SPECIAL GOLD REPORT

U.S. Global Investors

Time to Mine for Gold Mining Opportunities?

Have gold miners hit a bottom? Is there an attractive entry point? What are the drivers for a rebound? Since many gold companies plummeted in 2013, these are the questions we've been receiving from advisors interested in investing in this deeply discounted sector.

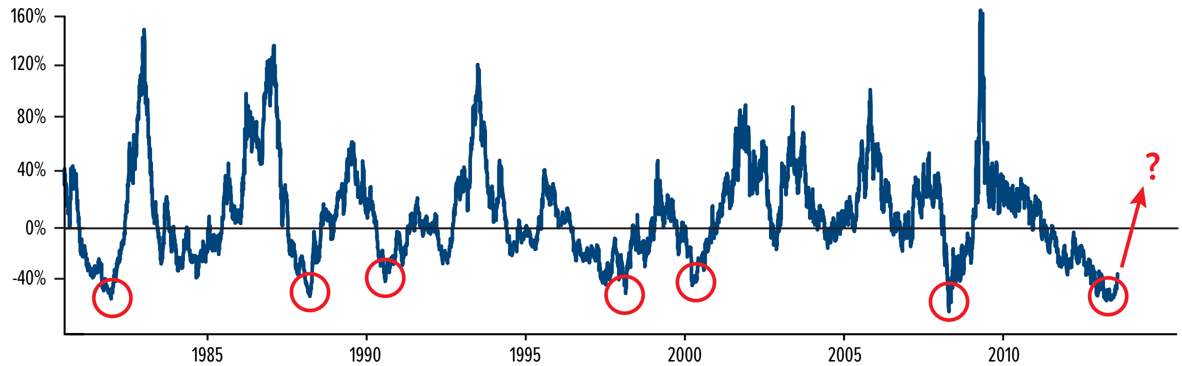
KEY POINTS:

- Declining grades and fewer discoveries have presented considerable challenges to miners.
- The recent collapse of the gold price was a final wake-up call, precipitating major cost control initiatives across the industry.
- These measures will likely tighten gold supply and, with demand for gold continuing, higher prices are likely.
- In a diversified portfolio, there are four reasons to include gold and gold stocks today.

How Gold Miners Leverage the Gold Price

Gold Shares Deeply Oversold

Global Gold Mining Index Relative to the Price of Gold, Annual Rate of Change



Source: BCA Research 2014, Thomson Reuters, U.S. Global Investors

Gold companies appear deeply oversold. Based on the annual rate of change of global gold mining stock prices over the past few decades, the recent correction has been severe. Previous to today's slide, BCA Research finds only six times that these extremes have happened. Following these dips, gold stocks rebounded, in some cases, significantly.

And with the drivers remaining in place for gold, this rebound could happen again soon.

To provide the historical 2-to-1 leverage to the gold price, miners need to add value by being an effective miner and effective public company.

The table below outlines the key factors in how effective management adds value as miners and as public companies. The more disciplined and successful the execution, the bigger the potential boost in gold equity returns.

Over the past few years while the price of gold climbed, the mining industry was hit with several challenges. Then, the gold price plummeted, which served as a sort of final alarm for the industry.

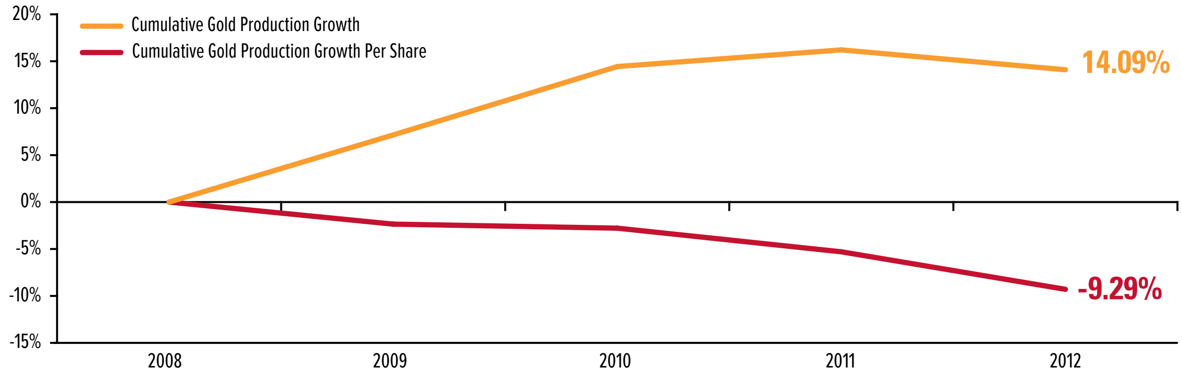
To find out how gold companies were adapting their businesses, our team talked to several mining companies. The results outlined on the next page may surprise you.

Add value by being an effective miner	+	Add value by being an effective public company
Grow Production Volume		**Provide Balance Sheet Leverage with Debt**
and/or		and/or
Expand Margins		**Return Free Cashflow Through Dividends**
and/or		and/or
Optimize Capital		**Enjoy Positive 'Rating Multiplier' Effect**

Adapting to the Challenges

Gold Production Growth vs. Per Share Gold Growth

80 Gold Producers



Source: Bloomberg

In recent years, gold mining companies have been trying to grow their production profile, but also faced a depleting resource base. Grades fell an average of 21 percent since 2005. Discoveries became scarce while cost inflation rose, averaging 11 percent over the past three years.

As the price of gold rose, there was a huge push to grow gold production at any cost, resulting in a significant increase in capital spending. Based on U.S. Global's independent research, this growth was primarily financed through equity issuance. Of 80 global gold producers we looked at, production increased 14 percent on a cumulative basis from 2008 to 2012. But, on a per share basis, gold production growth actually decreased more than 9 percent.

Even in a rising gold market, the economic value per share was diluted, as gold miners issued shares faster than they discovered the metal and faster than they increased their production.

We believe the 2013 drop in gold price was the final wake-up call to miners, precipitating a wave of changes throughout the mining industry. Here are a few:

- **Executive turnover.** At least 20 mining companies, including Newmont Mining and Barrick Gold, have new CEOs. We believe this new leadership is a positive driver for CEOs to spearhead a focus on adding value for the shareholder.
- **Cost control is top priority.** Miners will be focusing their efforts on viable projects. If spending is too expensive, exploration is cut and production halted. As one example, the world's largest producer, Barrick Gold, says it may sell, close or curb output at 12 mines where costs are high.
- **Significant cuts to capital expenditures.** AngloGold is cutting $2 billion, Freeport-McMoRan is cutting $1 billion and IAMGOLD is cutting $100 million. Phase two level projects will likely be kept at around $1,200 per ounce and phase three need to be as low as $1,000 per ounce.

We believe these changes are positive for investors in gold and gold miners, as spending cuts will likely tighten the world's gold supply. We expect demand to continue, resulting in higher commodity prices.

Four Reasons to be Bullish on Gold Stocks

While we always advocate holding a 5 to 10 percent weighting in gold and gold stocks, here are four reasons to be bullish today.

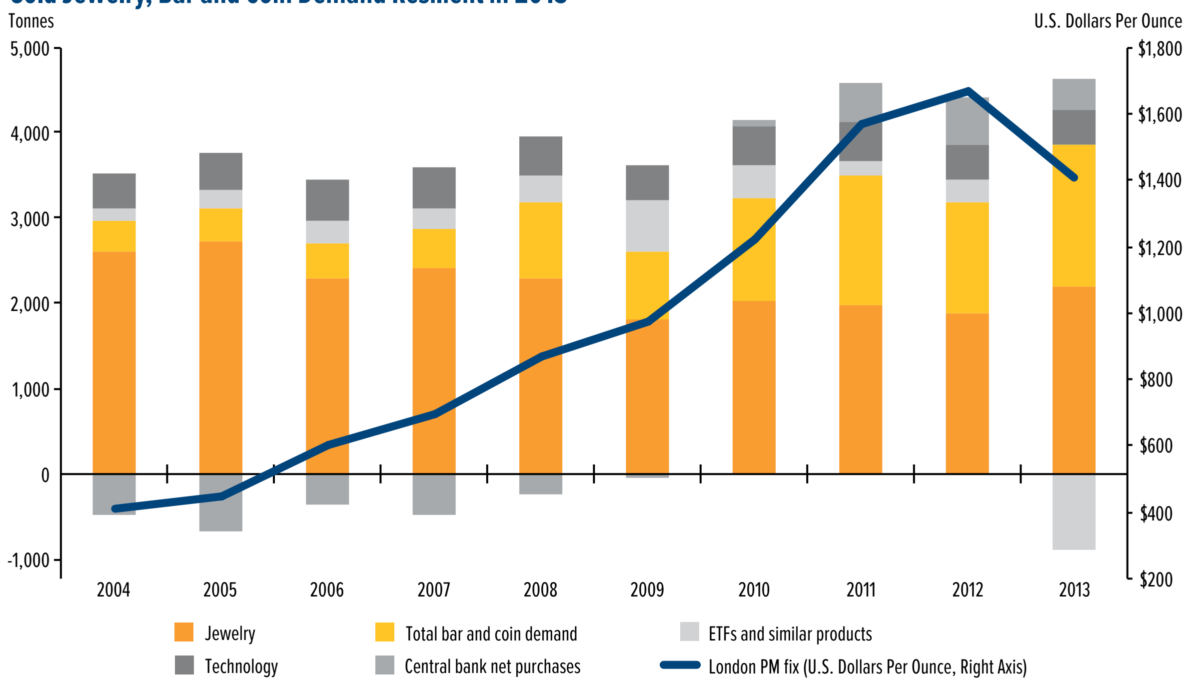
1. Love Trade Buying At Record Levels in 2013

Most of the attention for gold demand is focused on the Fear Trade, which is primarily a group of buyers who purchase paper gold out of fear of damaging government policies.

Little attention is placed on the Love Trade: According to the World Gold Council (WGC), about 70 percent of gold demand comes from consumers who buy gold jewelry, bars and coins for themselves and for gifts for loved ones. These Love Trade buyers are primarily in China and India, who have a long-standing affinity for the yellow metal.

The resiliency of these buyers cannot be overlooked, as the chart below shows record levels of demand in the jewelry, bar and coin areas of the gold market. There was a 21 percent increase in demand from consumers, which was in contrast to the outflows from gold ETFs, per the WGC.

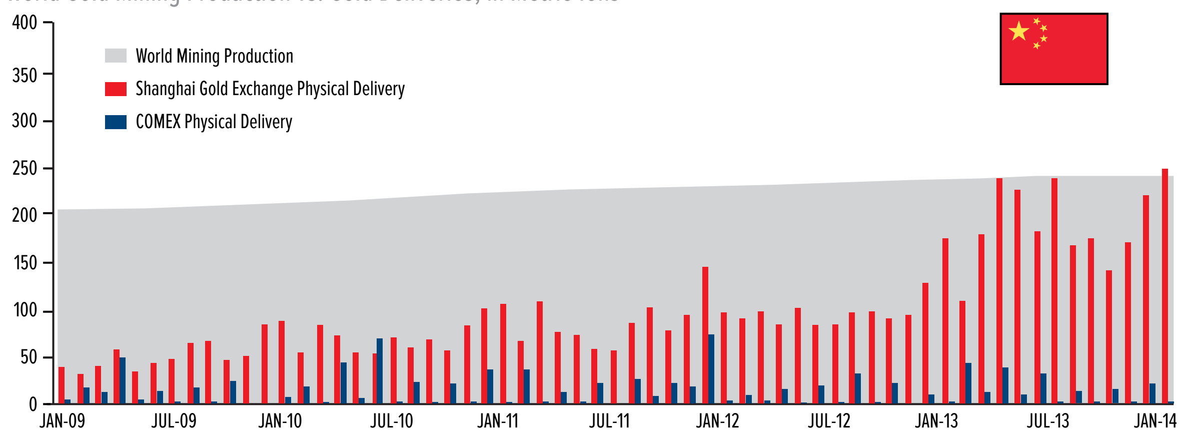
Gold Jewelry, Bar and Coin Demand Resilient in 2013



Source: LBMA, Thomson Reuters GFMS, World Gold Council, U.S. Global Investors

Chinese Demand for Gold Remains Robust

World Gold Mining Production vs. Gold Deliveries, in Metric Tons



Source: SGE, USGS, CME, U.S. Global Investors

2. A Transfer from Paper to Physical Means Gold is in Strong Hands

Physical gold deliveries in Shanghai remained elevated through January 2014. In the first month of the year, 246 tons of gold were withdrawn from the Shanghai Gold Exchange, as China continues expressing its love for the precious metal. This marks a record level of gold deliveries on the exchange as well as a significant increase over the same time last year.

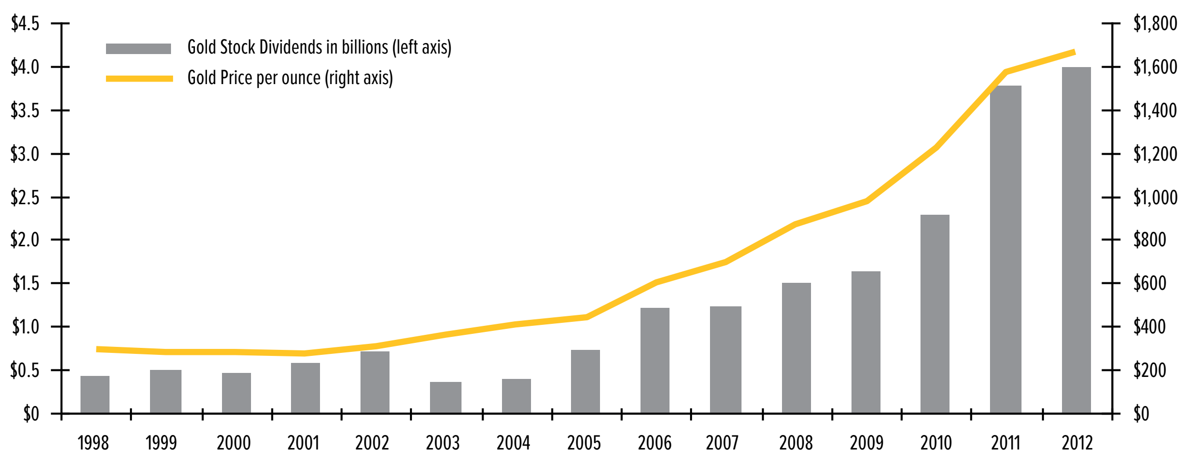
In addition, you can see on the chart above that January's total also exceeds world mining production for the month.

Comparatively, total known ETF holdings of gold decreased and the physical delivery of gold on the COMEX is nearly nonexistent.

3. Dividend Payouts Have Been Growing

According to CIBC World Markets, over the past 15 years, the world's top 20 gold companies have increased their dividends at a compound annual growth rate of 16 percent. By comparison, gold only rose 12 percent annually in this time frame.

Dividend Growth of World's Top 20 Gold Companies



Source: Bloomberg and CIBC World Markets Inc.

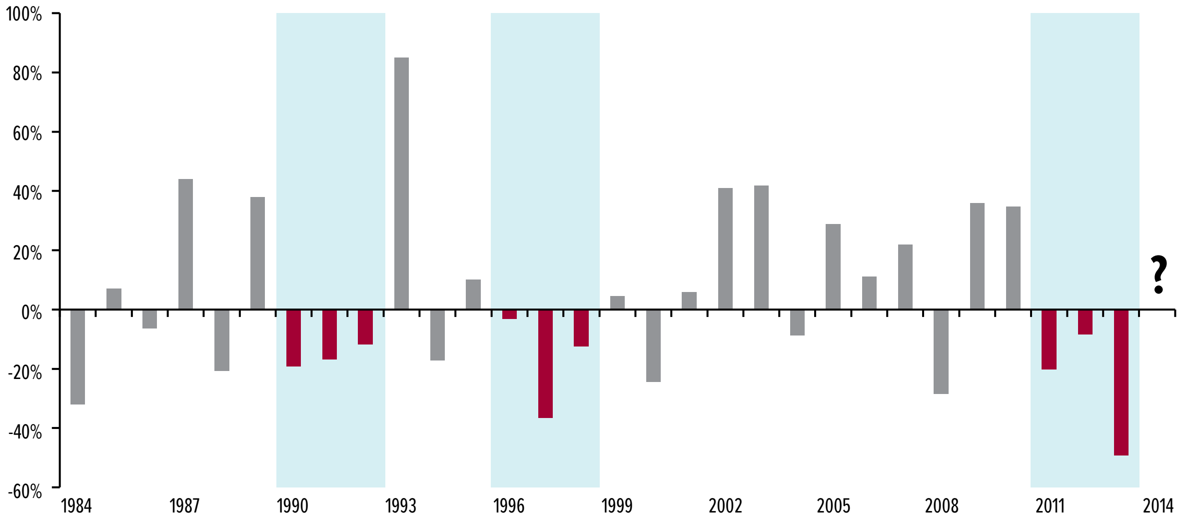
4. Gold Stocks Poised to Rebound After Rare Three-Year Loss

The most recent losses in the gold mining industry have been brutal: From 2011 through 2013, the NYSE Arca Gold Miners, the FTSE Gold Mines, and the Philadelphia Gold & Silver Indices all declined more than 60 percent. But ditching this sector may not be the best action to take in 2014 because miners are approaching the historical limits of multi-year declines.

Take a look at the Philadelphia Gold & Silver Index (XAU) during prior periods of stress. While gold stocks have a history of higher volatility compared to the overall U.S. market, consecutive periods of declines are rare. In three decades, there were only three times that the XAU had a losing streak of more than three years.

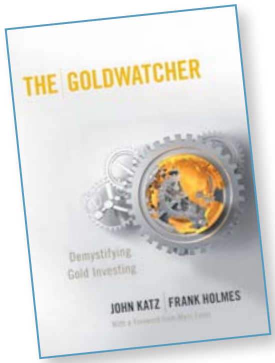
Only 3 Times in 3 Decades Gold Stocks Declined 3 Consecutive Years

Philadelphia Gold & Silver Index Annual Returns



Source: Bloomberg, U.S. Global Investors

Further Reading



The Goldwatcher: Demystifying Gold Investing

Frank Holmes, one of the world's authoritative voices on gold, is co-author of this fascinating book. Gold does not yield interest, dividends or rental income, and it costs money to hold. Yet, its price has surged to record levels in recent years. Why is that, and how can investors put gold to work in their portfolios? Available wherever books are sold, including amazon.com.

Special Gold Report: How Government Policies Affect Gold's Fear Trade

As real interest rates experience an ongoing normalization resulting from a lack of inflationary pressure in developed markets, the bear case for gold seems to be gaining strength. However, this assessment could be premature, causing investors to potentially lose out on a lucrative position in gold. Call us to request the report at 1-800-US-FUNDS.

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 FTSE Gold Mines Index Series encompasses all gold mining companies that have a sustainable and attributable gold production of at least 300,000 ounces a year, and that derive 75% or more of their revenue from mined gold. The Philadelphia Stock Exchange Gold and Silver Index is a capitalization-weighted index that includes the leading companies involved in the mining of gold and silver.

Holdings in the U.S. Global Investors Funds mentioned as a percentage of net assets as of 12/31/2013: AngloGold (Gold and Precious Metals Fund 0.04%, World Precious Minerals Fund 0.04%), Barrick Gold (Gold and Precious Metals Fund 2.93%, World Precious Minerals Fund 0.45%), Freeport-McMoRan (0.00%), IAMGOLD (Gold and Precious Metals Fund 0.15%, World Precious Minerals Fund 0.04%), Newmont Mining (Gold and Precious Metals Fund 0.18%, World Precious Minerals Fund 0.16%).

Don't Miss the Next Big Move in Gold Stocks

Discover U.S. Global Investors' Two Gold Funds

The Gold and Precious Metals Fund (USERX) is the first no-load gold mutual fund in the U.S. and seeks opportunity in gold mining, investing in proven gold producing companies.

The World Precious Minerals Fund (UNWPX) gives investors increased exposure to junior and intermediate mining companies involved in precious minerals such as gold, silver, platinum group, palladium and diamonds for added growth potential.

Contact us to learn more:

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Gold and Precious Metals Fund (USERX)

World Precious Minerals Fund Institutional Class (UNWIX)

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Gold and Precious Metals Fund (USERX)

World Precious Minerals Fund Investor Class (UNWPX)

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