investors might accumulate on pullbacks.

For the A-Shares market, USCOX has recently added exposure to A-Shares to capture more attractive valuation. In today's environment, we believe the safer bets are investable H-Shares, which are driven by A-Shares and, in 2014, returned 15.5 percent. H-Shares comprise the vast majority of the fund's exposure to Chinese equities, with further exposure gained through A-Shares exchange-traded funds (ETFs).

To the right you can see merely a sampling of the ever-popular emerging markets period tables, which will soon be available exclusively to subscribers of our award-winning Investor Alert.

Emerging Markets Total Returns for 2014

Argentina	59.14%
India	32.00%
Turkey	29.27%
Philippines	25.45%
Indonesia	24.81%
Thailand	19.09%
China H-shares	15.49%
South Africa	11.07%
Taiwan	11.24%
Chile	4.10%
Mexico	1.99%
Poland	0.43%
Russia	-2.26%
Brazil	-2.91%
Malaysia	-2.62%
Korea	-4.69%
Peru	-6.09%
Colombia	-8.25%
Hungary	-10.40%

Source: Bloomberg, U.S. Global Investors

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The Ram Is the New Bull

As GARP (growth at a reasonable price) hunters, we're prudently optimistic about the upcoming year and anticipate good things out of the world's second-largest economy. China's government and central bank are committed to jobs and manufacturing growth as well as policy easing. Its stocks are reasonably valued, and low commodity prices should continue to offset slowing global demand.

As Xian eloquently put it last month:

> *China's leadership appears to be delivering on the promises it made in November 2013 at the Third Plenary Session, specifically the liberalization of the financial sector and reform of the role capital markets play in allocating resources. This leadership is determined and committed to putting China on the right path.*

A Special Announcement

Please mark your calendars for **January 21,** as we will be conducting our first webcast of the year. We will be discussing the state of commodities! As a loyal subscriber, you'll be first to receive the registration next week. We'll be following up with an emerging markets webcast on **February 18** that will focus on China and Emerging Europe.

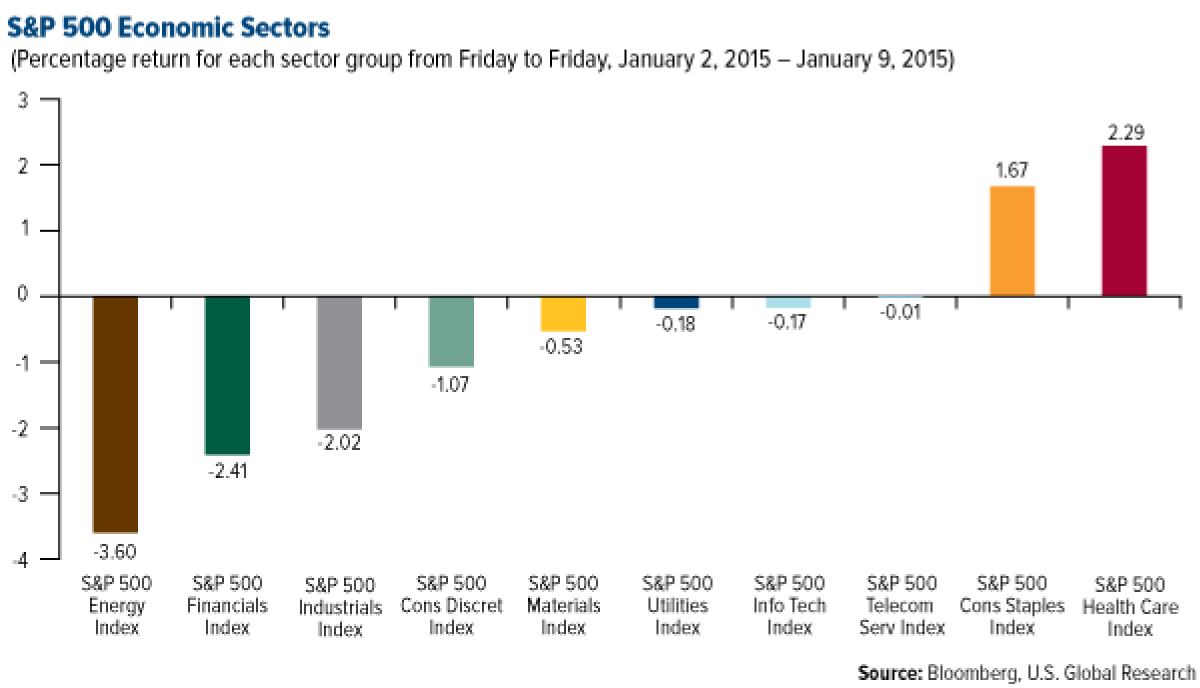
Index Summary

- Major market indices finished lower this week. The Dow Jones Industrial Average fell 0.54 percent. The S&P 500 Stock Index dropped 0.65 percent, while the Nasdaq Composite declined 0.48 percent. The Russell 2000 small capitalization index fell 1.10 percent this week.
- The Hang Seng Composite rose 0.17 percent; Taiwan fell 0.99 percent and the Kospi declined 0.09 percent.
- The 10-year Treasury bond yield fell 15 basis points to 1.96 percent.

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

Domestic Equity Market

The S&P 500 pulled back 0.65 percent in a volatile, choppy week. Energy stocks remained under pressure as oil hit new lows. Cyclical stocks underperformed as global growth prospects remain uncertain and the Federal Reserve appears intent on raising interest rates sometime in mid-2015.



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Strengths

- Health care stocks were the best performers this week with broad-based participation. Managed-care names like Cigna got a boost from better-than-expected Obamacare enrollments, while other names like Merck, Gilead Sciences and Pfizer all had strong performances.
- The consumer staples sector was also positive this week. Constellation Brands reported better-than-expected,

third-quarter earnings and boosted its fiscal 2015 earnings estimates. Monster Beverage was also strong this week on robust industry-wide energy drink sales and positive expectations for the company's investor meeting scheduled for next week.

- Boston Scientific was the best performing company this week, rising 10.82 percent. The company presented at an investor conference and was well received.

Weaknesses

- The energy sector was the worst performer this week as oil prices continued to fall and the overall sector experienced a broad-based sell-off.
- The financial sector also underperformed this week. Regional banks suffered as the yield curve continued to flatten, likely pressuring margins.
- The worst performing company this week was United Rentals, which fell 13.80 percent. The company was cut to a "sell" rating on Monday by an influential sell-side analyst, sending the shares down almost 11 percent on Monday.

Opportunities

- After outperforming in 2014, defensive stocks may be poised to continue that outperformance. The Fed appears intent on normalizing monetary policy and the bond market is responding by sending long-term yields lower. This movement implies that the market believes a tighter Fed will materially slow the economy.
- With gasoline prices continuing to fall, consumer discretionary and consumer staples sectors could stand to benefit in the weeks and months ahead.
- If oil can find a bottom and move higher, small and mid-cap energy stocks would be among the first beneficiaries.

Threats

- The rally for U.S. energy producers may be short lived as OPEC countries seem to be acting individually rather than as a collective cartel, making any prediction of their future actions more difficult. This could be positive, however, for the inverse-beneficiary companies in sectors such as airlines and consumer discretion.
- The ECB still hasn't shown its cards on a plan to revive the European economy. If it plays a weak hand, Europe could end up in recession again.
- The broad equity market has been surprisingly tame over the past year and a 10-percent correction would be nothing out of the ordinary.

Frank Talk Insight for Investors

January 8, 2015
15 Charts to Keep Your Eyes on for '15

January 7, 2015
Which Way to Higher Yield?

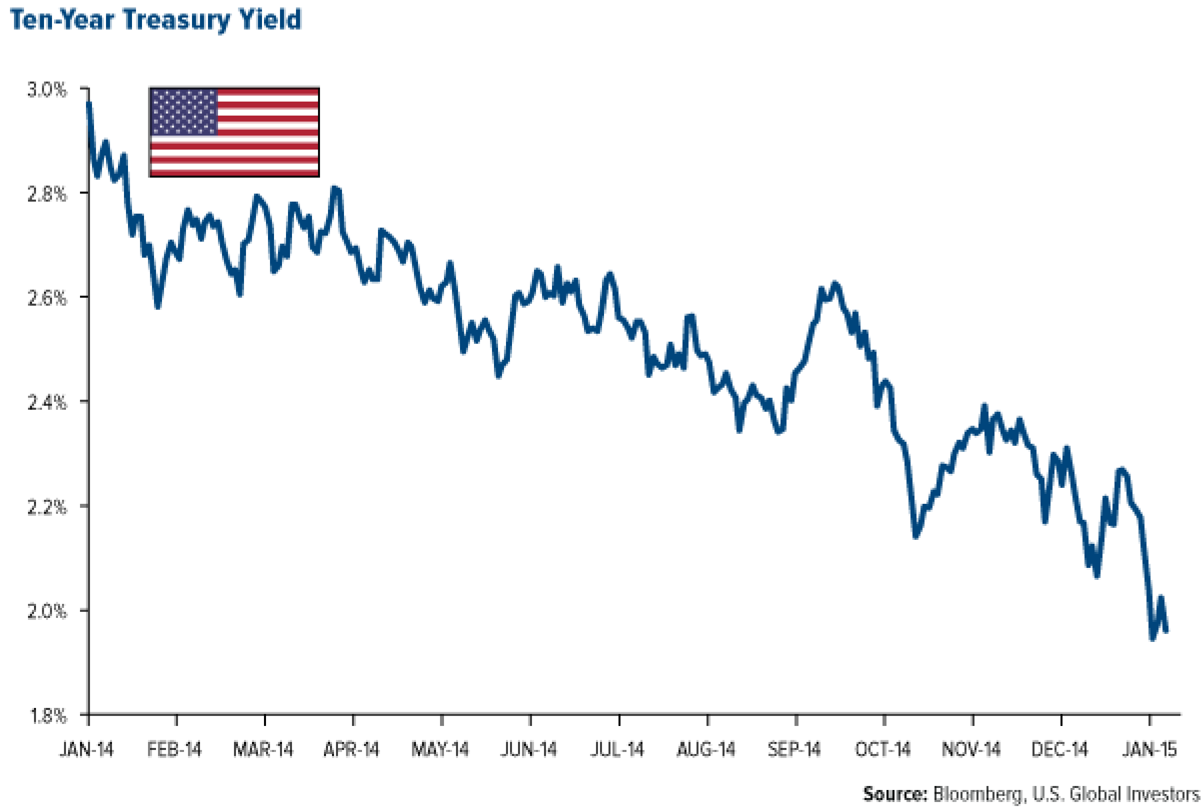
January 5, 2015
Flying High in the Sky, Looking for Opportunities in 2015

A blog by Frank Holmes, CEO and Chief Investment Officer

U.S. Government Securities Ultra-Short Bond Fund - UGSDX • Near-Term Tax Free Fund - NEARX

The Economy and Bond Market

U.S. Treasury bonds rallied again this week, sending yields lower across the curve. Deflation risk has turned into reality as consumer prices in the eurozone fell 0.2 percent year-over-year in December. It seems the Federal Reserve views this deflation as transitory and continues to prepare the market for rate hikes in mid-2015. In an interesting twist, this also seems to be sending yields lower. The market is afraid the Fed is going to slow the economy with rate hikes, while the long end of the yield curve is rallying.



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Strengths

- The December employment report was strong with nonfarm payrolls growing to 252,000. This number is slightly better than expected and the unemployment rate fell to 5.6 percent.
- December same-store retail sales rose 5 percent and hitting an eight-year high, according to Retail Metrics. Lower gasoline prices and an improving employment picture are widely cited as the catalyst for these strong results.
- December U.S. auto sales rose to a very robust 10.8 percent.

Weaknesses

- Europe fell into deflation mode in December and while the European Central Bank (ECB) is expected to announce a quantitative easing (QE) program later this month, the risk remains that this will be too little too late.
- The U.S. nonmanufacturing ISM fell to 56.2 in December, which is the lowest level in six months and below expectations.
- Greece will hold early, “snap” elections later this month, raising the possibility of a “Grexit” from the euro, which could cause many unforeseen consequences.

Opportunities

- The ECB meets on January 22, and needs to show the market it is willing to act and implement an aggressive form of QE.
- Short-term bond yields have risen, but with many headwinds to raising interest rates, the Fed may not be able to follow through on the threat of interest rate increases in 2015, presenting an opportunity. This is a very similar scenario that played out a year ago.
- Municipal bonds continue to look like an attractive alternative in the broad, fixed-income universe.

Threats

- Greece is generating negative headlines again and while the news seems to be an isolated political event, it does reinforce the idea of the potentially fragile nature of the euro currency.
- Oil prices appear to be extremely oversold. A bounce in oil could change the mood throughout the market and bonds could sell off in reaction.
- The Fed's next meeting is set for January 28, and if the hawkish tone continues, this could spook the market.

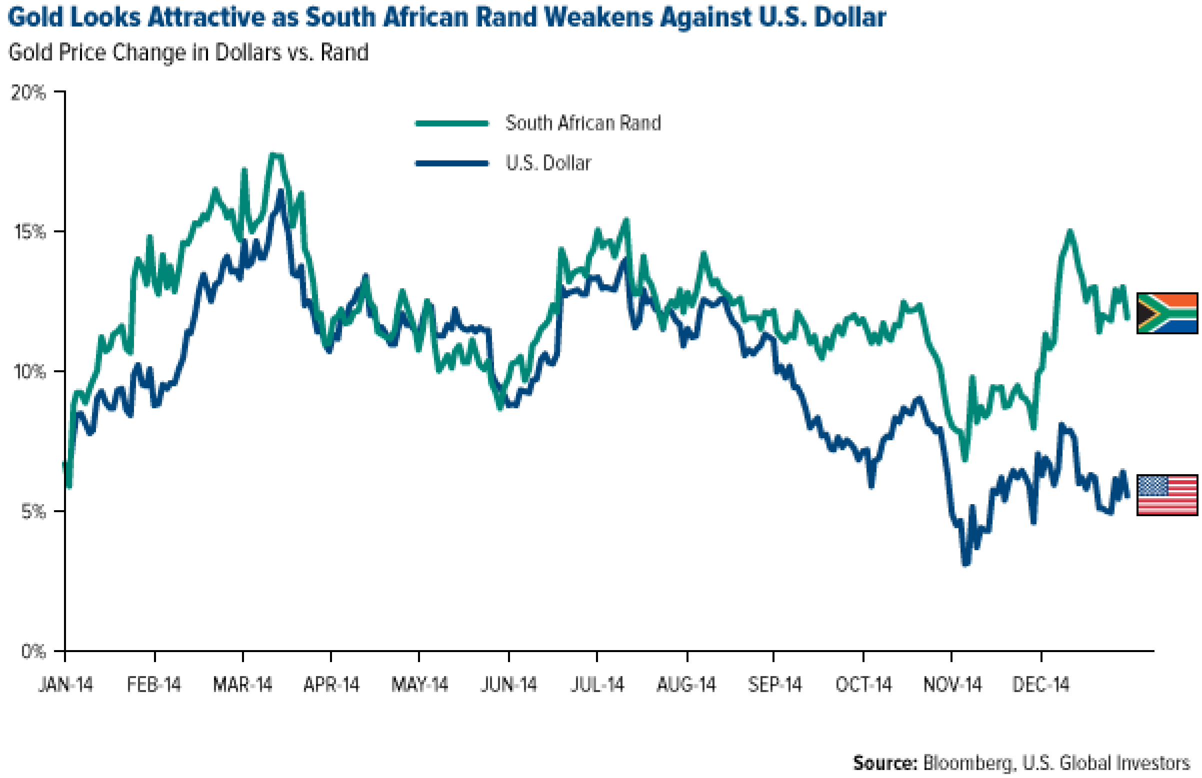
World Precious Minerals Fund - UNWPX • Gold and Precious Metals Fund - USERX

Gold Market

For the week, spot gold closed at $1,221.6 up $35.4 per ounce, or 2.96 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, gained 9.43 percent. The U.S. Trade-Weighted Dollar Index gained 0.92 percent for the week.

Date	Event	Survey	Actual	Prior
Jan 05	German CPI YoY	0.3%	0.2%	0.6%
Jan 07	Eurozone CPI Core YoY	0.7%	0.8%	0.7%
Jan 07	US ADP Employment Change	225K	241K	208K
Jan 08	US Initial Jobless Claims	290K	294K	298K
Jan 09	US Change in Nonfarm Payrolls	240K	252K	321K
Jan 09	China Money Supply M2 YoY	12.5%	--	12.3%
Jan 12	China Exports YoY	6.0%	--	4.7%
Jan 12	China Imports YoY	-6.2%	--	-6.7%
Jan 15	German GDP NSA YoY	1.5%	--	0.1%
Jan 16	German CPI YoY	0.2%	--	0.2%
Jan 16	US CPI YoY	0.7%	--	1.3%

South African Gold Producers Surge as Weak Rand Translates to Higher Profit Margin



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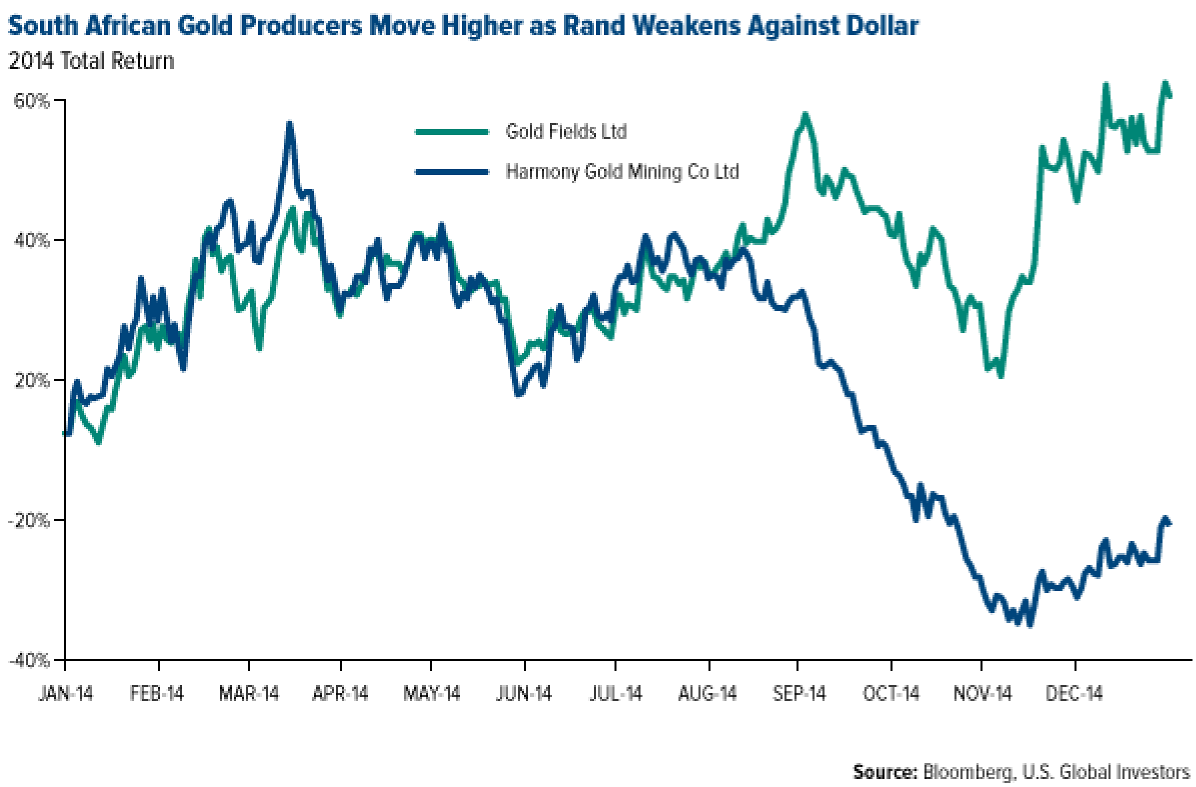
As seen in the graph, the strength of the dollar towards the end of 2014 caused gold to underperform in U.S. dollar terms, but the South African rand's depreciation versus the dollar caused gold to outperform in rand terms.



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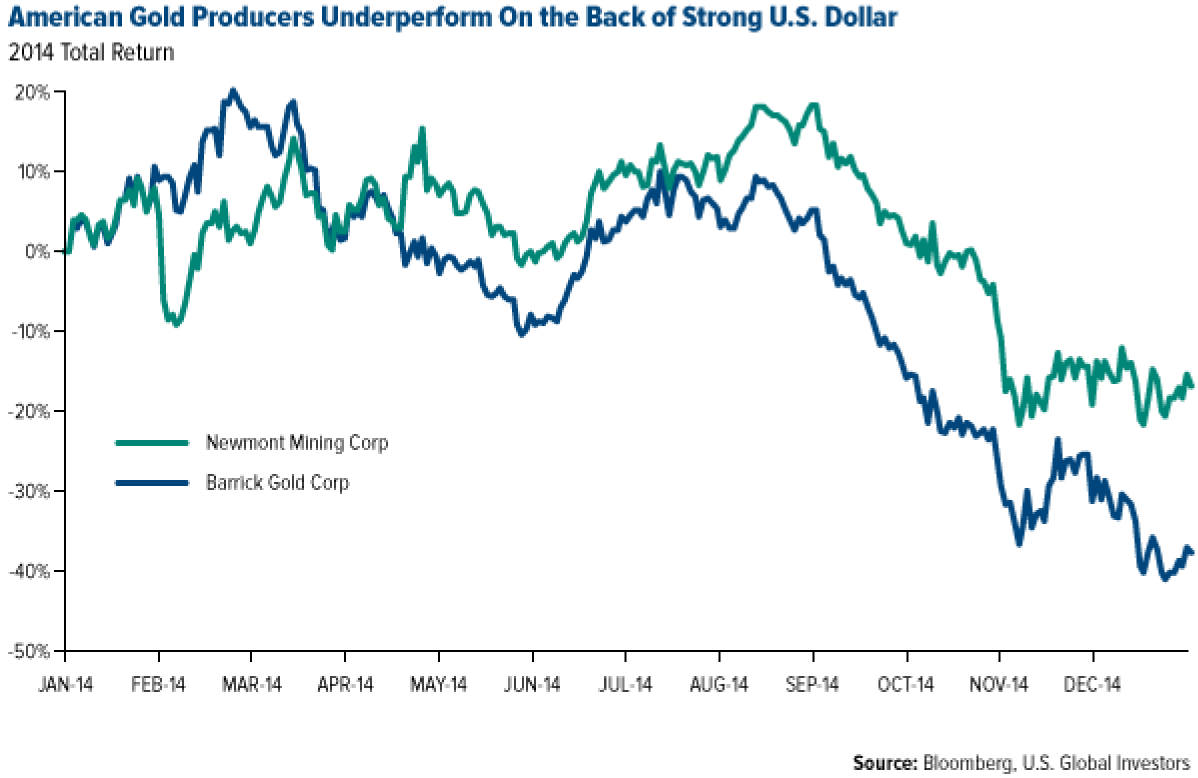
Bad news is good news as a weakening of the rand versus the dollar towards the end of 2014 allowed South African gold companies, whose costs are in rand, to increase margins and profitability, causing their stocks to breakout.



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Meanwhile, Newmont and Barrick declined as much of their gold production is in the U.S

Strengths

- Bullish gold bets by hedge funds increased for the first time in three weeks and have more than doubled since mid-November. Concurrently, short holdings dropped for the sixth week in seven. These actions come as political turmoil in Greece and government actions in Asia have sent gold prices to their biggest monthly advance since June.
- HSBC raised its 2015 gold forecast to $1,234/oz from a prior $1,175 citing the possibility of increased gold demand should strength in the dollar lead to dislocation in the currency markets, along with enhanced geopolitical risk.
- The CME Group announced it is expecting to launch a one-kilogram gold physical delivery futures contract in Hong Kong on January 26. It will be tied directly to .9999 gold prices in Hong Kong and be physically delivered in Hong Kong to provide access to round-the-clock price discovery for the Asian gold market. Asia is the top consumer of physical bullion in the form of jewelry, bars and coins, but there is growing disenchantment with benchmark prices set in the West, which tend to be influenced by speculators. This new futures contract market will establish a price reference in the top consuming region and better reflect Asian demand.

Weaknesses

- Barrick Gold was downgraded to “Underperform” from “Neutral” at Macquarie Research and was given a 12-month target price of C$11.00. Additionally, RBC Capital Markets also downgraded the stock to “Sector Perform” from “Outperform” and cut its price target to $14 from $17. Reasons cited were uncertainty about the company’s debt and capital allocation.
- Rough diamond prices suffered the biggest quarterly decline in more than two years falling 6.9 percent in the last three months of 2014 as banks tightened credit to the industry, forcing traders, cutters and polishers to sell more inventory. Ed Sterck, analyst at Bank of Montreal, explained, “If you’re a cutter or polisher of rough whose available liquidity is being reduced you’ve got to adjust your inventory. Selling inventory to increase cash has the knock on effect of increasing the supply of polished diamonds.” Diamond output fell to about 146 million carats last year from a 2006 peak of 176 million carats as the industry faces a dearth of new projects. Sterck forecasts this to be a temporary six-month blip unless there are further reductions in liquidity.

Declines in precious metals prices fueled a drop of more than $20 billion in commodity exchange-traded product holdings in 2014. The decline in value of global commodity ETF holdings was almost entirely driven by a fall in commodity prices, rather than investor outflows.

Opportunities

- While the dollar is up around 8.5 percent since the start of November, gold has risen around 7 percent and has broken free of its normal inverse correlation with the dollar. This reflects a near 50 percent fall in Comex fund shorts over this period, while the ongoing decline in gold ETFs appears to have bottomed. Furthermore, strong Indian and Chinese demand, and an unexpected physical squeeze in early December which drove one-month lease rates to six-year highs, have combined to underpin the spot market. Recent developments suggest gold's 3.5-year correction from its third-quarter 2011 all-time highs may have now run its course.

- The fundamentals of the global gold market could point to modestly higher prices in 2015, according to commodities analyst Victor Thianpiriya from ANZ Bank who forecast gold prices to average around $1,238/oz. Thianpiriya believes gold has priced in a lot of the downside already, providing long-term investors with an attractive entry point.

- Big mining costs are expected to fall in first quarter 2015 as the fall in oil prices will have a positive effect on operating costs at mines employing diesel-powered equipment and particularly those which rely on oil-fueled generators. Energy consumption can account for as much as 40 percent of some mines' operating costs, particularly those in remote locations which have no access to grid power.

Threats

- Despite continued physical demand in Asia, gold prices are expected to drop in 2015 according to analyst Suki Cooper from Barclays. She notes that gold's correlation with oil prices and the euro/dollar has strengthened, hitting about 40 percent in the last three months. Combining that with her view of a U.S. interest rate hike in mid-2015 sets gold up for significant pressure. Cooper also highlighted that Russian gold reserves could be a risk to the market. Russia has been the largest purchaser of gold in recent years, but continued weak oil prices and the resulting pressure on the ruble could force it to make large gold sales. Barclays forecast gold to average $1,180/oz in 2015 and add that robust demand across both India and China would allow the metal to find a stronger floor.

- Black Swan Plc came out with its 2015 new year newsletter talking about how the BRIC (Brazil, Russia, India, China) countries are far closer to an alternative world financial system than the West believes or is prepared to state publicly. The building blocks of this go as follows: Expecting inflation to come back to the U.S. as a result of the QE programs, China has stopped buying U.S. debt. Instead, it and the other BRIC countries have set out to create various alternative financial institutions. One is the "BRICS Bank" which was formally brought into being in July 2014. While the initial shareholders are the BRICs, they do not rule out adding other participants in the future. The headquarters are in Shanghai. Another is the Asian Infrastructure Investment Bank (AIIB) which was first floated by China in October 2013. In November 2014, President Xi announced the doubling of the initial contribution from China to increase it to $100 billion. The initial group of countries which formed this bank are Bangladesh, Brunei, Cambodia, China, India, Indonesia, Kazakhstan, Kuwait, Laos, Malaysia, Mongolia, Myanmar, Nepal, Oman, Pakistan, Philippines, Qatar, Singapore, Sri Lanka, Thailand, Uzbekistan, and Vietnam. Then there is the Silk Road infrastructure fund which was announced by China in November 2014 with an initial contribution from China of $40 billion. The objective is to put in place the infrastructure to create a new Silk Road economic belt that will break the connectivity bottleneck, with investments in infrastructure for both land and sea. This puts an aggregate value, of China's contributions only, for the three institutions of $340 billion. Compare this to existing institutions where IMF assets in special drawing rights (SDRs) are around $309 billion, The World Bank is $223 billion, Asian Development Bank is $163 billion. So in the space of 24 months China has put in place new financial institutions which, with contributions mainly from China, have nearly 50 percent of the assets of the existing major international financial institutions of the West. Add to that the steady increase in trade denominated in Renmimbi which will only be furthered by these institutions and the dollar will be pressured into an ever diminishing role as the world trade currency of choice.

- INTL FCStone has said iron ore will probably extend declines in 2015 as global supply exceeds demand and the world's largest producers plan to continue adding production.

In the News

January 6, 2015 | January 6, 2015 | January 5, 2015

Where's Gold Headed in 2015?

Here's to the Love Trade in 2015

Muni Bonds and an Update on U.S. Global

Global Resources Fund - PSPFX

Energy and Natural Resources Market

Strengths

- Precious metals and mining stocks jumped this week as economic and political uncertainty out of Europe, coupled with the increased likelihood of easing by the European Central Bank (ECB), increased the demand for alternative assets. The NYSE Arca Gold Miners Index and the Global X Silver Miners ETF rose 9 percent and 8 percent this week, respectively. Gold Fields Ltd. jumped 18 percent this week.
- Fertilizers stocks outperformed this week as natural gas prices continued to decline. The Bloomberg Leaders Fertilizers Index closed up 4 percent this week, while Yara International ASA jumped 15 percent.
- Packaged food stocks were a relative outperformer this week as the dollar continued its decline and positive global growth sentiment remained muted. The S&P Supercomposite Packaged Foods Index rose 1.4 percent this week.

Weaknesses

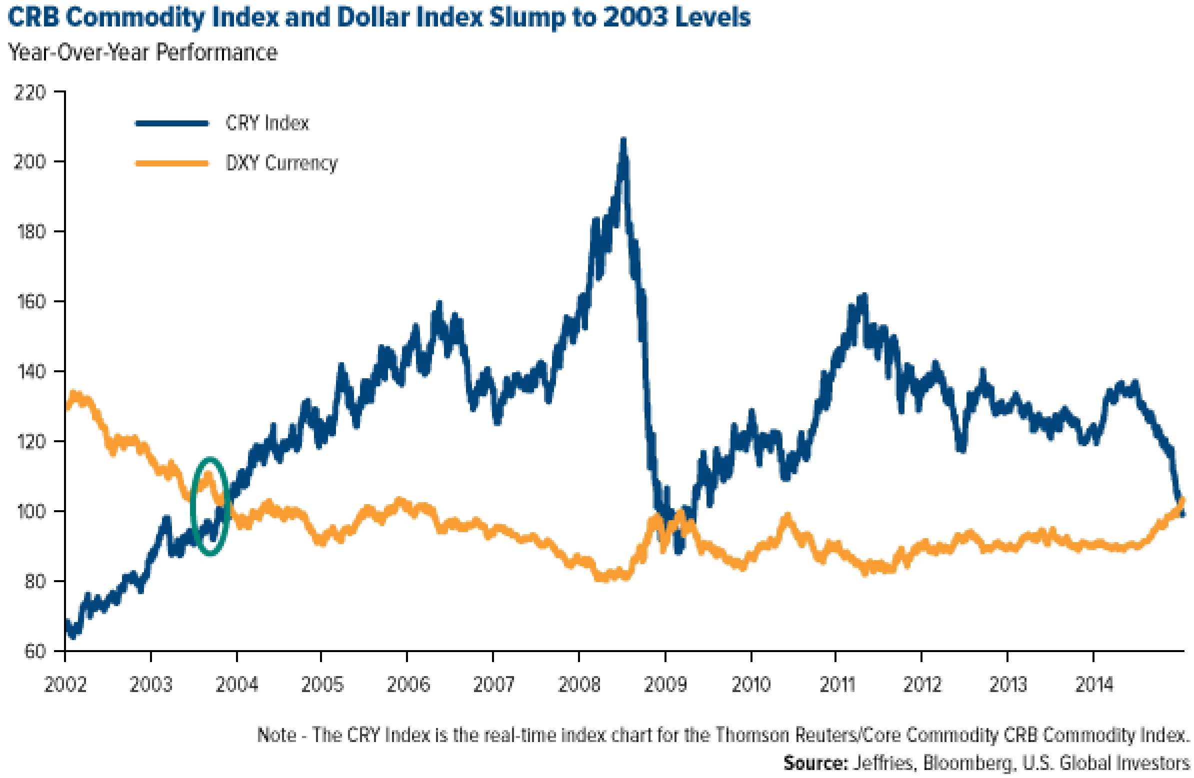
- Oil and gas drilling stocks stumbled this week as oil continued to decline and investors' concerns over looming capital-expenditure cuts weighed on sentiment. The S&P Supercomposite Oil & Gas Drilling Index fell 8 percent this week.
- High-beta energy stocks suffered this week alongside global risk-off sentiment and lower energy prices. The S&P/TSX Capped Energy Index fell 7.3 percent this week.
- Contrary to what one would expect in the current environment, MLP stocks were a significant underperformer this week. The Alerian MLP Infrastructure Index declined 5 percent this week.

Opportunities

- After a 700 kbpd oil-supply surplus in 2014, analysts are forecasting a narrowing of oversupply moving forward. If a peak did occur, supply and demand dynamics could restore balance to oil prices.
- With inflation out of the eurozone coming in negative this week, it seems even more likely that the ECB will enact outright quantitative easing. Precious metals prices could rally in response to such a policy, due to the continuation of the global easing cycle as well as the intended rise in inflation that should result.
- China's passenger vehicle sales are expected to grow at an average of 8 to10 percent over the next 10 years, and 2015 sales are anticipated to reach 20 million units, according to the country's State Information Center.

Threats

- The United States government has been discussing the implementation of a gasoline tax to capture some of the benefits consumers have been experiencing as of late. The tax would reduce the multiplier effect that cheap gasoline prices have been having on the economy.
- The U.S. dollar has broken through key resistance points and is likely to continue its rise unless a rapid shift in global growth occurs. If the ECB officially begins quantitative easing the dollar could jump again.



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China Region Fund - USCOX • Emerging Europe Fund - EUROX

Emerging Markets

Strengths

- Russian stocks bounced this week, gaining back some of the substantial losses the country experienced in 2014. OAO Sberbank, Russia's largest lender, boosted the Micex index after Goldman Sachs. reported that the bank was best positioned to weather any storm Russia's financial system may experience. The Micex index was up 8.50 percent in local currency terms.

- Brazilian equities and the real rallied this week, leading the charge this year as the first country to see a surge of "risk on" investor sentiment. The government announced this week that it had reduced its budget by more than a third of certain expenses. The fiscal tightening is aimed at restoring the country's image to creditors in an effort to induce an economic recovery. The Ibovespa Brasil Sao Paulo Index and the real rose 0.68 and 2.16 percent this week, respectively.

- Turkey has been a substantial outperformer recently due to falling oil prices and the increasing probability of outright quantitative easing in the eurozone. Furthermore, the recent year-over- year CPI data, coming in slightly under a full percentage point below the prior months reading, has given policymakers more breathing room when it comes to adjusting interest rates. The Borsa Istanbul 100 Index closed up 2.56 percent this week.

Weaknesses

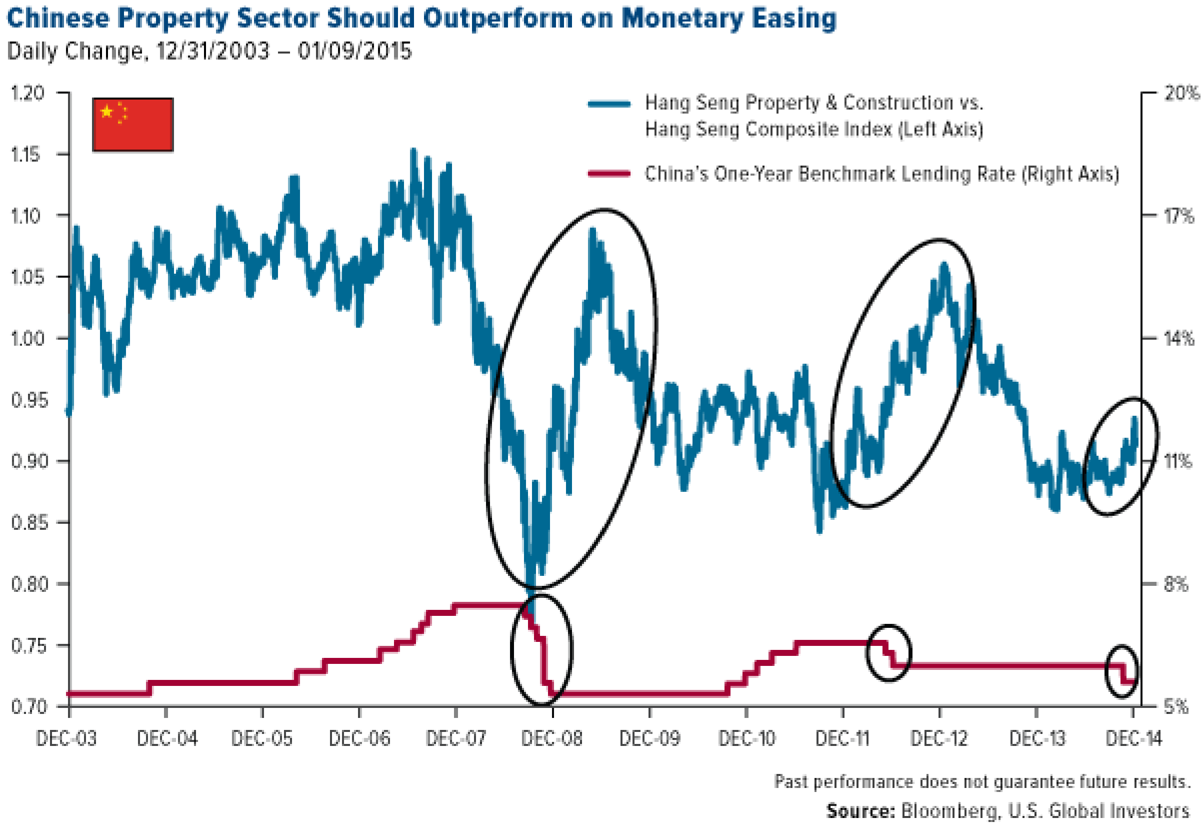
- Greek stocks continue to sell off as investors grow more anxious heading into the snap election at the end of the month. This week, the yields on 10-year Greek government bonds spiked up over 10 percent, signaling growing uncertainty in the country's economy. The Athens Stock General Exchange Index fell 6.78 percent this week.

click to enlarge

- Colombian equities declined this week as oil prices fell substantially to start the week. A highly oil leveraged country, Colombia has been among the worst performing emerging markets due to the oil price slump. The Indice General de la Blosa de Valores de Colombia fell 4.19 percent this week.
- Hungarian stocks and the forint fell this week as deflationary fears spread through Europe. Investors are forecasting the government will intervene to address the mounting deflation concerns, which would result in a weaker currency. The Budapest Stock Exchange Index and the Hungarian forint fell 2.47 percent and 1.06 percent this week, respectively.

Opportunities

- China's lower than expected producer price inflation in December, coupled with little reprieve in falling crude oil prices, may raise Chinese policymakers' awareness of deflation risk. Given the still elevated real interest rates domestically and a record high traded-weighted local currency, further monetary policy easing is increasingly likely. Chinese property developers historically delivered significant outperformance in easier credit cycles, and should continue to experience stock price rallies driven by valuation expansion.



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- While policymakers disappointed investors last year by maintaining interest rates at current levels, Polish stocks bounced this week on renewed speculation that the government will lower rates to address the region's deflationary pressures. A rate cut in Poland would stimulate economic activity in the country.
- With deflation finally infecting the eurozone once again, the likelihood of outright quantitative easing from the European Central Bank has risen. Such stimulative measures should prove beneficial to Turkish markets, which have benefited from global monetary easing polices.

Threats

- Macau's disappointing gross gaming revenue growth in December together with Chinese President Xi Jinping's recent advice for Macau's economic diversification beyond casino gaming may continue to weigh on the city's casino operators.
- Russia's credit rating was downgraded by Fitch on Friday as analysts continue to forecast a more dismal 2015 for the stumbling economy. Despite the recent upticks in the Micex Index, Russian equities remain dangerously vulnerable to the current economic climate.
- With the election set for the end of the month, Greece is once again questioning its place within the Eurozone. If the far-left Syriza party should come into power, which is expected, much remains to be seen as to how the new government will cooperate with its foreign lenders.

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	17,737.37	-95.62	-0.54%
S&P 500	2,044.81	-13.39	-0.65%
S&P Energy	567.92	-21.20	-3.60%
S&P Basic Materials	304.07	-1.75	-0.57%
Nasdaq	4,704.07	-22.75	-0.48%
Russell 2000	1,185.59	-13.21	-1.10%
Hang Seng Composite Index	3,313.60	+5.62	+0.17%
Korean KOSPI Index	1,924.70	-1.74	-0.09%
S&P/TSX Canadian Gold Index	166.31	+15.03	+9.94%
XAU	76.17	+5.66	+8.03%
Gold Futures	1,221.60	+35.40	+2.98%
Oil Futures	48.22	-4.47	-8.48%
Natural Gas Futures	2.97	-0.04	-1.20%
10-Yr Treasury Bond	1.96	-0.15	-7.11%

Monthly Performance

Index	Close	Monthly Change($)	Monthly Change(%)
DJIA	17,737.37	+204.22	+1.16%
S&P 500	2,044.81	+18.67	+0.92%
S&P Energy	567.92	+12.29	+2.21%
S&P Basic Materials	304.07	+3.21	+1.07%
Nasdaq	4,704.07	+20.04	+0.43%
Russell 2000	1,185.59	+23.72	+2.04%
Hang Seng Composite Index	3,313.60	-332.01	-14.83%
Korean KOSPI Index	1,924.70	-20.86	-1.07%
S&P/TSX Canadian Gold Index	166.31	+15.39	+10.20%
XAU	76.17	+5.17	+7.28%
Gold Futures	1,221.60	-7.80	-0.63%
Oil Futures	48.22	-12.72	-20.87%
Natural Gas Futures	2.97	-0.74	-19.94%
10-Yr Treasury Bond	1.96	-0.20	-9.42%

Quarterly Performance

Index	Close	Quarterly Change($)	Quarterly Change(%)
DJIA	17,737.37	+1,193.27	+7.21%
S&P 500	2,044.81	+138.68	+7.28%
S&P Energy	567.92	-45.81	-7.46%

S&P Basic Materials	304.07	+12.39	+4.25%
Nasdaq	4,704.07	+427.83	+10.00%
Russell 2000	1,185.59	+132.26	+12.56%
Hang Seng Composite Index	3,313.60	+134.08	+4.22%
Korean KOSPI Index	1,924.70	-16.22	-0.84%
S&P/TSX Canadian Gold Index	166.31	+3.71	+2.28%
XAU	76.17	-1.09	-1.41%
Gold Futures	1,221.60	-0.70	-0.06%
Oil Futures	48.22	-37.60	-43.81%
Natural Gas Futures	2.97	-0.89	-23.11%
10-Yr Treasury Bond	1.96	-0.32	-14.03%

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.

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

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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 9/30/2014:

China Southern Airlines Co. Ltd: 0.0%
Air China Ltd: 0.0%
China Eastern Airlines Corp.: 0.0%
Cigna Corp.: 0.0%
Merck & Co., Inc.: 0.0%
Gilead Sciences, Inc.: All American Equity Fund, 1.84%; Holmes Macro Trends Fund, 1.93%
Pfizer, Inc.: All American Equity Fund, 0.83%

Constellation Brands, Inc.: 0.0%
Monster Beverage: 0.0%
Boston Scientific: 0.0%
United Rentals, Inc.: All American Equity Fund, 1.92%; Holmes Macro Trends Fund, 2.23%
Gold Fields Ltd: Gold and Precious Metals Fund, 1.08%; World Precious Minerals Fund, 0.25%
Harmony Gold Mining Co. Ltd: Gold and Precious Metals Fund, 0.86%; World Precious Minerals Fund, 0.76%
Newmont Mining Corp.: Gold and Precious Metals Fund, 1.11%; World Precious Minerals Fund, 0.26%
Barrick Gold Corp.: 0.0%
Global X Silver Miners ETF: Gold and Precious Metals Fund, 0.01%; World Precious Minerals Fund, 0.01%
Yara International ASA: 0.0%
OAO Sberbank: 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 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 Purchasing Manager's Index is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.
The MSCI China Free Index is a capitalization weighted index that monitors the performance of stocks from the country of China.
The ISM Nonmanufacturing index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management (ISM). The ISM Non-Manufacturing Index tracks economic data, like the ISM Non-Manufacturing Business Activity Index. A composite diffusion index is created based on the data from these surveys that monitors economic conditions of the nation.
The Bloomberg Global Leaders Fertilizers Index is a capitalization weighted index comprised of companies from the fertilizers industry.
The S&P Supercomposite Packaged Foods Index is a capitalization-weighted index.
The S&P 500 Oil & Gas Drilling Index is a capitalization-weighted index. The index is comprised of four stocks whose primary activity is drilling for oil on land or at sea.
The S&P/TSX Capped Energy Index is a constrained market capitalization-weighted index that consists of Canadian energy sector companies listed on the Toronto Stock Exchange.
The Alerian MLP Infrastructure Index, comprised of 25 energy infrastructure Master Limited Partnerships, is a liquid, midstream-

focused subset of the Alerian MLP Index (NYSE: AMZ). The index, whose constituents earn the majority of their cash flow from the transportation, storage, and processing of energy commodities, provides investors with an unbiased benchmark for the infrastructure component of this emerging asset class.

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.

The Ibovespa Index (IBOV) is a total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange.

The Borsa Istanbul 100 Index is a capitalization-weighted index composed of national market companies except investment trusts.

The Athens Stock Exchange General Index is a capitalization-weighted index of Greek stocks listed on the Athens Stock Exchange.

The Indice General de la Blosa de Valores de Colombia (IGBC) is a liquidity-weighted index of the most liquid stocks traded on the Colombian Stock Exchange.

The Budapest Stock Exchange Index is a capitalization-weighted index adjusted for free float. The index tracks the daily price-only performance of large, actively traded shares on the Budapest Stock Exchange.