

GOLD STOCK ANALYST™

A Monthly Newsletter Finding **Undervalued** Investment Opportunities through Fundamental Analysis & Rankings of the largest North American-Traded Precious Metals Mining Stocks

May 2004 • Issue #120 • Editor: John C. Doody • Single Issue: \$75.00

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Where Are We Now?

At 4/26/04's \$397/oz Gold, and based on GSA's proprietary Market Cap/oz database compiled since 1994, **Gold stocks are trading as if Gold was \$362/oz.** On average the stocks are:

Undervalued 19% based on MC/oz P+P

Undervalued 20% based on MC/oz Prod

This Gold Bull Market

has at least paused, and probably has ended, concludes GSA; our rationale is discussed further below. The good news is that we don't foresee the lengthy gold price erosion that dominated the five years after the last bull market, as Feb-96's \$416/oz slid to April-01's \$256/oz. We see as more likely a trading range bounded by \$350 and \$425/oz. The \$350/oz low end being the price necessary for profitable operations (\$235 avg cash cost/oz fctst for 2004 by all GSA miners, plus \$100+/oz for capex recovery); the upper end based on the highs reached Jan and April 2004.

GSA's forecast does not mean investors should sell all their gold stocks, although a paring back may be prudent. We are making one deletion from the GSA Top 10, but in general we see the undervalued and/or event-driven nature of the remaining stocks giving price support; these have prospects for advancement that are not shared by "ordinary" gold stocks, those that trade mainly as a proxy for gold, such as **Placer Dome, Newmont, Kinross, and Goldcorp.** (See Page 3 for updated discussion of GSA Top 10.) If we are right, the undervalued/event-driven nature of the Top 10 allows for stock price upside even if gold is flat or lower. If we are wrong and the bull market soon resumes, the Top 10 stocks are still gold miners and they'll float higher along with all the other gold "boats" on the rising tide.

Before reviewing how we reached our conclusion, a review of the past is in order: There have been 6 gold bull markets since gold price was freed when the London Gold Pool collapsed in March 1968. Please see Centerfold, pages 8&9. Two of these bull markets were primarily driven by the US Current Account Deficit (CAD) that saw the US flood the World with more Dollars than it wanted, which led to their sale and a lower Dollar, which in turn drove gold higher. These were 1985-87 and the one that just ended, 2001-04. One was driven by fears of US Budget Deficits, 1993-96, that saw investors fearing Clinton economic policies.

Gold's "safe haven" role for inflationary times powered the first three bull markets, 1971-74, 1976-1980 and 1982-83. All three periods saw double digit increases in US Consumer Price Index, peaking at 18.2% in Sept-74, 18.6% in Jan-80 and 14.7% in Jun-82. Even the overall period from 1968 to date has been inflationary... but CPI levels that prompted Nixon to impose wage/price controls are now tolerated. Gold has provided inflation protection in the last 35 years, rising from \$35 to ~\$400/oz (a +1,043% gain), but this is less than the gains that could have been achieved by buying the DJIA at an avg 830 in March 1968 and holding on to today's ~10,400 for a gain of +1,153% (and much more if one adds in the avg 3% dividend yield compounded over the period). To GSA, this shows that gold is a good cyclical play, but not the best for long term secular gains.

So, in today's world of hedonically adjusted CPI data (sure to prevent the reporting of double-digit inflation), banks and Fanny Mae/Freddy Mac too big to fail, and now a US economy that looks to be back on a growth track (with recent good reports on GDP growth, jobs, housing, durable goods, and consumer optimism), GSA sees gold price as range bound thru ... *continued Page 7*

- **New York Gold Show:** June 2&3 at the Marriott Marquis Hotel. Meet your Editor and 100+ exhibiting miners. More info: 800-282-7469 or www.iiconf.com.
- The 31 gold producers covered by GSA forecast a total 40.6 mil oz of gold mined at a weighted avg **\$235 cash/oz** (vs \$212 cash/oz in 2003 on 41.0 mil oz produced).
- **Change in GSA Top 10;** see who leaves and why on Page 3.

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