

# 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 8/31's \$633/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 \$597/oz.** On average, **Gold Stocks** are:

**Undervalued 6%**

## Understanding Central Bankers - CB101

Perhaps the most prevalent expectation among "goldbugs" is that the Chinese Central Bank will begin buying large amounts of gold and drive its price higher. It's an easy leap to make. The Bank has said it will diversify away from US Dollars and already has some gold (19.3 mil oz worth \$12.4 bil at \$644/oz, and just 1.4% of total \$887 bil ForEx reserves as of June-06). If the Chinese would copy the Euro and hold 15% of their ForEx reserves in gold, the \$135 bil investment would absorb 217 mil ounces at current \$630 and surely power gold's price higher. **WRONG!**

The mistake goldbugs make is thinking that Central Bankers will act as rational investors; in fact nothing could be further from the truth. Central Bankers are usually charged with pursuing policies to minimize inflation, maximize jobs, and maintain or manipulate foreign exchange rates for competitive trade advantage.

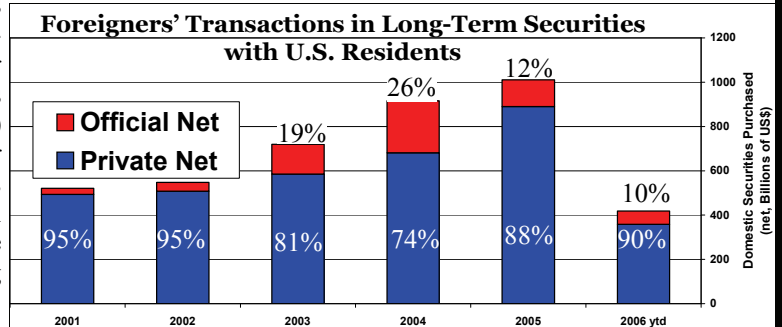
The CBs never are charged with maximizing the value of ForEx holdings. If this was the case Gordon Brown, head of Britain's central bank and seller of half the UK's gold holdings at the late 90s market bottom, would never be in line to replace Tony Blair as Prime Minister, as he is currently said to be.

## US Long Term Securities Purchased by Foreigners...

are increasingly being held by weaker hands. As the TIC data chart below shows, "Official" (read Central Bank) buyers peaked at 26% of total purchases in 2004. In 2005, increased Private purchases cut the CB's share to 12% and a still lower 10% through May 2006.

An inverse to above article, Private investors are judged on the value of their portfolios. When the US Dollar begins a steeper slide, they will be the first to let go,

forcing CBs to either increase their purchases (as in 2003-04) or see their currencies strengthen versus the weakening US Dollar.



## Special 24 Pg Issue:

### Which Stocks Will Gain Most From Higher Gold?

- In this Bull Market which began 4/1/01, **Gold's peak price has come** in the second half of the year, from September through December.
- **"Is the United States Bankrupt?"** Article by Boston Univ Economics Professor Laurence Kotlikoff says US has promised \$66 trillion in benefits, over 5 times current National Income from which the benefits will have to be funded. (It's interesting the paper was published in Federal Reserve Bank of St Louis' *Review*: <http://research.stlouisfed.org/publications/review/06/07/JulAug2006Review.pdf>) Absent enacting his proposals, Kotlikoff says "most likely scenario is that government will start printing money to pay its bills"... making the case for Gold.