GSA-Pro™

The version of Gold Stock Analyst 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 5/31's **$1,536/oz** close in Chicago, and GSA's proprietary Market Cap/oz database since 1994 for Rising/Falling Gold price trends, **Gold Stocks trade as if Gold was $1,345.** On average, **Gold Stocks** are:

-12% Undervalued

Does Coming End of QE2 = End of Gold Bull Market?

It's by far the most common question we get from subscribers. We think the answer is "No!"

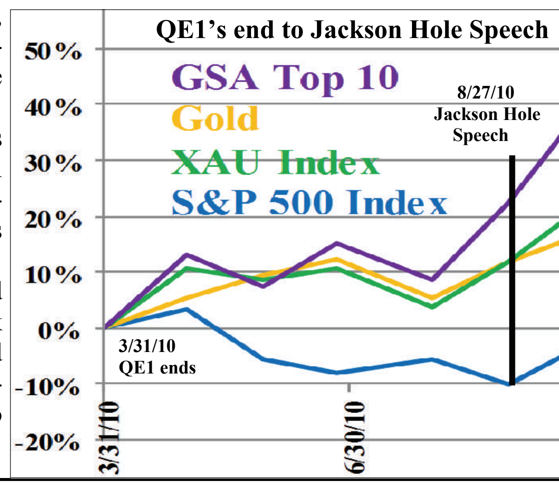
The fear comes from the lack of a buyer for the ~$130 billion of new debt that must be sold by the Treasury monthly to fund the current $1.6 trillion annual budget deficit. Absent a big buyer, a role now played by the Fed, the fear is that higher interest rates will be necessary to buyers for the new Treasury debt. Higher interest rates make bonds more attractive than no-yield Gold or low-yield stocks and cause prices of both to fall.

We think there's good potential for a QE3, or different program with a similar effect, due to the weak economy, as evidenced by 9% unemployment, the anemic 1.8% GDP growth rate, falling home prices (-5.1% in 1Q11 vs year ago), higher oil price taxing the economy, etc., but let's stick to the lead question.

Several reasons support our "No". Most obvious is that Mr Market has known the June 30, 2011 end date since November 3, 2010 when the $600 billion purchase of longer term Treasuries (QE2) was announced, so there has been plenty of time for portfolio adjustments in advance to make QE2's end a non-event.

Second, the Quantitative Easing doesn't really end. QE1 saw Fed buy $1.7 trillion of mortgage backed securities (MBS), Federal Agency Debt and Treasuries. This debt gets repaid and/or paid down by borrowers at a $20 to $25 bil monthly rate, or $240 bil to $300 bil/yr. Called the "runoff", the Fed intends to continue reinvesting these monies as they are received.

Third is the fact that after the end of QE1, Gold and Gold stocks did well, while the broad market stocks fell. The chart below covers the almost 5 month period from QE1's end on March 31, 2010 to the hint of QE2 by Bernanke in his Jackson Hole speech on August 27, 2010.



During this period stocks, as evidenced by the S&P500, fell 10% and this created the worrying by market commentators over the coming end of QE2.

But in the same time period Gold and the XAU Gold stock index each gained +12% and the GSA Top 10 did even better, soaring +24% (chart to right). *... continued page 9*

• **Editor Interviews:** May 16 issue of *The Au Report*. Read it here: www.theaureport.com/pub/na/9573/
May 25: Doody interviewed by Frank Curzio of S&A Investor Radio. It's posted under the Editor Interviews tab on www.GoldStockAnalyst.com/
June 3: Interview with Jim Puplava due to be posted on www.FinancialSense.com/