

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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Next Issue
Web Posted: 5/1/06

Where Are We Now?

Based on 3/28's \$567/oz Gold, and GSA's proprietary Market Cap/oz data base compiled since 1994 for Rising and Falling Gold price trends, **Gold stocks trade as if Gold was \$540/oz.** On average, Gold stocks are:
Undervalued 5% based on MC/oz P+P
Undervalued 5% based on MC/oz Prod

Bernanke + Economic Data = Higher Gold

Federal Reserve's Bernanke moved to establish his inflation fighter credentials in his first meeting as Chairman with a rate increase to 4.75%, and alluded to the possibility of more. While Greenspan's final increase to 4.5% might have already been sufficient, it was absolutely necessary that Ben establish his anti-inflation credibility, particularly in light of the "helicopter dropping money" comment frequently associated with his name. GSA thinks the May meeting will bring a final increase to 5% and then a wait and see approach.

Bernanke, an academic, has written and spoken extensively on the 1930s depression and the blunders the Fed made (google: Bernanke 'great depression'). In an 11/8/02 speech he concurs with and repeats Milton Friedman's analysis that the first miss-step towards the Depression was brought by Fed's "deliberate tightening of monetary policy that began in the spring of 1928 and continued until the stock market crash of October 1929". This was exacerbated by three more Fed errors that culminated in the March 1933 "Bank Holiday".

Ben will not make these mistakes. He understands the role household wealth plays, via stock prices and home values, in underpinning consumer consumption. At 70% of US GDP, this spending is the backbone of the US economy and the jobs needed to produce the output. With adjustable mortgage rates rising and new home sales in Feb-06 off 10.5% from January, and a growing inventory now equal to 6.3 months of sales, Bernanke will not jeopardize this key economic sector.

US interest rates near the end of their tightening cycle while Euro and Japanese rates inch higher. The narrowing interest rate differential reduces the US Dollars' appeal to investors, as does this continuing negative economic data:

- US Trade Deficit for January came in at a new record -\$68.5 bil.
- US Current Account Deficit in 4Q05 was -7.05% of GDP. This is more than twice the -3.45% nadir reached in 1987 that brought the Plaza Accord and efforts to drive down the Dollar (and which resulted in Gold doubling).
- Net Income flowed out of US in 4Q05 as Foreign Investors' income on US Assets exceeded US income on Foreign Assets, and begins US return to colony status.
- US \$8.18 trillion Debt ceiling was increased to \$9.0 trillion in order to fund the Govt's profligate spending programs.

• Changes in GSA's coverage (and why change made):

- Add: International Royalty:** Voisey's Bay income begins 2Q06; 61 other props.
- Polyus:** Russia's largest producer, expects US trading 2Q06.
- US Gold:** no Prod or P+P, but it's McEwen's Nevada vehicle.
- Drop: NV Pacific:** one of 4 combined to make McEwen's new US Gold.
- Pacific Rim Mining:** little subscriber interest and a long way from prod.
- Wesdome:** High cost Canadian props w/no growth prospects.
- Western Silver:** No one is outbidding **Glamis**, and after just two months on the **Top 10** we made an almost 100% gain; deal's closing due 5/3/06.
- Love to drop, but won't: **Coeur d'Alene**, which just sold 28 mil shrs (number up 1100% from 23 mil at end-98 to now 278 mil). More Pg 3
- **Silver ETF** was OK'd by SEC; trading begins on Amex when Registration Statement approved (April?). Will be followed soon after by an **Oil ETF**.
- **NY Gold Show:** May 14&15 at Marriott Marquis. Full info at: www.iiconf.com

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