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 9/28's **$1,308** close in NY for Gold, and GSA's proprietary Market Cap/oz data base, **gold stocks trade as if gold was $1,303**; gold stocks on average are:

Fairly Valued

$1300 - The End is Nigh?

As usual, the doubters use every benchmark achieved by Gold to bring a new round of "the end is near." To this we say "What has changed?" The big picture has not. Here's five key reasons for higher Gold:

1) The Real Interest Rate continues negative, i.e. the risk free return on cash is negative after adjusting for inflation. We see this the single most important factor determining Gold price. Yes, inflation is low, but so are risk free rates on Treasuries, savings accounts and money market funds, all now at ~0.1%.

Invest $100 at the start of the year and after factoring in low inflation (+1.1% for 12 month CPI thru August), you end the year with $99 of purchasing power. Gold can protect against the purchasing power loss, and even deliver superior returns as it has done in the past decade and 2010 to date, at +19%.

2) Seasonal Demand. As we pointed out in the Page 1 article last month, Gold always does best in the last four months of the year due holiday buying and the Asian wedding season.

3) Quantitative Easing (QE): Fed told us in 9/21 press release it's "prepared to provide additional accommodation", aka QEII. Japan began another round 8/30 to try and weaken the Yen. Bank of England hinted at more QE in its minutes released 9/22. ECB continues printing money to buy bonds of Greece/Ireland/Portugal to push interest rates lower, making it easier for them to finance debts.

4) Competitive Devaluations. Japan, South Korea, Taiwan and Brazil have all recently intervened to halt their currencies' rise vs the Dollar or Yuan. Printing and selling their currencies to buy Dollars/Yuan creates domestic inflation.

5) China. US House passed legislation on 9/29 by 348-79 to allow duties imposed on imports from nations with "fundamentally undervalued" currencies. China keeps its currency pegged by buying the Dollars earned from its US trade surplus. If it allowed Yuan to float higher by the 20% it's said undervalued, China's key Dollar-priced raw material costs would drop significantly (table) and offset the domestic inflation that has come from Dollar buying.

After revaluation, Gold would be cheaper in Yuan, stimulating Demand and driving its price higher.

Yuan/ Dollar	Now 6.8Y/$1	Future? 5.4Y/$1
Oil	$78/bbl	$62
Copper	$3.60/lb	$2.88
Gold	$1,310/oz	$1,048

• **Changes to Top 10:** We've added one, dropped one and raised another's target price. More on Page 16 and this issue's cover letter.

• **New Feature:** In the past to calculating mine operating cash flows we've used a fixed Gold price for the year. Until now, for 2010 that was $1,100/oz. We've switched to using the actual YTD Gold price available on Kitco.com. With Gold over $1,300/oz, $1,100 seems long ago, but the YTD average is $1,176/oz.

• **Mining Scams:** The State of Arizona, home to many mining scams including the "desert dirts" of the late 1990s, has posted a guide to hopefully alert investors: http://www.admmr.state.az.us/Info/scams.html

• **Editor on CNBC:** Sept 24 they called at 10AM wanting Editor at a local studio for an interview an hour later. Getting "No", they said a phone interview would work, but got even by not listing Doody in the sub heading. Nonetheless, good points were made: http://www.cnbc.com/id/15840232?video=1599044164&play=1

• **Coverage Dropped: Ivanhoe** as Cu overwhelms Au; **Red Back** acquired by **Kinross**; **Terrane** acquired by Thompson Creek.