

GSA-ProTM

*The version of Gold Stock Analyst newsletter for Professional Investors
Reports on 70+ Gold miners plus the GSA-Top10 newsletter in mid-month*

November 2010 • Since 1994 • Issue #198 • Editor: John C. Doody • Single Issue: \$150.00

IN THIS ISSUE:

GSA's Top 10 Stocks	2
GSA Stock Data	4-6
Gold: Price, Stock Indexes, Market Indicators	7

Reviewed Inside:

Kinross	8&9
Minefinders	10
Nevsun	12
Newcrest	11
New Gold	13
Newmont	14&15
Northern Dynasty	3
Novagold	13
Northgate	16

Analysis Inside:

Top 10 Comments	12
-----------------	----

**Next Issue
Web Posted:** 12/1/10

Where Are We Now?

Based on 10/28's \$1,344/oz Gold, and GSA's proprietary Market Cap/oz database compiled since 1994 for a Rising Gold market, **Gold stocks trade as if Gold was \$1,311/oz.** On average, Gold stocks are:

Undervalued -2%

To QE2, or Not to QE2: it's No Longer the Question

Friday 10/29's report that US GDP grew at just +2.0% in 3Q10 surely sealed the Fed's next Quantitative Easing decision due on Weds Nov 3. While marginally better than 2Q10's +1.7% uptick, it was far below the 3% needed to simply absorb new labor force entrants due to population growth, and less than half the 4% to 5% increase needed to put a dent in the current 9.6% unemployment rate.

The unemployment quagmire is best resolved with education and job training, but that's a long term solution. (Notably, when Obama earlier pushed for 99 weeks of unemployment benefits, jobs for two of the three unemployed standing next to him will never come back in volume... real estate sales and fitness training. Those out-of-workers need training for real, not hobby, jobs.)

The Nov 2 elections, with Republicans likely regaining the House, assures there will be no new Fiscal Policy efforts to add jobs; Govt spending won't increase and Taxes won't be cut (as Obama will veto). So Monetary Policy is all that's available.

Under Open Market Operations, the Fed buys or sells Treasuries to set short term interest rates. Carried to its extreme, the Fed's buying becomes Quantitative Easing, where the intent is to lower long term rates and flood the monetary system with liquidity to prompt consumer spending and business investment, as both create jobs.

We've already seen a huge round of easing, QE1, under which the Fed bought over \$1 trillion mortgage-backed securities in an effort to bolster the housing market by forcing mortgage rates lower. As we know, it hasn't worked much. The trillion ended up sitting in US banks to bolster their balance sheets and/or sent overseas to earn the higher returns in emerging markets.

The intent of QE2 is found in Bernanke's famous speech, "Deflation: Making Sure it Doesn't Happen Here" (google title) on 11/21/02. He said "government has a technology, called a printing press"... and... "under a paper-money system, a determined government can always generate higher spending and hence positive inflation". We think he'll announce a big number for QE2, perhaps \$2 trillion, but say they'll buy some now (\$500 bil?) and the rest as/if needed over the coming months.

Economists call the expression below the "equation of exchange", where M is Money Supply; V is Velocity, the number of times M turns over a year to produce GDP, which is Quantity of all the good and services produced times their Prices. Due the myriad ways to define the Money Supply, we'll simply use Fed's total assets as a proxy, and use GDP to stand in for the Quantity of goods and Prices.

Talking a period before the crisis, 12/27/07, we see the Fed's \$894 bil total assets turned over 16.0X to produce a \$14,291 bil GDP. Now almost 3 years later, the expanded Fed assets turn over only 6.4X. The QE1 money is not being put to use.

Based on the 2002 speech, the intent of QE2 will be to scare consumers and business into spending now in order to beat the coming inflation.

Gold is the perfect place to be!

	$M \times V = GDP = P \times Q$
12/27/07	\$894 bil x 16.0 = \$14,291 bil
10/27/10	\$2,298 bil x 6.4 = \$14,730 bil

- We're looking forward to seeing many of you at **San Francisco Gold Show** on November 21 & 22. GSA has a booth. Stop by and say "Hello" to Isabelle, Garrett and John. Details and speaking schedule at <http://HardAssetsSF.com>
- Editor interviewed 10/22/10 on Jim Puplava's excellent internet radio program. Listen here: <http://www.financialsense.com/financial-sense-newshour/>