GOLD STOCK ANALYST™

A Monthly Newsletter Finding ***Undervalued*** *Investment Opportunities through Fundamental Analysis & Rankings of the largest North American-Traded Precious Metals Mining Stocks*

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Where Are We Now?

Based on 1/26's **$646/oz** Gold, and GSA's proprietary Market Cap/oz database compiled since 1994 for Rising and Falling Gold price trends, **Gold Stocks trade as if Gold was $605/oz**. On average, **Gold Stocks** are:

Undervalued 6%

The State of the Dollar

President Bush's "State of the Union" speech on Jan 23 had two main topics: Iraq and Oil, but he should have included one more: the US Dollar, which GSA believes will fare poorly in 2007. And, because Gold is the anti-Dollar, what happens in/to the first three impacts the metal.

Regardless of why US went into Iraq, the War has opened up a Pandora's Box of problems and worsened the area's instability. The Mideast supplies 32% of world's 79 mil bbl/day "habit" and the US imports ~60% of its needed 21 mil bbls/day. While only 2.2 mil of US's imported barrels come from Mideast, because oil is fungible, what happens to oil anywhere affects pricing worldwide. The likelihood of a major event this year involving Iraq, Iran, Israel and/or others in the area seems a certainty, and one that will surely manifest itself in higher oil prices by 2007's end.

The $900 bil US Current Account Deficit (CAD), of which ~90% is the Trade Deficit (the balance is money outflows: foreign aid, sending money home, etc), is likely to be flat for 4Q06 when the data is reported March 14 as it's been helped by Oil's price slide. But the sheer size of the Deficit weighs on ForEx markets as $3.6 billion must flow back into the US on each of the 250 business days a year for the US Dollar to stay at its current level.

Holding Dollars has been a losing proposition. When this Gold bull market began on April 2, 2001, at $256/oz, it took US$0.88 to buy 1.0 Euro. Now, almost 6 years later, the US$ has fallen 48% to where it takes $1.30 to buy a Euro. And in this time the CAD has doubled from 1Q01's $430 bil (4.3% of US GDP) to 3Q06's $902 bil (6.8%). In the 1985-87 Gold bull market, the US$'s 50% fall vs the Yen and Mark turned the tide; Imports dried up and Exports increased to reduce the then record CAD and eventually return it to a brief surplus in 1991. To date, the falling US$ has not had a similar impact.

Dollar's demise looming? It's one thing for foreigners to sell because they have too many, but it's disdain of a higher order to not even accept US Dollars. Major oil exporters Venezuela and Iran now demand payment in Euro and BIS says others have cut their Dollar holdings including Russia and Qatar. And the Euro, according to recent *Financial Times* articles has overtaken the Dollar in terms of currency in circulation ($787 vs $753 bil) and bonds outstanding ($4.7 vs $3.9 trillion).

BIS also says OPEC nations are running a total Current Account Surplus of $500 bil/yr, and IMF says oil exporting nations will have surpluses totaling $1.7 trillion by end '07 to dwarf China's ForEx holdings of $1.0 trillion at end-06.

Goldbugs have long postulated China's potential cut in its Dollar holdings would be a key driver of Gold. But GSA believes that oil, Mideast instability, and how the region's exporters wish to hold their surplus reserves could be even more important to the Dollar's future value and Gold's price. Mideast nations do not pursue economic policy through manipulating their currency's value (as does China), and thus have much greater freedom to use their ForEx reserves to achieve political ends.

• **Proven and Probable Reserve** increases coming industry-wide as the $603/oz avg price in 2006 pulls SEC required 3 yr avg up to $507, from 2005's 3 yr avg of $406. Most miners battle depletion, but a 25% price incr to $500 for calculations will make a lot of existing mnrlization economic even before considering '06 drill results.
• **Merrill Lynch Gold Study** of last 16 years showed **big gains** in S&P/TSX Gold Stock Index in 1st half of **every year** from 1991. Average gain was 22.6%; smallest was 8.0% in 2005, and largest 77% in 1993; gain on $725/oz spike in 2006: 22.6%.
• Your Editor next speaks at Toronto's **PDAC**. March 4-7; www.pdac.ca