

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: 11/3/08**

Where Are We Now?

Based on 9/29's \$905/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 \$673/oz.** On average, **Gold Stocks** are:

Undervalued -26%

Bailed Out by the Other Gun?

The Treasury's now dead \$700 bil plan was not the only weapon in US Govt's double holster. Strapped to the other leg is an even more potent gun wielded by the Fed, an independent entity that needs no approvals to act.

There is no better person to captain the Fed than Bernanke. A Depression student, he knows what went wrong then (the Fed reined-in credit) and Ben will not repeat. He'll err on the inflation side to save the economy/jobs and avoid 1930's deflation.

The Fed now floods billions of dollars into the financial system to unfreeze credit markets in the short term and inflate away the debts long term. Higher asset values and incomes solve the problem as skilled workers (i.e. homeowners) get raises, and their higher incomes lower the burden of (generally) fixed debt payments.

Gold and Gold stocks are corks tossed about on the financial sea, but as the only hard asset w/liquidity, the Fed's inflationary actions will result in higher prices long term. Gold investors with the courage of their convictions will be well-rewarded!



Operating Cash Flow Multiple

Page 5 issue introduces a third analysis metric, Operating Cash Flow (OCF) Multiple. OCF allows investors to compare operating profitability between miners and it joins our two primary metrics, Market Cap/oz of Prod and P+P Reserves.

We own the stocks for their leverage to Gold price, and since all ounces are the same, when we buy the shares we usually want to buy those w/the cheapest ounces.

The OCF Multiple introduces a operating profitability analysis tool. What are we paying for cash flow generated by operations when we buy the stock? Not to be confused with bottom line profits, this is from just below the top line: What's available to management from mine operations to pay quasi-discretionary expenses such as exploration, overhead, debt repayment, taxes, dividends, etc. If miners don't make it from operations, monies can't be paid out for other costs down the line.

Calculated by subtracting forecast cash cost/oz from Gold's expected average price (we're using \$900 for '08), then multiplying by forecast ounces of production gives Operating Cash Flow. Dividing by the shares outstanding, and this result (which is OCF/share) into Stock Price yields the Operating Cash Flow Multiple.

The results are dramatic, with OCF Multiples ranging from a "dirt cheap" 0.6X to a high of 33.6X; the unweighted average for our 38 producing Gold stocks is 7.3X.

• **GSA Coverage Changes:** We're dropping SNS Silver as its coming merger with Andover dilutes its silver appeal. As we reach them in the alphabet, we're adding gold miners: **Anatolia, CGA, and Jaguar.**

• GSA's contribution to fixing the current financial mess: With apologies to Shakespeare and Henry VI, **First, let's kill all the lobbyists.** Second, election financing must be reformed to eliminate *quid pro quo* buying votes with big campaign contributions. The average House seat costs \$1 mil, a Senate \$10+ mil, and the Presidency now \$500 mil. Those who dole out the funds, lobbyists, distort Govt's decision-making to serve the ends of their corporate bosses. Without changing this system, there can be no enduring cleanup of Wall St/Washington.

The solution? Local TV stations and networks, unlike cell phone companies, paid nothing for their channels and air space. Require them to donate the airtime they now sell to the candidates. More lobbying info here: <http://www.opensecrets.org>