

# 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?

Based on 10/27/06's \$596 Gold, and GSA's proprietary Market Cap/oz database compiled since 1994, for a Rising Gold market, **Gold stocks trade as if Gold was \$599/oz.** On average the stocks are:

**Fairly Valued**

## Coming Democrat Sweep of Congress...

Assures a lower US Dollar and higher gold, believes GSA. Here's why:

1. Republicans, having lost Congress, will do everything possible to keep the White House. With Iraq likely still a mess during the 2008 campaign, the one strength they still might have will be the economy and stock market. With most of the big US companies really multinationals, the easy way to assure good earnings for them is a lower US Dollar, as foreign earnings translate into more US\$ earnings.

2. With Dems controlling Congress, look for renewed efforts the force China to revalue its currency. This actually benefits both parties... more expensive Chinese goods in the US creates a pricing "umbrella" for US manufacturers... they can raise prices to earn more profits, or now undercut Chinese prices to sell more (and increase employment to produce the additional goods).

3. The Federal Accounting Standards Advisory Board on 10/23 called for US Govt to account for future costs of Social Security and Medicare in its Annual Budget, just as companies must book future pension liabilities as a cost in their P&L statements. This advisory body, similar to that for corporate accounting, consists of 9 members; 3 representing Treasury, OMB and GAO and 6 independents from outside Govt. Comments are requested by April 16, 2007; the report, "Accounting for Social Insurance", is here: <http://www.fasab.gov/exposure.html>.

The Board's Govt reps are against the change and the independents "for". The effect of adoption will be to worsen the Budget Deficit and make it hard to extend the Bush tax cuts. A side effect of the Dems likely making this an issue is that it focuses attention on US Dollar's weak underpinnings, re-enforcing its slide lower.

4. Weak GDP data just reported for 3Q06... was up only 1.6%, and housing investment (a key indicator for Bernanke) was down 17.4%. GSA sees this assuring the Fed's next interest rate move will be lower.

## Advice to a College Classmate

Knowing your Editor's business, an old friend sought advice on Gold. We replied: "Gold is the ultimate Anti-Dollar. The US Current Account Deficit (Trade Deficit plus other money flows) pours a net \$900 bil/year into the world's foreign exchange markets. Most of the \$ get recycled back into purchase of US assets... Treasuries by Chinese... Miami condos by Latins... Chrysler by Mercedes, etc. But, it's a supply-is-greater-than-demand condition that will continue the US\$'s slide over time, as it must fall much more to curb US appetite for Imports. The US\$ is already down from several years ago when 1 Euro cost only \$0.84. Now 1 Euro costs \$1.27. In the same time, gold has more than doubled... from \$256/oz ... *continued Page 6*

• **World Gold Council** has a new quarterly Investment Digest filled with useful facts and time series data: <http://www.gold.org/value/stats/index.html>. You'll have to register, but it's well worth doing so.

• **Treasury's International Capital (TIC) data being revised;** gives monthly info on money coming back into US from the Trade Deficit. Nov 16 starts new format; we'll have to see if this provides more clarity, as claimed, or simply confuses and obscures the reality, as is the case with the Fed no longer reporting M3.

• See you at **San Fran Gold Show**, Nov 26/26 at the SF Marriott. This is the best Gold show of the year, with over 200 gold miners exhibiting and many featured speakers, including your Editor. Stop by GSA's booth and say "Hello".