U.S. Global Investors

Shareholder Report

2011 Vol. 3

Exploring the World's Wonders

Inside: Will Gold Equity Investors Strike Gold? | Oil Outlook Remains Strong

Dear Shareholder,

Thriving, prosperous companies are today's beacon of hope.

"Only when the human spirit is allowed to invent and create, only when individuals are given a personal stake in deciding economic policies and benefitting from their success — only then can societies remain economically alive, dynamic, progressive, and free."

— *Ronald Reagan*

With the government's budget in the trillions, it's hard to relate to the U.S. debt situation. By removing several zeros, one can quickly see the debt dilemma in figures we all understand — that of a family's income and expenses.

A family with an annual income of $21,700 but a spending habit amounting to $38,200 is in a tough spot. The large outstanding balance on the credit card only compounds the situation. To balance this budget, spending cuts are in order, but eliminating only $385 is akin to forgoing a daily latte for three months. Not exactly a road to prosperity. Either a substantially higher amount of income needs to be made, or the family will have to learn to live with less.

America's "family" of 311 million requires a much more complicated fiscal solution. Looking back, the U.S. economy has grown (i.e., increased its income) when policies have supported removing barriers and encouraging businesses to innovate to compete. When President Bill Clinton deregulated the telecommunications industry in the 1990s, the power of the Internet was unleashed. The financial sector was also deregulated during this same period, and tremendous growth followed, until the 2008 crisis, which was brought on by the excessive lending practices of Fannie Mae and Freddie Mac.

U.S. Debt in Household Budget Terms

U.S. tax revenue:	**$2,170,000,000,000**	Annual family income:	**$21,700**
Federal budget:	**$3,820,000,000,000**	Money the family spent:	**$38,200**
New debt:	**$1,650,000,000,000**	New debt on the credit card:	**$16,500**
National debt:	**$14,271,000,000,000**	Outstanding balance on the credit card:	**$142,710**
Recent budget cut:	**$38,500,000,000**	Total budget cuts:	**$385**

Today's proposed solutions involving increased taxation and regulation have shaken Americans' confidence in U.S. businesses. Many corporate leaders suggest these policies resemble socialism, because while an individual can own investments, companies or property, that ownership can be chipped away for the good of government authorities to create and justify more government jobs. While the private sector has had meager job growth of only 1.4 percent since March of 2010, the cumulative change in federal jobs was just over 5 percent, according to *Investor's Business Daily*.

The unintended consequence is the extraordinary cost to American businesses. A 2010 report developed by the Small Business Administration (SBA) pegged the cost of federal regulations at $1.75 trillion, nearly 12 percent of America's GDP. This cost is more than $8,000 per employee and up from only about 4 percent of GDP in 1950. Alabama Congressman Spencer Bachus, chairman of the House Financial Services Committee, condemns the regulations as creating an "atmosphere of uncertainty" where businesses can't put "ideas and capital to work."

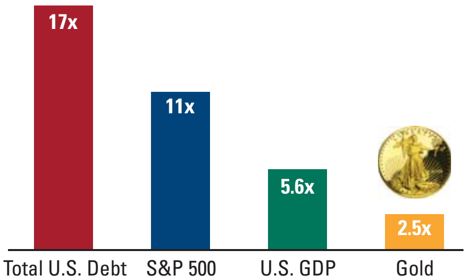
Small businesses are especially hurt by these higher costs of regulation. Companies with fewer than 20 employees bear a disproportionate share of the federal regulatory burden with total costs per employee exceeding $21,000 — 36 percent more per employee than larger companies, according to data from the SBA. In general, smaller businesses of less than 500 have historically created seven out of every 10 jobs, yet with higher costs to implement and run their business under many regulations, they have not been hiring.

As voters, taxpayers and investors, Americans should feel empowered to question the benefits of increased regulation. Unless persuaded to act differently, government leaders will continue to enact regulations.

Historically, whenever there is a great imbalance between monetary and fiscal

Gold Undervalued Compared to Rise in Other Areas of U.S. Economy

Today's Level Compared to 1980 Peak



Source: Global Deliberations Newsletter

policies like we see today, gold becomes "real money," a safe haven in uncertain times. That's a reason we see tremendous investor interest in gold, causing the price to rise above $1,800 in August.

Despite gold's dramatic bull run, the yellow metal is only twice as high as its 1980 price. This is miniscule when compared to other economic yardsticks since 1980. Ian McAvity, editor of *Deliberations on World Markets*, points out that federal debt, the S&P 500 Index and GDP have all grown much faster than gold over that same timeframe.

The gross U.S. federal debt of $14.3 trillion is 17 times its 1980 level. In 1980, the S&P 500 was at 105; today, it trades around 1,100. A gold price of $1,800 seems paltry as it is only 2.5 times the 1980 high of $738.

McAvity extrapolates the relative growth rate of the yellow metal, indicating that if gold doubled from its current high, it "would nearly 'catch up' to GDP, while it might take a quadruple to match the S&P, or even a six-fold gain from here to catch the growth of [U.S.] debt." Multiplying the largest of these figures by the current price means gold could theoretically go to $10,800. By these standards, gold can rise significantly.

Nevertheless, investors need to be cognizant of gold's DNA of volatility relative to other asset classes. For the past decade, it is normal for gold stocks to either rise or fall 38 percent over a 12-month period. For gold bullion, the average volatility is 13.4 percent. By comparison, the stocks held in the S&P 500 Index can move nearly 20 percent in either direction.

Standard Deviation

	Rolling 12-Month
NYSE Arca Gold BUGS Index (HUI)	38.1%
S&P 500 Index (SPX)	19.8%
Gold Bullion	13.4%

12-month rolling volatility of price action over the 10 year period as of 06/30/11

Gold as an investment has increasingly become so legitimized that the "metal directly competes with stocks for a share of investors' portfolios," says *Gold Stock Analyst*. We applaud this development, as we believe investors should allocate a small portion of their portfolios to gold. However, buying a gold ETF or storing bullion in your safe at home is not your only choice.

As we discuss on page 5, one opportunity for gold investors is gold mining companies. Don Coxe, global portfolio strategist, agrees, as he believes today represents the "greatest devaluation of precious metal stocks." In his experience, he thinks there has never been such a disparity in precious metals stocks compared to the price of gold. In the 1970s, the gold ETF did not exist, so speculators who wanted gold exposure had to purchase bullion and take physical possession of it or purchase gold mining shares.

The yellow metal certainly has grabbed headlines, but gold and concerns about the global economy have overshadowed positive news about thriving businesses. According to FactSet, more companies have superior growth and value metrics today than in 2009. Among stocks held in the S&P Composite 1500 Index today, nearly half have more than 10 percent revenue growth whereas only 179 companies were growing this fast in late 2009. Of these revenue-generating businesses, we found the companies with the lowest price-to-earnings ratios have historically provided superior returns compared to the overall index.

Companies that pay dividends also are looking particularly attractive, especially relative to bonds. For most of the last 50 years, the yield on the 10-year Treasury bond has been greater than the dividend yield of the S&P 500 Index. In fact, the yield gap was quite dramatic during the early 1980s. Rarely has the S&P 500 yield exceeded that of the 10-year Treasury, as it does today.

Recently *Barron's* asked its readers, "Why... settle for returns of about 2 percent on U.S. government securities when world-beating U.S. corporations pay two to three times as much in dividend income?" With the government's precarious fiscal situation today, long-term investors can earn a higher yield along with capital appreciation by owning dividend-paying companies with balance sheets that are the envy of Washington. At U.S. Global, we'll continue to work relentlessly to find these thriving, prosperous companies.

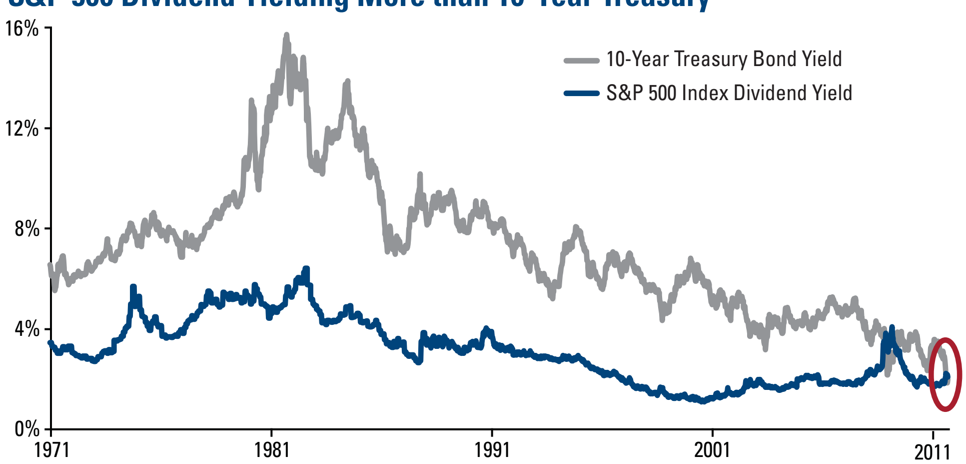
Thank you for your continued confidence.

Sincerely,

Frank Holmes

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

S&P 500 Dividend Yielding More than 10-Year Treasury



Source: Bloomberg

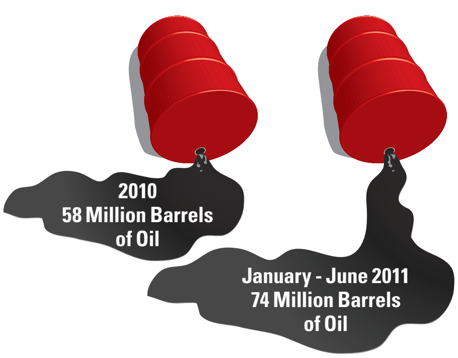
The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies. The S&P 1500 Composite is a broad-based capitalization-weighted index of 1500 U.S. companies and is comprised of the S&P 400, S&P 500, and the S&P 600. Standard deviation is a measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Standard deviation is also known as historical volatility.

Oil Outlook Remains Strong

It's been an eventful year in the oil patch. Natural disasters, revolutions, terrorist attacks and political maneuvering kept oil bouncing around $100 per barrel earlier this year, before dropping late in the summer. Despite the volatility and external forces affecting prices, the International Energy Agency (IEA) reported that oil's bull run since last year looks "to be justified by supply and demand fundamentals."

Oil production was rocked by several unexpected outages during the first half of 2011. From January through June, oil industry analyst PIRA calculates the total loss of non-OPEC production at 74 million barrels—more than the entire amount of production losses in 2010.

Oil Production Losses on the Rise



Source: PIRA

From now until 2016, global production should rise by a little more than 1 million barrels per day annually, as increased capital expenditures have positively impacted existing assets and accelerated new projects, according to the IEA. Higher oil prices have been generating new supply, but non-OPEC growth is coming from higher cost areas, such as tar sands. Colombia, China, Canada and the U.S. are expected to see the biggest gains.

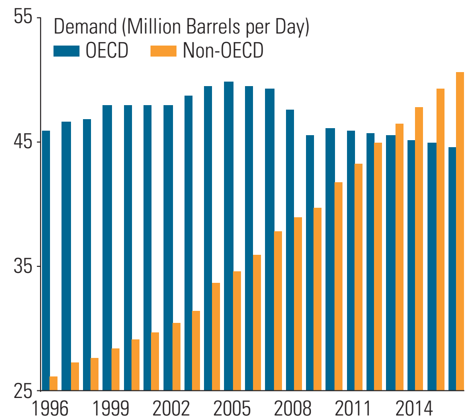
Even with increased production, demand is rising faster than supply. The IEA estimates the world will use 91 million barrels of oil per day in 2012, an increase of 1.5 million barrels per day from 2011 estimates. Projecting forward to 2016, the IEA's baseline scenario assumes a healthy 4.5 percent global GDP growth and an average oil price of $103 per barrel. With these assumptions, annual oil demand growth should average 1.2 million barrels per day through 2016.

Emerging markets are almost entirely the source of this increased demand, with China accounting for 41 percent of demand growth over that time period, the IEA forecast says. The chart illustrates how non-OECD country oil demand has dramatically increased since the '90s while developed world (OECD) demand has decreased. Through two financial bubbles and a global financial crisis, non-OECD demand has stair-stepped its way to nearly doubling in less than 20 years.

How is this possible? Many non-OECD markets have favorable demographics, rapidly urbanizing populations and industrializing economies that have returned many developing economies' GDP growth rates to pre-crisis levels.

Rising incomes have also outpaced rising oil prices and sustained emerging market demand despite a general reduction in subsidies, the IEA says. Rising wealth has also established a new global middle class that the World Bank estimates will be more than 1 billion strong by 2030. In fact, the World Bank was cited in *National Geographic* earlier this year forecasting that for the first time ever, more people in the world will be classified as middle class than poor in 2022. Today, roughly 70 percent of the world's population is classified as poor.

Developing World Oil Demand Steadily Rising



Source: IEA

Major emerging market countries, such as China, India and Saudi Arabia, have reached the important GDP per capita range ($3,000–$20,000) where oil demand historically has taken off.

These factors indicate that growth in global oil demand likely will outpace production capacity and create a tighter market for oil. The IEA sums it up by opining that "[the] market will ultimately adjust to higher prices, albeit supply and demand remain unresponsive in the short term. Indeed, oil's price inelasticity underpins the recent extended upward price shift in the face of resilient non-OECD demand growth and perennial supply-side risks."

www.usfunds.com
Which resources will see the biggest gains this year? Download the *Commodities Halftime Report.*

Will Gold Equity Investors Strike Gold?

Gold bullion was as hot as the heat across the U.S. this summer, but gold stocks have remained on ice since late April. From the beginning of the year through July, the NYSE Arca Gold Miners Index (GDM) declined 7 percent while the price of gold has increased nearly 15 percent.

A short-term divergence of bullion and gold equities is not unusual, especially during times of extreme market negativity. According to J.P. Morgan research, following a setback in 2000, gold equities have climbed an astounding 1,400 percent while the S&P 500 Index declined 11 percent.

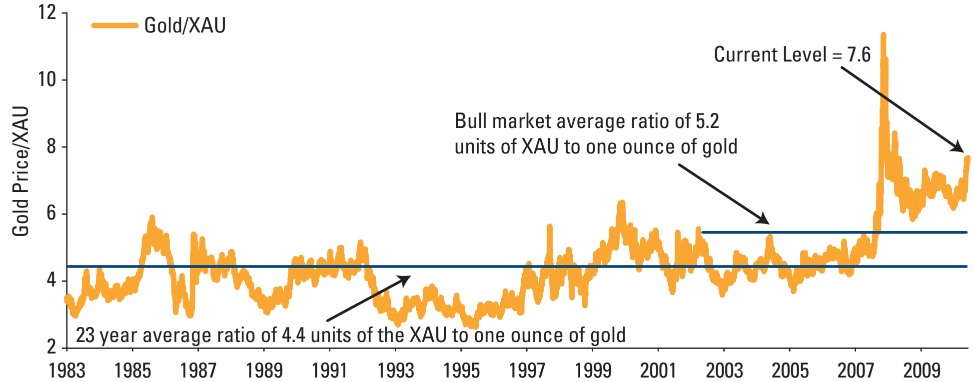
Historically, gold stocks have outperformed bullion by roughly a 3-to-1 ratio, meaning a 5 percent rise in the price of gold generally translated into a 15 percent increase in the miners. Recently, this leverage has eroded to about a 1-to-1 ratio, or lower at times, according to Bank of America-Merrill Lynch.

Today's disparity appears to be fear-driven, with investors holding gold bullion or a bullion-backed gold ETF instead of finding value in gold miners.

We see this carnage as an opportunity to buy healthy gold-mining companies at historically low prices compared to bullion. The chart above shows how attractive gold stocks seem today. For the price of an ounce of gold, one could hypothetically purchase about 4.4 units of an index that tracks the leading silver and gold mining companies (XAU). Today's level is 46 percent above this norm, meaning that gold mining companies are at their second-cheapest level in nearly 30 years.

Gold Stocks Cheap Compared to Gold Price

The Number of XAU Units That Can Be Purchased With One Ounce of Gold

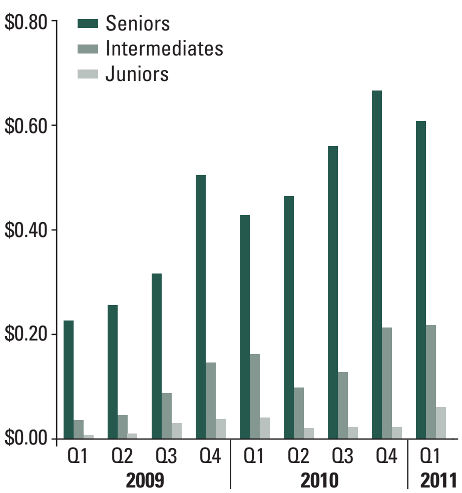


Source: Bloomberg and CIBC World Markets Inc.

www.usfunds.com
Listen to our special webcast replay, *A Case for Investing in Gold*.

Dividends Make Gold Stocks Shine a Little More

Gold Company Average Earnings Per Share on the Rise



Source: CIBC World Markets Inc.

With gold equities recently underperforming gold, some miners have had to lure investors with an additional incentive…in the form of dividends.

The ability to pay dividends has increasingly become possible due to the improving financials of gold companies. As the price of gold increased since 2009, profit margins of companies have expanded an average of 25 percent. Margins for senior gold miners have seen the strongest gains, with average per share earnings increasing roughly 67 percent.

Corporate cash flows for gold producing companies have also increased significantly. The average senior gold miner now has more than twice the amount of cash flow; mid-sized intermediate gold companies' cash flows have more than tripled.

Now, rather than sit "on the enormous piles of cash they have generated," *The Wall Street Journal* reports that they intend to share the wealth through dividends. According to the *Journal*, 13 leading gold producers will be paying $2 billion in dividends in 2011. In addition, our investment team has dug up a few companies with attractive yields.

Dividends allow investors to participate in rising earnings and provide a cash incentive to hold shares of the company. We like the idea of gold investors now getting "paid to wait," allowing them to reinvest those dividends and purchase additional shares at potentially lower prices.

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 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.

Emerging Europe's Growing Consumer Class

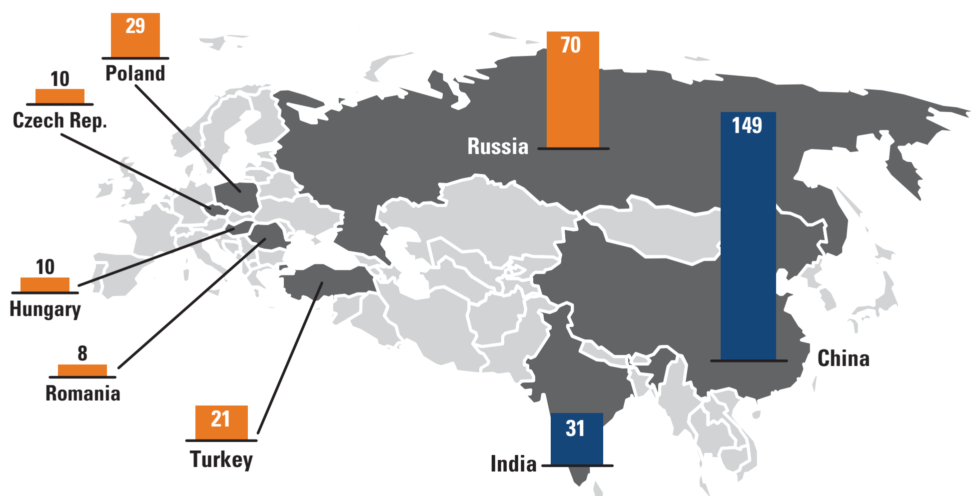
While China is far ahead of developing market countries with 149 million members of the middle and affluent classes — roughly the same size as the combined total populations of Japan and Taiwan — investors shouldn't overlook surging incomes in Eastern Europe. Together, the Czech Republic, Hungary, Poland, Romania, Russia and Turkey have middle and affluent classes equal to the size of China's. Among emerging market nations, Russia has the second-largest middle and affluent classes with 70 million people; Poland's rivals that of India's.

Turkey, which currently ranks seventh in the world, has especially strong prospects. Already, its middle class is second among emerging markets in terms of GDP per capita at $17,586. In addition, this class is expected to grow at 5 percent a year through 2029.

This "consumer class" as identified by the Organisation for Economic Co-operation and Development (OECD) is so named because of its increasing consumption levels. We agree with this designation as this class identifies an important global driver of economic growth.

Emerging Europe's Middle and Affluent Classes Equal to That of China

Middle and Affluent Classes Population in Millions



Source: Ronesans Gayrimenkul Yatirim A.S.

We believe that people with discretionary income will seek to improve their way of life by buying their first vehicle, upgrading their home, purchasing appliances and gaining access to the Internet. For years to come, these middle and affluent classes should drive demand for new or improved infrastructure and needed commodities, thereby contributing to the substantial economic growth in several emerging nations around the world.

The World's Most Spectacular Infrastructure Projects

Every year, bigger, taller and more technologically advanced projects dot the skylines, countrysides and coasts all around the world. A few of these spectacular architectural and infrastructure achievements include:

Tallest Skyscraper: At a height of 2,700 feet, the Burj Khalifa in Dubai has 162 floors and was completed in 2010.

Longest Train Track: The Trans-Siberian Railroad in Russia is the longest train track in the world. The network of rails connects Moscow to the far east of Russia and to the Sea of Japan. An important economic and military development, the railroad has been credited with the growth of several larger cities in Siberia.

Deepest Mine: South Africa's Mponeng mine is the world's deepest, sending miners and equipment 2.4 miles underground in search of gold.

www.usfunds.com
See more tremendous projects across the globe in our slideshow.



A Minute with the Manager: Exploring for Oil in Brazil

Brian Hicks, co-manager of the Global Resources Fund (PSPFX), discusses his recent trip to the oil exploration and development operations in Brazil's Amazon region.

Q. Why are these trips important?

Our investment team travels thousands of miles around the world every year to find new investment opportunities for our shareholders. We also do our due diligence on individual investments, particularly when it is one of our larger holdings, such as emerging oil and gas company HRT Participações em Petróleo S.A.

This was the first time I visited the company's operations in Brazil. I wanted to discuss the progress with senior management and see firsthand how the operations have developed.

The trip underscored the challenges a resource company faces when it sets up operations in an environmentally sensitive area. The first leg of my trip was to take a red-eye from our San Antonio, Texas headquarters to Rio de Janeiro to discuss fundamentals with executives in their corporate offices. From there, I took another red-eye to Manaus aboard a small aircraft which brought me to a landing strip where I jumped on a helicopter to fly over the dense forest of the Amazon. This was the only way to reach the various drill sites to meet with technical personnel.

Q. What logistical challenges has the company overcome?

The Solimões Basin is located deep within a remote section of the rainforest near the Amazon River, and HRT has had to haul in everything needed to develop and drill for oil by helicopter or boat, including supplies, equipment and personnel. They've also built living quarters for about 1,000 people who work in round-the-clock shifts tapping deep, rich oil and liquid zones.

Although this is a higher risk venture, the payoff may be big — HRT estimates there may be 541 million barrels of oil equivalent (boe) of contingent resources. Daily production could reach 50,000 boe by 2014. The company's success hinges on its ability to drill, but we're excited about its prospects. Considering the company's small market capitalization, productive wells could have a meaningful impact on the bottom line.

I'm confident in the company's ability to produce. During my time in Brazil, I met several talented individuals who hold PhDs, have experience working in this area of the Amazon, and many have worked for Petrobras, the largest oil company in Brazil. Taking these trips, seeing these operations and spending time with these experienced people helps us understand the magnitude of HRT's potential.

Q. What's unique about the Global Resources Fund's investment in HRT?

We recognized the potential in HRT early on. I'm proud that U.S. Global Investors was the only publicly traded, open-end mutual fund involved in the seed investment phase, meaning we provided a portion of the capital for the company to get its operations off the ground, before it produced any resources, and before the company went public.

Q. Why is this important to shareholders?

With the collective knowledge of resources, geology, mining finance and the associated risks, our investment team has a long history of identifying and investing in these opportunities. We're willing to deploy capital and patiently wait for results. Our team can be nimble, finding remote areas of the market which may offer tremendous growth. For Global Resources Fund investors, this is a competitive advantage and differentiating factor, allowing us to historically generate alpha over the index.

Foreign and emerging market investing involves special risks such as currency fluctuation and less public disclosure, as well as economic and political risk. 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. Holdings in the Global Resources Fund as a percentage of net assets as of 6/30/2011: HRT Participacoes em Petroleo SA 6.18%, Petrobras 0.00%. Alpha is a measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of a mutual fund and compares its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

www.usfunds.com
See the video where Brian discusses Brazilian prospects.

Shareholder Report
U.S. Global Investors
P.O. Box 659405
San Antonio, TX 78265-9604

On the cover: *Visitors to Singapore's Sands SkyPark marvel at Asia's new wonder, which features the world's largest outdoor swimming pool and world-class casinos, bars and restaurants.*

U.S. Global Investors On the Go
with the App of Your Choice

We're your choice for investment insights in gold, natural resources, emerging markets and infrastructure. Now the information is at your fingertips on the app made for your device!

For Blackberry and iPhone users, read *Frank Talk*, get your weekly *Investor Alert* or watch the videos wherever you are.

Get even more interactive about the world in which we invest with the iPad app. Not only does the app update with the latest Frank Talks, Investor Alerts and videos, but you can also check out slideshows of our research trips around the world, read the latest news, see interviews from Bloomberg and other news media, and learn more about the funds.

All the apps are easy to download … and **free!**
Just visit the apps page of our website at **www.usfunds.com/apps**.

Catch Us at an Upcoming Event

New Orleans Investment Conference, New Orleans
October 26-29

Hard Assets Investment Conference, San Francisco
November 27-28

Wherever you see this image in the Shareholder Report, it means that there is expanded coverage of the topic on our website. Look for this on **www.usfunds.com** and it will lead you to the extra information.

We want to hear from you. Send your questions, comments or suggestions for the Shareholder Report to **editor@usfunds.com**. For account information, call 800-US-FUNDS (800-873-8637) or email **shsvc@usfunds.com**.

All opinions expressed and data provided are subject to change without notice. Some of these opinions may not be appropriate to every investor.

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. 11-583