

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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What's Wrong with Gold Stocks?

As seen in the table below, Gold stocks (as represented by XAU) had great years in 2002 and 2003, beating the metal's performance by the traditional 2 to 1 rule of thumb in 2003 (actually by 101%), and by 65% in 2002.

But 2004 has been a different matter; Gold's at a high not seen since June 1988, 16 years ago, yet gold stocks and XAU are down. So, it's natural to ask 'Why?'

GSA believes sees three reasons: 1) Miner profits aren't soaring; gold is up \$32/oz in 2004, but cash costs/oz have risen by the same, from roughly \$200 to now \$230/oz. 2) Disappointments abound... from permits and host government issues at **Gabriel, Nevsun, Miramar, Metallica, and Canyon**, to mine performance disappointments at **Apollo and Metallic Ventures**. 3) New investors are not coming to the gold sector as fast as new company financings suck money from the existing pool of investors; therefore shares are sold down to buy the new deals

We don't know how long this will last, but the new ETF (GLD: NYSE) is likely to prolong the share slump, as investors are provided a convenient way to avoid the stocks and their potential for disappointment, yet still play the metal.

	2002	2003	2004 to 11/24/04
XAU:	54.49 to 77.72: +42.3%	77.72 to 108.84: +40.0%	108.84 to 107.21: -1.5%
Gold :	\$277 to \$347: +25.6%	\$347 to \$416: +19.9%	\$416 to \$448: +7.7%
XAU vs Gold	+65.2%	+101.0%	nmf

3Q04 US Trade Deficit Data

released 11/10/04 annualizes to a new record deficit of \$623 bil and indicates another record US Current Account Deficit (CAD) could be reported on 12/16/04.

With the Trade Deficit data just reported for Sept-04, we now know 90% to 94% of the CAD data for 3Q04 based on the two prior quarters; what we don't know are: 1) US net income on foreign investments and 2) unilateral transfers from the US. In 2Q04 these items annualized to a \$64 bil outflow, representing 10% of the CAD.

If the 90% relationship, Trade Deficit to Current Acct Deficit, from 2Q04 holds for 3Q04, the new record deficit CAD of \$692 bil would be 5.86% of US GDP and likely send the Dollar lower and gold higher. But, if 1Q04's 94% relationship prevails, then the CAD would slip slightly to 5.62% and might be taken by the Market as a sign of its stabilization; good for the Dollar and bad for gold.

The solution to the Deficit is more exports and less imports; both are accomplished by a falling Dollar that makes imports more expensive, cutting US demand,

	United States: (Annualized Rates)	1Q04 (Actual)	2Q04 (Actual)	3Q04 Possibilities	
Trade Deficit		-\$554 bil	-\$601 bil	-\$623 bil	-\$623 bil
% Trade of CAD		94%	90%	94%	90%
Curr Acct Deficit		-\$589 bil	-\$665 bil	-\$663 bil	-\$692 bil
US GDP		\$11,473 bil	\$11,658 bil	\$11,803 bil	\$11,803 bil
% CAD of GDP		-5.06%	-5.70%	-5.62%	-5.86%

• Long-awaited Gold ETF began trading on NYSE on Nov 18 as GLD w/each shr representing 1/10th of an oz gold. Initial trading was a big success; Day 2 saw 11.6 mil shrs trade representing 1.16 mil oz of gold. The ETF's 87 page prospectus at: http://www.streettracksgoldshares.com/us/prospectus/gb_prospectus.php

• Miner hedging off 4.6 mil oz 3Q04 to 60.4 mil oz. Full report at: www.gfms.com

• **Four changes in GSA Top 10.** Find out Who and Why on Page 2

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Where Are We Now?

At 11/23/04's \$448/oz Gold, and based on GSA's proprietary Market Cap/oz database compiled since 1994, **Gold stocks are trading as if Gold was \$405/oz.** On average, stocks are:

Undervalued 18% based on MC/oz P+P
Undervalued 17% based on MC/oz Prod

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