

GOLD STOCK ANALYST™

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Where Are We Now?

Based on 2/26's \$1,108/oz London PM fix, and GSA's proprietary Market Cap/oz data base compiled since 1994 for Rising and Falling Gold markets, **Gold Stocks** trade as if Gold was \$981/oz, and are

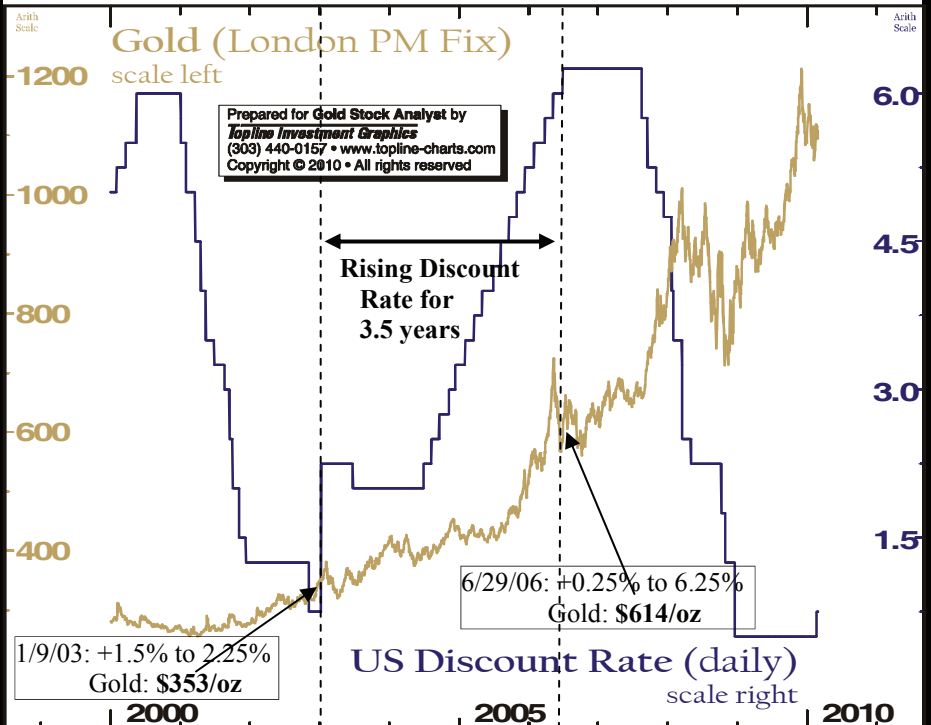
-11% Undervalued

Who's Afraid of a Discount Rate Increase?

Not Gold, so investors shouldn't fear an increase either. The Discount Rate is what Federal Reserve charges member banks for secured short term borrowings. On Feb 18, after the market closed, the Fed bumped up the rate by 0.25% to 0.75%. Having been as high at 6.25% in the past decade, the rate remains at a trivial level.

Higher interest rates raise the opportunity (lost income) cost of holding Gold, a "barren" asset. But the next day Gold responded appropriately to this non-threat by closing +\$9/oz higher at \$1,117.

The chart below shows the past decade's relationship between Discount Rate and Gold price. For the 3.5 years from 1/9/03 to 6/29/06, while the Fed was hiking from 0.75% to 6.25%, Gold rose 74%, from \$353 to \$614/oz. Once over 6%, Gold did stall in the \$600s and might again. But, given the weakness of the U.S. economy vs the booming mid-2000s that brought the last rate increases, it will be many years before rises of such magnitude are seen, and act to halt a further Gold increase.



- **Editor Speaks:** 10AM Sunday March 7 at PDAC Investor Forum. More info here: http://www.pdac.ca/pdac/conv/2010/ie-delegates.html#Investor_Forum
- For those that ask, there is no way to supply an audio-visual, but the speech will focus on the updated User Guide (link on website's home page) and GSA's methodology to select stocks for the Top 10 portfolio.
- Excellent read: Feb-10 Outlook from **Pimco's Bill Gross** (#1 bond fund manager), <http://www.pimco.com/> Topic is the impact of deleveraging after an economic crisis and the long period of low growth that always follows.