



The version of Gold Stock Analyst newsletter for Professional Investors
 Reports on 60+ Gold miners plus the mid-month GSA-Top10 newsletter

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Where Are We Now?

Based on 8/29's close for Gold at \$1,290/oz, and GSA's proprietary Market Cap/oz database compiled since 1994, Gold Stocks trade as if Gold was at \$864/oz. On average, Gold Stocks are:

Undervalued -33%

Valuations Have Reset for Gold Stocks

Comparing 2000 to Oct-08 versus Oct-08 to Date

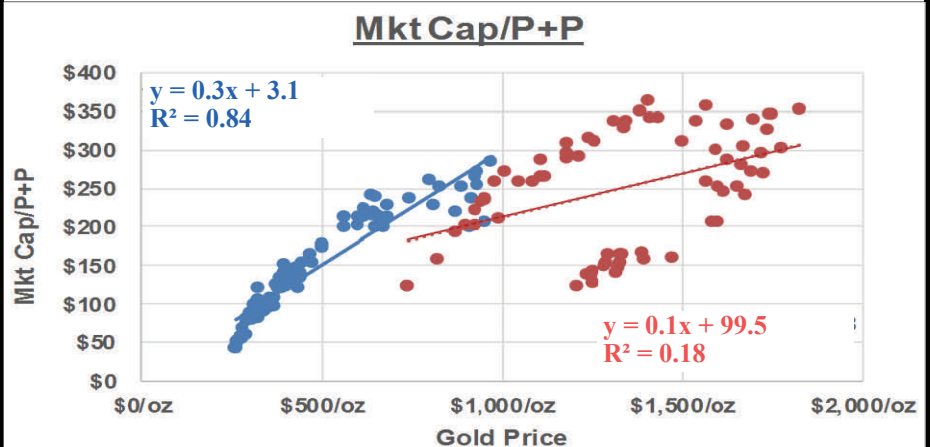
Investors buy Gold stocks for growth and the dividends some pay. But more importantly, Gold stocks are bought for their leverage to Gold price. The price leverage comes from two sources: 1) Current production, where every \$1/oz increase in Gold price translates directly into an increase in pre-tax profits of \$1 times the ounces produced. 2) Their ounces in the ground are now worth more. Mines often have 10 times their annual production in Reserves. So a \$1/oz Gold increase multiplied by the total Reserve ounces could give a several million dollars increase in the value of a miner's Reserves.

We wrote last month, with Gold ~\$1,300/oz, the average market value of a Reserve ounce was \$167, the same as when Gold had traded under \$500/oz. We decided to explore deeper to determine Why.

Below, using data from *GSA-Pro's* pages 4-5, we plot the month-end Mkt Cap/oz of P+P Reserves vs Gold price from 2000 to date. Then we divide the period into two sections separated by the Oct-08 Crash and for each plot the Mkt Cap/oz values vs Gold price. Then we fit (regress) a line to each set of dots. The line represents the best fit relationship between the independent variable, Gold price, and the dependent variable, Market Cap/oz P+P. This line is summarized by an equation and how close the line fits the data is called the R-squared (R^2).

Reserves are relatively fixed over time, as new reserves generally replace the oz depleted every year, and share count remains relatively constant. This means we can think of Mkt Cap data as simply representing the always changing stock prices.

In the first period below (blue dots), the fitted regression line's equation is: $y = 0.3x + 3.1$ and the R^2 is 0.84, meaning the blue line captures or explains 84% of the relationship between Gold price and stock price for that period. ... *continued Page 3*



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