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

April 2012 • Since 1994 • Issue #215 • Editor: John C. Doody • Single Issue: $150.00

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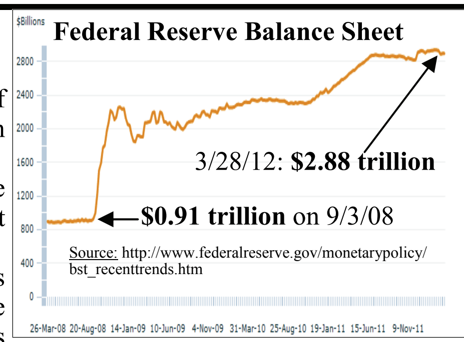
Next Issue Web Posted: 5/1/12

Where Are We Now?

Based on 3/30/12's **$1,668** close in NY for Gold, and GSA's proprietary Market Cap/oz data base, **gold stocks trade as if gold was $1,279/oz**; gold stocks on average are:

-23% Undervalued

M x V = GDP = P x Q



Please allow your Editor/ex-Econ Prof (Bentley Univ, Waltham MA) to return to the classroom.

The letters above represent one of the simplest economic identities and it relates the Quantity Theory of Money.

On the left, Money supply times its annual turnover, Velocity, equals the total value of all goods and services produced in a year, which is GDP. On the right, GDP is simply the Quantity of all the goods and services produced in a year, times the general Price level.

The theories behind using Monetary policy to stimulate the economy when it has unused capacity (i.e. high unemployment) include: 1) increasing Money supply to lower interest rates, increase credit availability, and thus increase Demand. This begets hiring to increase the Quantity of goods and services produced, i.e. a higher GDP. And/or 2), consumers can be scared into buying today to beat the Inflation they see coming from the Fed effectively dropping money from helicopters, as Bernanke once threatened in a speech.

The reality of the MV = PQ relationship is that it's not as simple as it might appear because each side of the equation has a variable that can change to offset the desired effect. When M is increased, V might decrease so there's no net change in their numerical product. Or, instead of a higher M stimulating an increase in Q (and putting more people to work), it might simply drive P higher.

Year	GDP trillion	M (Fed's Bal Sheet)	V
2007	$14.029	$913 billion	15.4X
2011	$15.094	$2,880 billion	5.2X

The adjacent table for simplicity uses the Fed's Balance Sheet as a proxy for Money supply. The 2007 GDP of $14 trillion was supported by a $913 billion Money supply that turned over 15.4X during the year. Now four years later, GDP is $15 trillion. But the bloated $2,880 bil balance sheet loafs along at just a 5.2X turnover rate.

If recovery is now underway, the trick the Fed must accomplish is to cut its balance sheet to offset Velocity's return to more normal level. If it doesn't, the higher V will result in higher Prices. But, the Fed can't sell its balance sheet holdings, i.e. bonds, as to do so will drive their prices lower ... *continued Page 3*

• **He Doth Protest Too Much!!** Fed-head Bernanke is amid a four lecture series at George Washington Univ. titled "The Federal Reserve and the Financial Crisis". The first, delivered March 20, 2012, focused on why a Gold Standard doesn't work (but only discusses the fixed price variety, i.e. $35/oz, not the far better variable-price version that lets Markets, not goverments, determine the exchange rate between Gold and currencies). See/read for yourself:
• **Video:** http://www.youtube.com/watch?v=E3fFg8XIS0k&feature=relmfu
• **Speech Slides:** http://www.ritholtz.com/blog/2012/03/bernanke-explains-his-problem-with-the-gold-standard/
• **Adult Response:** (from the paid-up subscribers at QB Asset Mngt): http://www.ritholtz.com/blog/2012/03/bb-gun/