GSA-Pro™

The version of <u>Gold Stock Analyst</u> newsletter for Professional Investors
Reports on 70+ Gold miners plus the GSA-Top10 newsletter in mid-month

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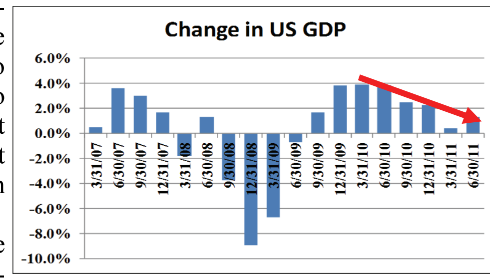
Where Are We Now?

Based on 7/29's **$1,628/oz** Gold, and GSA's proprietary Market Cap/oz data base compiled since 1994 for Rising and Falling Gold price trends, **Gold stocks trade as if Gold was $1,332/oz**.

On average, Gold stocks are:

-17% Undervalued

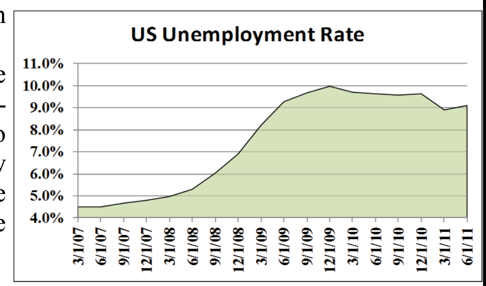
Welcome to the Double-Dip... and Why QE3 (by another name) is Inevitable



As we go to press the US Debt Ceiling Bill has passed the House and the Senate should be a breeze. There's no question that Federal spending has to be controlled and this is a start. But the other side of the equation is that lower spending means fewer jobs can be supported.

GDP, an economy's output, is the sum of Consumer Spending, Government Spending, Business Investment and the Net of Exports and Imports. GDP and jobs go hand-in-hand as it takes workers to make goods and supply services.

With GDP growth already falling and well below the +3%/year needed to simply employ the new entrants to the labor force, the future looks bleak. Government Spending is increasingly restricted at the National and Local level, and Consumers are still mired under a mountain of debt (28% of all mortgages are underwater) and an there's an uncertain job future even for the 91% of workers employed.



Business is not interested in hiring due slack demand for its products and uncertainty about future worker costs due to Obamacare. Exports have been the only bright spot as they've grown over the past year, accounting for 50% of the meager GDP growth.

With the Fiscal Policy toolbox locked, the job falls to the Federal Reserve and Monetary Policy to stimulate the US economy. Bernanke knows bad Fed policy decisions in the mid-1930s led to 1938's double dip. While we don't see the new QE3 as a resumption of buying Treasuries, we do think he'll use policies that will weaken the Dollar further to spur Exports. Among these are continuing low interest rates (negative in real terms) and announcing an inflation rate target higher than that currently seen by the phony statistics. Rather than paying interest on banks' deposits at the Fed, he could charge as the Swiss once did on deposits by foreigners. The intent would be to force or scare money-holders into spending now (to create jobs) and avoid higher future prices.

The Fed's annual meeting at Jackson Hole last August 27, 2010 was when Bernanke hinted at QE2. Expect something similar to come from the 2011 meeting.

All this will be certainly good for Gold, and hopefully for the US economy.

• Gold miners' rising cash and capital costs are a boon to the **Royalty Earners** as their income is typically based on a percentage of sales (NSR). This means a higher Gold price increase boosts their income without any increase in costs. And, since their deals are set up front, they are not impacted by increased capital costs. The capex for Barrick's Pasqua-Lama is now seen $2 billion higher, but this is of no concern to the two GSA Top 10 stocks that have major royalties on the site.