

# 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, separating Declining and Rising Gold Market Cap/oz values (see May-05), **gold stocks trade as if gold was \$402**; the stocks on average are:

**Undervalued -6%** based on MC/oz P+P

**Undervalued -8%** based on MC/oz Prod

## 1Q05 US Current Account Deficit Possibilities

With the May 11 release of the US Trade Deficit for March-05 (-\$55 bil), we now know the total deficit for the quarter and need only Income and Transfer data to have the total Current Account Deficit (CAD), which will be released on June 17.

In 2004, Income + Transfers ranged between 6% and 9% of the total CAD. To estimate 1Q05's CAD, we took this 2004 range and applied it to the known Trade Deficit and known GDP for the Jan—Mar05 period. From this, GSA estimates the US CAD will have stayed flat at 6.27% of US GDP, or perhaps have declined slightly to as little as 6.07% of GDP. GSA sees that so long as the number is above 6%, the case for a weakening Dollar remains intact (see Currency article below).

Looking ahead, the Organization for Economic Co-operation and Development (OECD) projected, in its semi-annual forecast issued on May 24, that the US CAD would near -\$900 bil in 2006, or -6.7% of US GDP. While OECD thinks the West's economies will "muddle thru", it now allows for the possibility of a 30% Dollar sell-off (the sure-fire way to cure the Trade and CAD). If the Dollar collapses by such an amount, it results in approx \$1.60/1.0 Euro versus the current \$1.25, and 75Y/\$1.00 versus 108Y/1.00. OECD predicts the fall would bring recession in Europe and Japan (Exports to US shrink), and a 10% decline in US stocks and home prices (Fed further raises US interest rates to support the Dollar). Assuming a 1 to 1 linkage, a 30% Dollar fall would boost gold to approximately \$550/oz.

United States: (Annualized Rates)	1Q04 (Actual)	2Q04 (Actual)	3Q04 (Actual)	4Q04 (Actual)	1Q05 (Low Est)	1Q05 (Hi Est)
Trade Deficit	-\$555 bil	-\$605 bil	-\$623 bil	-\$684 bil	-\$696 bil (actual)	
% Trade of CAD	94%	92%	94%	91%	If 91%,	If 94%,
% Income+Trans	6%	8%	6%	9%	then = 9%	then = 6%
Curr Acct Deficit	-\$589 bil	-\$659 bil	-\$663 bil	-\$752 bil	=\$765 bil	=\$740 bil
US GDP	\$11,473 bil	\$11,658 bil	\$11,815 bil	\$11,995 bil	\$12,191 bil	\$12,191 bil
% CAD of GDP	-5.13%	-5.65%	-5.61%	-6.27%	-6.27%	-6.07%

## Currency Roundup

**Euro:** The French, looking backward, voted "Non" (55% to 45%) May 29 to the new European Constitution; June 1 the Dutch are likely to follow suit. While this is a blow for the Euro, it changes nothing and everything continues "status quo"; the EU members will continue to operate under existing pacts, including Maastricht Treaty for economic and monetary union signed Feb 7, 1992. ... *continued Page 6*

• GSA increases coverage to **63 stocks** with addition of 6 more current or future gold miners: **Dundee, Gabriel, High River, Newcrest, Novagold** and **Sino Gold**.

• Past **Mid-Month Updates** are now posted inside the password protected Subscriber's area of our website, along with over a year of GSA issues. Updates will continue to be emailed, and posted soon after to the website. Print-only subscribers missed Macro-economic commentary and Updates on **Arizona Star/Bema, Crystallex, Canyon** and the **Harmony/Gold Fields** battle.

• *WSJ* reported 5/6/05 that currency traders, a close cousin to gold investors, had an average loss in 2004, the first in last 19, and that they have slid another 1.6% in 2005. The huge ForEx market, now at \$1.9 trillion/day, saw trading volume gain 25% in 2004. This was probably much due to the number of hedge funds betting against the Dollar, a bet that paid off in 2002 and 2003 (see article above).

• Make plans now: **Las Vegas Gold Show**, Sept 7&8; info at: [www.iiconf.com](http://www.iiconf.com)