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 2/29's NY close of **$1,696/oz**, and GSA's proprietary Market Cap/oz data base compiled since 1994 for Rising and Falling Gold markets, **Gold Stocks trade as if Gold was $1,434/oz**, and are

-15% Undervalued

"Momma Said There'd be Days Like This'

(Apologies to the Shirelles)

Leap Day 2012 presented Gold investors with an $84/oz loss as the Metal plunged from $1,780 to close at $1,696/oz. The apparent cause was Bernanke's downbeat testimony to Congress that did not hint of a coming QE3, which traders would see as pushing asset prices higher. Gold's drop was despite ECB's same day issuing $705 bil more loans to banks in its own version of Quantitative Easing.

We were pleased, as evidenced by no calls or emails, that subscribers have become more seasoned and realize that $84 off of $1,780 is the same as $0.84 off a $17.80 stock. Notable, but not a sky is falling event, and with the Metal having already recovered $25 of the loss by the middle of next day, today, the no panic mode was clearly correct… just as momma said "Don't you worry now" to end the song.

Gold bullion has two primary buyers with different motives and time horizons:

Investors: are in the Metal long term and understand its price drivers:

• Negative Real Interest Rates. Savings and short term Treasuries are risk free in the sense that one is certain to get one's money back. But when the interest paid is lower than the inflation rate, as now, the after inflation return is negative and purchasing power is lost. A depositor's $100 on January 1 will still be $100 plus about 10¢ in interest at year end, but at today's 3% inflation, the $100.10 will only buy $97.10 in goods.

• Monetary Debasement: Loose Central Bank Monetary Policies and Deficit Spending profligacy floods the world with money and sovereign debts that can never be repaid. Thanks to politicians' over-promises, both the money supply and debts inevitably expand faster than the underlying economies and there can be no result other than the falling value for fiat currencies. It's not that Gold has risen from $35 to today's $1,720, it's that US Dollar that has fallen.

Traders: In Gold they are short term participants usually attempting to position themselves ahead of expected events. To maximize profits, they use leverage/margin. Once the trade has played out, they move on to the next wager.

The Leap Day sell-off in Gold was due to the traders positioned in Gold ahead of the Bernanke testimony on an expectation that QE3 will be hinted and Gold would soar. When Bernanke did not oblige, they exited *en masse*. The largest bullion ETF, GLD, saw 44 mil shrs traded, approximately 4X the normal volume. Today, Investors returned to take advantage of the bargain price.

GSA-Pro Coverage Changes Now and Coming

The benefit of these changes is we'll rotate through the coverage list in 5 issues, rather than the current 6, to provide more timely updates of company reports.

- **European Goldfields** dropped as merged w/**Eldorado**. See EGO report herein.
- **Freeport Copper & Gold** dropped as Copper is over 90% of revenues.
- **Minefinders** dropped due coming merger w/**Pan Am Silver**.
- **Polyus** dropped as controlled by Russian kleptocrats and has poor data reporting.
- **5 Silver Stocks**: Dropping June 20, 2012 w/debut of monthly *Silver Stock Analyst*, covering Pro's 5 and 15 more. Builds on the Silver report issued last December 8 that recco'd four stocks that are now up +20% vs Silver's +13% in the period.