

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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Where Are We Now?

Using GSA's exclusive database since 1994, and a new methodology of separating Declining and Rising Gold Market Cap values, see Pages 14 & 15, **Gold stocks are trading as if Gold was \$384/oz.** On average, stocks are: **Undervalued 19%** based on MC/oz P+P **Undervalued 19%** based on MC/oz Prod

Chinese Puzzle

Alan Greenspan told Congress on 4/21/05 that he expected ... *continued Page 6*

Rising Cash Cost/oz

has been blamed for much of the malaise affecting gold stocks in 2004. And, for 1Q05, the stocks' continued poor performance now looks to have been telegraphing the horrible \$295 cash cost/oz (weighted average) that has just been reported by the "Big 6" (ABX, AU, GFI, HMY, NEM & PDG).

As paid-up subscriber Bill Fleckenstein ironically notes, gold, the very sector that is supposed to offer safe haven from inflation, is being held captive by cost increases beyond the miners' control. Prices of oil/power, steel, labor, and other inputs increase; and the falling US Dollar has hurt the Aussie, Canadian and So African producers as their costs translate into higher US\$ amounts when reported.

Through 2004 one could have argued that even though gold price increases were not passing thru on a dollar for dollar basis, at least Operating Profits/oz and Margins were increasing. But not any more. The ~\$50/oz cash cost jump in 1Q05, has pushed the average Oper Profit margin back to pre-2000 levels. The good news is that if these costs prevail, perhaps 10% of the industry's 80 mil oz/yr annual prod will be unsustainable, and the mine closures will be good for gold price.

	2000	2001	2002	2003	2004	2005(fcst)	1Q05(A)
Weightd Avg Cash/oz	\$187/oz	\$184/oz	\$186/oz	\$228/oz	\$248/oz	\$246/oz	\$295/oz (6 largest)
Avg Gold Price	\$279	\$271	\$310	\$363	\$410	\$427	\$427
Net Oper Profit	+\$92/oz	+\$87/oz	+\$124/oz	+\$135/oz	+\$162/oz	+\$181/oz	\$132/oz
% Oper Profit of Gold Price	33.0%	32.1%	40.0%	37.2%	39.5%	42.4%	30.9%

• April's **Mid-month Update** included Macro-economic comments and info on **AZS, BGO, KRY, QEE, CAU, AUY** and **NSU**. Print-only subs can convert any-time to Web Access with email Updates at no charge: www.goldstockanalyst.com.

• **South African Reserve Bank** surprised all on April 14 with 0.5% cut to 7.0% as Feb's CPIX inflation rate fell to 3.1%, low end of target 3-6% range, and despite SARB's expecting oil to bring higher future inflation. The domestic economy was characterized as "robust". GSA sees rate cut as a "bone" thrown to exporters as it might have weakened the Rand. Alas, this was not the case; from 6.27R/\$1 on the 14th, the Rand strengthened further to R6.09/\$1 on 4/29 as GSA went to press.

• This Gold bull market was **49 months old on 5/2/05** (it began 4/2/01 at \$256/oz). While by far the longest since the metal was freed 1968, the macroeconomic conditions that started the bull run remain intact. Currently marking time, Gold's next more higher will likely be triggered by 1) Chinese revaluation (see article above) or 2) Fed ending interest rate increases in response to the weakening US economy.

• **Homeland Investment Act's** impact on Dollar is unknown to date. Some firms have reported repatriating foreign profits to take advantage of 2005 tax break in 10Qs filed to date. But, *Wall Street Journal* reported 4/28 that other firms are holding back, waiting for the further rule clarifications due from Treasury in May.

• See you at the **NY Gold Show, May 23 & 24**. More info at: www.iiconf.com/

• **Addition to GSA Top 10**; read **Who** and the reasons **Why** on Page 2

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