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 10/31's **$731/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 $444/oz**. On average, **Gold Stocks** are:

Undervalued -39%

US$ + Euro = Gold at $6,200/oz?

The Fed's failure leading to the current financial crisis was the active use of interest rates to accomplish economic/political goals. Cutting Fed Funds to 1% in mid-03, when the early 2000s recession was already over, gave us the housing bubble.

The Fed's role should be to simply grow the money supply at a rate that allows GDP to expand at approximately +3% year... a rate that absorbs an expanding labor force due to population growth and allows higher productivity from capital investment to generate wage increases.

This means a boring role for the Fed's captain as he simply has to hold the money supply tiller on a growth course and let interest rates fluctuate based on supply and demand for money/credit, which is based on investment opportunities. Unfortunately, Central Banks too often play a more aggressive role of trying to "adjust" an economy by raising/lowering interest rates. That's how we got into this mess and why a monetary system has to be devised that limits discretionary input.

Paid-up subscriber and hedge fund manager Lee Quaintance (QB Partners) proposes a straight-jacket approach of using Gold holdings of US (261 mil oz) and Euro CBs (351 mil oz) to back their respective currencies *... continued Pg 17*

Economics...

is a social, not a physical science. In the latter, future results are known with certainty: cooling water below 32F yields ice. In economics, forecasts are only opinions of a future result, and there may be several possible, which is why President Truman wanted a one-handed economist.

Your Editor is constantly sent others' writings with requests for comments. We don't do this as it's not a productive use of our time. You subscribe for our analysis of the future and it's for you to decide on which opinions to rely.

For example, we're currently being sent articles saying deflation from the collapse in home and stock prices will outweigh the inflationary impact from the $1+ trillion injections into the US and Euro economies. Without getting into the specific economic arguments, GSA believes readers should rely on Bernanke's expertise and writings on the mistakes made by Fed in the 1930s Depression (when prices fell 10%/yr in 1930-33) and read the Nov-02 speech he made while a Fed Governor: *Deflation: Making Sure it Doesn't Happen Here;* http://www.federalreserve.gov/BOARDDOCS/SPEECHES/2002/20021121/default.htm

Couple an active Monetary Policy with an increasingly active Fiscal Policy, lower taxes for consumers and a new $300 bil stimulus package likely in early 2009 (the Keynesian approach to increase total demand), the future is clear.

Japan learned in 2001-6 that a 0% interest rate policy cannot stop deflation; US learned in early 1980s that double-digit interest rates can stop inflation. The Fed will continue acting without regard to future inflation to aid the financial markets and the economy. Fed's inflation concern will return sometime, but only well after markets and the economy are again healthy. By then, Gold will be much higher.

• See you at the **San Francisco Gold Show** Nov 30/Dec 1. Always one of the year's best Shows, your Editor will speak Sunday AM in the Main Hall and hold a Workshop Monday after lunch. Details and Program at www.iiconf.com.

Change to Top 10. See Who/Why on Pages 2 and 8