

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 5/26/06's \$642 Gold, and GSA's proprietary Market Cap/oz database compiled since 1994, for a Rising Gold market, **Gold stocks trade as if Gold was \$591/oz.** On average the stocks are:

Undervalued -9% based on MC/oz P+P

Undervalued -7% based on MC/oz Prod

US Current Account Deficit (US CAD)

Many factors have a role in ultimately determining the US Dollar's value. GSA focuses on the US CAD as it is the initial Supply mechanism that feeds greenbacks to the World. All other Dollar value determinants (domestic/foreign interest rates, US Budget Deficits, Credit Bubble, etc) are second step factors that determine how the Dollars will be used by foreign holders. Will they be recycled to buy US assets (stocks, bonds, companies, condos, etc), or sold for currencies to invest elsewhere? These are all secondary, because if the Current Account was balanced, there'd be no excess Dollars requiring a use or sell decision.

Accordingly, when the Dollar has fallen far enough to cut US Imports and spur Exports, just as happened in the 1985-87 bull market for gold, GSA believes gold's current climb will end. Fortunately for gold bulls, that's not yet in sight.

The 1Q06 CAD data is out June 16, but with the Trade deficit already known, we can estimate a CAD range. Over the past year the two unknown CAD components, Income Receipts and Transfers (I&T), have ranged from 2% (an extreme outlier) to 13% of the CAD. Assuming I&T equals the "normal" 88% seen 4Q05, the 1Q06 CAD is likely to equal \$902 bil, or 6.9% of GDP. And 2Q06 is very unlikely to see any trend reversal as \$70/bbl oil begins to show up Trade data beginning April 10.

United States: (Annualized Rates)	1Q05 (Actual)	2Q05 (Actual)	3Q05 (Actual)	4Q05 (Actual)	1Q06 (Low Est)	1Q06 (Hi Est)
Trade Deficit	-\$689 bil	-\$691 bil	-\$726 bil	-\$790 bil	-\$794 bil	(actual)
% Trade of CAD	87%	88%	98%	88%	If 98%,	If 87%,
% Income+Trans	13%	12%	2%	12%	then = 2%	then = 13%
Curr Acct Deficit	-\$795 bil	-\$788 bil	-\$742 bil	-\$900 bil	= -\$810 bil	= -\$913 bil
US GDP	\$12,199 bil	\$12,378 bil	\$12,606 bil	\$12,766 bil	\$13,037 bil	\$13,037 bil
% CAD of GDP	-6.52%	-6.36%	-5.88%	-7.05%	-6.22%	-7.00%

Whither Gold?

We're not technicians nor a trading letter, but gold's "too far, too fast" rise made our "take profits" call on April 9 obvious.

The macro picture is unchanged (see above article), but we think gold will have to trade for a while inside the \$600 to \$660/oz channel as it builds a base to move higher.

By end-06, GSA sees gold solidly above \$700/oz.

Gold (London PM Fix)



Northgate Opportunistically Bids for Aurizon

On May 23, NXG made a hostile bid of 0.741 of its common shares per AZK share, a value of US\$2.72 on the May 22 close. Given the uncertainties of NXG permitting Kemess North and the long-term copper price, GSA sees this bid as not high enough to pre-empt a counter from **Cambior**, already a holder of 9% AZK.

•**Two Additions to Top 10:** Read Who and Why beginning on Page 2