BIG GOLD

CASEY RESEARCH

Big Profits from the Gold Bull Market

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The New Trend in Gold

Dear Reader,

It's not too often that you see a major shift within the gold market.

The last such recalibration in sentiment for gold investors was the introduction of the first gold-backed ETF in 2004, and the subsequent explosion in exchange-traded products (ETPs) for bullion and precious metals equities.

Today, another tidal change is under way as the flow of funds into structured bullion products ebbs. And we have an exciting new service to recommend this month that will keep bullion investors going with the flow.

I think this shift – as you'll read about in a moment – signals two things. First, it confirms that growing numbers of investors are increasingly nervous about the reckless monetary and fiscal paths being pursued on a global scale. Identifying this trend early will let investors position themselves accordingly.

Second, it tells me that acting *now* – securing the gold you want and need – is critical to withstanding the likely fallout ahead from the mountain of unpayable government debt and promised benefits. If we're correct about the dismal future plight of all major currencies – the dollar's inexorable decay in purchasing power and the "race to the bottom" between it and other currencies – then failing to act will greatly degrade your future standard of living. See if you agree with me by the time you're done reading.

What is this new trend? It's simple, yet powerful…

TOP

Metals Prices

Resource	Last	1 Month Ago	3 Months Ago	1 Year Ago
Gold	1611.00	1596.90	1665.20	1620.00
Silver	27.90	27.52	31.03	39.34
Platinum	1,398.00	1,451.00	1,565.00	1,791.00
Palladium	578.00	573.00	679.00	828.00
Copper	3.38	3.46	3.86	4.39
Nickel	7.06	7.54	8.09	11.14
Zinc	0.83	0.84	0.92	1.1

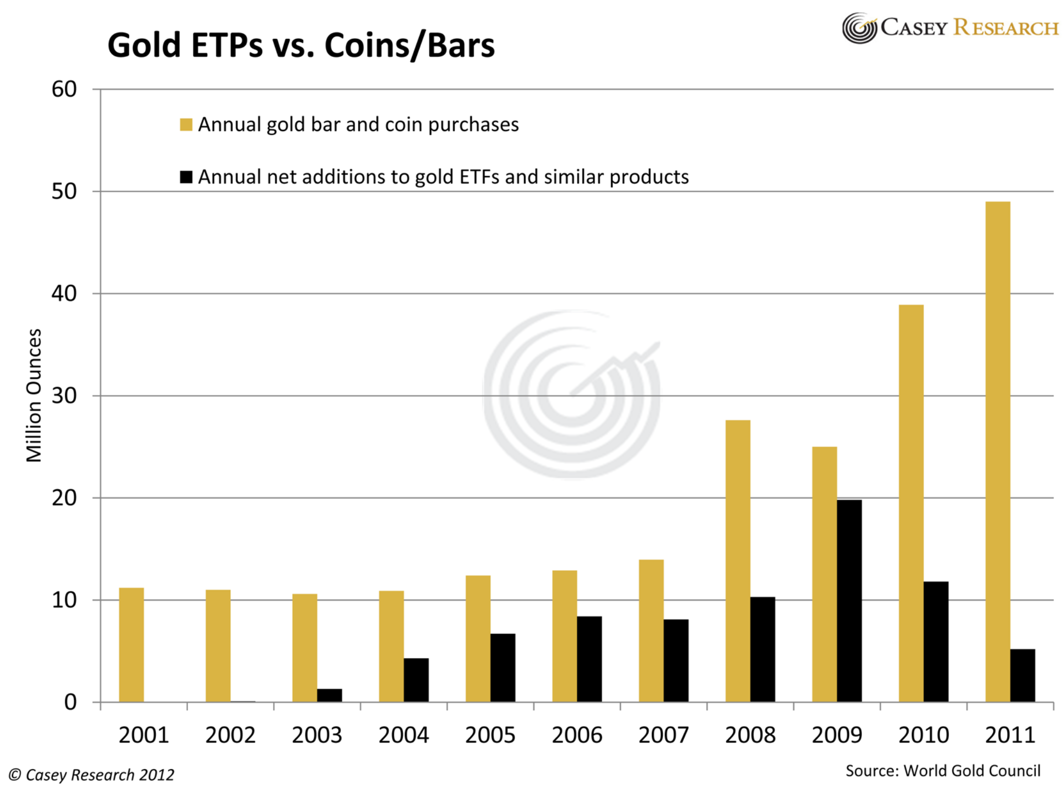
In This Month's Issue…

Click on the link to jump directly to an article.

The Shift from Paper to Physical

I began to watch this trend after it was reported last year that billionaire hedge fund manager John Paulson dumped his shares in the ETF GLD, opting instead to purchase physical metal. Since then, the shift out of paper proxies for gold and into the metal itself has picked up steam, and it's now clear that a new investor trend is under way.

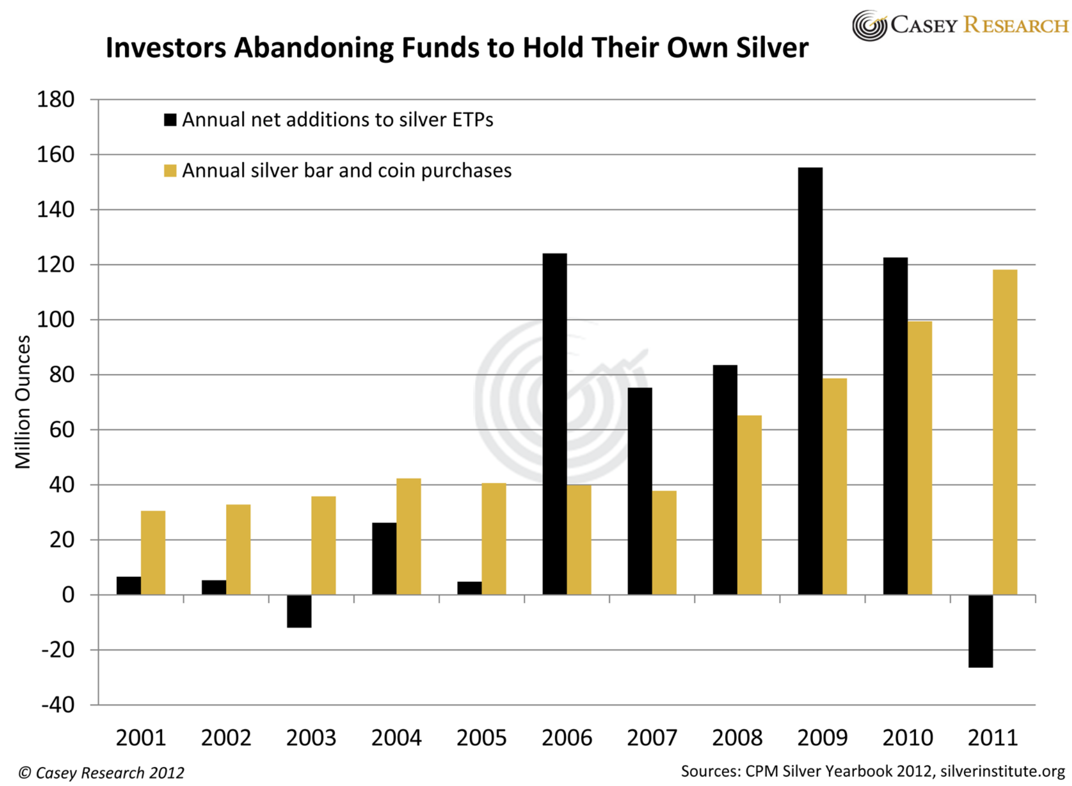
Here's the evidence. The following chart shows the total purchases since 2001 of gold coins and bars versus the net additions to gold ETPs.



Total coin and bar purchases are up 96% since 2009, while net additions to ETPs are down 73% over the same period.

While ETPs include the ownership of physical bars, it's clear that increasing numbers of investors are buying more gold coins and bars than bullion proxies. This is a remarkable shift, especially given the claimed popularity of GLD.

The shift is even more dramatic with silver.



Investors have tripled their bullion purchases since 2007, while the exchange-traded vehicles sold 26 million ounces more than what they bought to back their funds last year.

Why is this happening? And what does it mean?

Certainly some of the shift stems from concerns with the funds themselves. While I discount allegations that these funds don't possess the metal they claim to hold, there are other issues, such as complicated custodial structures and the possibility of leasing or substituting paper certificates for physical metal.

Another reason for the shift is certainly due to global economic, fiscal, and monetary concerns. As fears of systemic risk ratchet higher, it's only natural for investors to gravitate toward the safest methods for holding physical metal. Throw in events like what happened to MF Global last year and it's easy to understand why many investors would prefer holding their own bullion over a fund.

More importantly, what should we *do* as a result of this trend?

First, this is not a "keeping up with the Joneses" debate. We support the overall thrust of this shift into physical bullion based on sound reasoning. Gold is not an obscure metal that sits in a vault and "does nothing." It offers direct and immediate financial protection for you and your family like nothing else can.

Another major shift we expect is for Main Street to enter the precious metals market, whether it's a sudden event or a slow awakening over time. Given the current trajectory of sovereign debt growth, deficit spending, and money printing, we think it's highly likely the general public will recognize the true value of gold and silver as currencies lose more and more purchasing power. The likely consequences of this mass gravitation to precious metals will be spotty supply, rising premiums – and much higher prices.

Remember that gold is above all else the world's best, time-tested form of money, something people were duped into doubting in the 20th century, but are now beginning to remember. Today's environment is exactly one where gold shines: eroding purchasing power of paper currencies, vulnerable global economies, fears of inflation and/or deflation, a shaky banking system, insurmountable public debt levels, and fanciful money printing schemes… if there were ever a time to own gold, this is it. And having metal in your control and at your disposal empowers you in times of turmoil and lets you avoid dependence on counterparties.

Second, this trend carries a subtle signal: diversify. If risks are at a level sufficient to encourage holding physical metal, it's also worth diversifying that risk. Stash some at home, use a safe deposit box or private vault, and store some internationally. Even large institutional investors frequently use more than one facility. No single method or location is risk-free, so spread it around.

So is there an actionable way to capitalize on this shift?

There is, but…

TOP

The Buy-and-Store Dilemma

You've heard it before: there are only two ways to own gold – store it yourself or have it stored for you. Our first recommendation is to have several months' worth of living expenses in silver and gold bullion stored close at hand.

But once that goal is met, then what? As your holdings grow, common sense dictates that you don't keep your entire stash in one place. And that's where paying a reasonable fee for secure, vaulted storage comes in.

As the precious metals bull market has progressed, new options to buy and store bullion have come to market. While some should be avoided, a handful offer very attractive features (see sidebar). The dilemma has always been choosing a program with the fewest number of tolerable handicaps. What the industry has lacked is a program that combines all the benefits without the drawbacks.

For example, there are good programs that offer audited storage. But they can be expensive when you factor in total costs, or require too much effort or paperwork, or don't offer delivery or even online account access.

Some investors like the convenience and low cost of bullion ETFs – you have direct exposure to the gold or silver price and can sell and take profits whenever you want – but these are not buy-and-store products because you can't take delivery (for GLD, you'd need to own 100,000 shares).

> We've covered buy and store options before. The discussion includes the risks you can reduce by internationalizing a portion of your bullion portfolio, the criteria we use to identify the best options, a review of the top programs, and what Doug Casey calls "your greatest risk."

International storage options are growing, but the catch is that domestic delivery can be problematic, expensive, or unavailable. Hidden fees are also a common complaint, and the reporting requirements for holding foreign assets can be a hassle for US investors.

The search for many of us in the gold industry has been for a program that would solve the many dilemmas common in buying and storing bullion.

We now have such a program. Helped create it, actually...

TOP

New Option for Gold Ownership

I first reviewed the features of Gold Bullion International (GBI) last year. It was quickly evident that it had many of the benefits of the top programs, while eliminating the drawbacks. Given how impressed I was, I brought it to the attention of our CEO, Olivier Garret. John Hathaway of the Tocqueville Gold Fund (a top recommended mutual fund; see portfolio table below), a member of GBI's board, introduced Olivier to GBI's president and cofounder, Savneet Singh.

Through his discussions with Savneet and analysis of the program, Olivier concluded that it had the potential to revolutionize the industry, as you'll see below, and was determined to bring this service to mainstream investors. The thinking was to create a recognizable brand, similar to what GLD has done for gold ETFs. It was agreed that the most effective way to accomplish this was to have broad support throughout the financial publishing industry. To that end, Olivier approached some of the larger and more reputable publishers. Long story short, the **Hard Assets Alliance (HAA)** was born.

Here's what this new service offers…

The HAA employs Gold Bullion International (GBI), an institutional precious metals dealer, who offers a convenient and direct way to buy, store, and sell gold, silver, platinum, and palladium. Storage locations include Zurich, London, Melbourne, New York, and Salt Lake City (with Singapore coming soon). You can conduct all services online, and the metal is fully allocated and registered in your name. And selling and taking delivery are as easy as buying or selling GLD.

Purchase premiums are also among the lowest in the industry. How? GBI bids your order to a network of precious metals dealers who transact in refinery and fabrication brands recognized on the London Bullion Market Association (LBMA) good delivery list, in addition to sovereign coins. They compete for your business, ensuring you get the best available price.

The metal is then stored in world-class private vaults and audited by a Big Four accounting firm (the same firm that audited Silvercorp after the short-selling allegations last fall, exonerating them in the eyes of investors). You can take delivery at any time, including upon ordering.

For US investors, there's an added bonus: for metal stored offshore, you are exempt from IRS and Treasury Dept reporting requirements regarding foreign financial accounts and assets. How? Because your HAA account is a US account and therefore not subject to reporting. This solves the problem for the investor who would like to store bullion outside the US but is put off by the burdensome and often-confusing reporting paperwork and deadlines.

> Why not just order directly from GBI? You can open an account at GBI, but they refer all direct inquiries to their partner firms like HAA.

Here's a snapshot of the features and costs of the HAA program.

THE HARD ASSETS ALLIANCE	
Website	HardAssetsAlliance.com
Metals Available	Gold, silver, platinum, palladium
Storage Locations	New York, Salt Lake City, London, Melbourne, Zurich (Singapore coming soon)
Minimum for Purchase and Delivery	US$5,000
Minimum Purchase for Storage	US$10,000
Buy Fees	Gold 1.7 – 3%; silver 3.5% or less
Sell Fees	Same as buy fees
Shipping Fees	FedEx or UPS fees, no surcharge added
Physical Int'l Delivery?	Yes
Storage Fees (annual)	Up to US$100,000 in assets: 0.70% gold, palladium, platinum; 0.80% silver US$100,001-US$500,000 in assets: 0.65% gold, palladium, platinum; 0.75% silver US$500,001-US$1 million in assets: 0.60% gold, palladium, platinum; 0.70% silver US$1,000,001+ in assets: 0.50% gold, palladium, platinum; 0.60% silver

The Hard Assets Alliance offers real bullion ownership, highly competitive fees, strategic international storage locations, and no US compliance paperwork, all with the ease of online buying, selling, and delivery capabilities.

Final Word on Diversification

As stated above, you don't keep all your investment eggs in a single basket – and that includes gold. Although we enthusiastically and confidently recommend this new service, that does not mean you should hold all your gold with HAA.

Nor is the HAA program intended as a trading platform. Although we don't recommend trading the gold market, I know that some BG readers do. And if you trade frequently, the buy and sell fees at HAA will be an issue. This is territory for which gold ETFs are still well suited.

Another issue concerns the reach of US authorities. Although we have no idea if such action will happen, it is not out of the question that the US government could at some future point demand that all foreign held gold by US persons be repatriated. As a US-based company, HAA could be forced to comply. This is where holding some gold at a foreign location with a company that has no exposure to the US may provide additional protection. That said, with HAA you always have the option to take immediate delivery and move your bullion elsewhere. (For a discussion on non-US options, see the October 2011 issue of BIG GOLD.)

> The Hard Assets Alliance product covered here is called **SmartMetals**™. It is HAA's debut service, and we anticipate the Alliance will offer additional products in the future.

Nevertheless, we believe HAA is a solid option that should form part of a well-diversified portfolio. HAA gives us the convenience of a bullion fund with the advantage of holding secure metal in our name and the option to take delivery. It's one of the only vehicles for accomplishing all this, and it's one we know we can trust.

→ If interested, visit **Hardassetsalliance.com, or call 1-877-727-7387 (877-7ASSETS).**

This gets a Best Buy recommendation from us. Many Casey editors have already opened accounts; we believe in this. For more detailed information, read on…

TOP

Zero to (Allocated) Gold in Sixty Seconds

To get a more in-depth feel for this new program, I interviewed the president and co-founder of Gold Bullion International, Mr. Savneet Singh. A former investment analyst at Morgan Stanley and Chilton Investment Company, learn why he chose to start GBI, its relationship with HAA, how they're able to shop your order to a network, the company's safeguards, and the reaction of institutional fund managers…

JEFF CLARK: Before we jump into the details, Savneet, tell us about Gold Bullion International.

SAVNEET SINGH: Gold Bullion International, or GBI as we're commonly known, started about three years ago. The genesis of the idea was actually pretty simple… a couple of my cofounders and I were looking for a way to acquire physical gold in an allocated, whole-bar format outside the banking system, and we wanted to do it in a transparent manner, with institutional-quality service and security. But we couldn't find a satisfactory option.

I started with the existing financial intermediaries – big wealth-management firms, banks, etc. – and was always pushed into buying an ETF or told that physical gold wasn't available. So I looked online, but didn't feel comfortable wiring money to firms where I didn't really know who was running them, that lacked institutional backing, or where the prices and fees were never really clear. And this was at a time when charlatans started emerging in the market and were charging very high premiums, making me cautious about getting a good price. I just didn't feel comfortable with the existing options.

I thought it was paradoxical that physical gold is the oldest financial asset that has ever existed, yet it did not trade on an exchange or a platform. Mostly, physical bullion trades over the counter, meaning to find the price of a gold bar or gold coin, I have to call a dealer to get a price, and then another to compare, and that's very inefficient.

JEFF: So you wanted a better solution.

SAVNEET: Exactly. We partnered with upwards of 15 of the world's largest precious metals dealers, and convinced them over a period of time to start giving us their pricing for physical products around the world. By doing this we assembled a real network of dealers, and then built a technology platform on top of that.

This solved three problems: First, we created a liquid platform, where you can buy and sell through this network of dealers and aren't dependent upon one particular dealer or vaulting facility.

Second, we created transparency. No guesswork about how a certain price was created – was it some proprietary desk or somebody selling out of inventory? No, it actually comes from a network and is an active bidding process.

And third, it was very scalable, meaning you don't have to make five phone calls or go to five different websites to see who has the best price. You could now offer investors the ability to buy physical gold, in a location of his/her choice, completely audited, insured, and liquid, by simply typing in a ticker on your laptop.

To put it all together, we partnered with who we think are the two best vaulting firms in the world to offer our clients storage services in five locations around the world, and we keep adding new locations.

Lastly, we partnered with who we think are the best insurance and auditing companies to ensure the bullion is insured and physically audited. This created a very robust offering, meaning the client has the same quality of service and the same institutional feel as buying a stock or a bond, while still keeping it a real asset outside of the banking system.

JEFF: And the Hard Assets Alliance uses the system you set up to provide these same services.

SAVNEET: That's right. We are the vendor for the Hard Assets Alliance – they have their own platform, but we run the backend operations, vaulting, trading, storage, and everything I pointed out earlier. The end result is a platform that allows any sized investor to get the same quality of service that's offered to the largest banks in the world.

JEFF: You can't divulge the specific vaults you're using, is that right?

SAVNEET: That's correct. However, if a client called a representative, they can absolutely find out. Regardless, though, we feel these are the best firms in the world, the same ones that actually move currency notes on behalf of governments. They've been around for a very long time, which is actually the strongest sign of health for a vaulting company. They keep the precious metals in what's called a "chain of custody," so no worry about bars being lost or things of that nature.

JEFF: Shopping orders out to a network is a relatively new concept in the gold market.

SAVNEET: Yes, it is a new concept in the bullion industry, but it is standard in pretty much all other markets. When you place an order through most brokerages or exchanges, you're getting the best available price at that time. We can now mimic this with bullion trading because we've developed strong relationships with our dealers and because of our technology. With our unique connections and technology in place, we're able to know who has the best price at any given time. The benefit to the customer is significantly lower spreads, as well as the ability to order in smaller sizes.

JEFF: And this bidding process doesn't slow my order getting filled?

SAVNEET: That's the beauty of it being electronic; it doesn't. It's as easy as trading stocks online with E-Trade or Scottrade.

Jeff: Having multiple dealers compete for buy and sell orders avoids the risk of relying on just one.

SAVNEET: And that's an important advantage. Let's say, for example, you buy from a dealer and then store with that dealer. Well, if the market goes haywire and you're trying to sell your bullion, what if something happens to that dealer? Or what if they have an enormous amount of sell orders in one day? How do you know if you're getting the best price? Or worse, what if you can't reach them? When you're dealing with someone via a technology system, one that works with not only the bullion banks but refiners and dealers around the world, you have true liquidity.

JEFF: What about the safeguards within GBI?

SAVNEET: GBI provides an institutional-quality platform. Because we're servicing the financial-services industry – hedge funds and investment funds, for example – our security levels are on par with online banking software programs. We have redundant servers, a backup facility, and a lot of infrastructure behind the business so that if something happens to the principals of the company, the business still works. This is in addition to the top-line partners we work with on the storage, logistics, auditing, and insurance side. HAA customers get the benefits of those arrangements.

Moreover, many of the traditional online retail sites offer investors *fractional* ownership of a gold bar. You can buy exact dollar amounts of gold backed by a physical bar; however, that bar could be owned by many different individuals. If something happens to the retail site, how do you split up that bar? And if investors want to take delivery from these systems, they're usually charged high fees. The GBI platform gives investors true ownership of a whole, physical bar; it's your bar and your bar only. This is the investor's greatest safeguard.

JEFF: I see that Singapore will soon be a storage option.

SAVNEET: Singapore will hopefully be available next quarter.

JEFF: Can I move metal between vaults? Transfer from, say, New York to Zurich?

SAVNEET: Not yet, but this is a feature we will be adding shortly.

JEFF: Can I pick up my metal at the vault?

SAVNEET: No, we deliver it to you. This is primarily for insurance purposes.

JEFF: How can I fund my account?

SAVNEET: Clients can wire funds to their individual Hard Asset Alliance account or send a check. ACH pulls will be added in the next couple of weeks as well. Clients can also withdraw funds and store bank-account information completely online.

JEFF: You mentioned institutional investors and hedge funds are using the service.

SAVNEET: Yes. I can't name names, but I can tell you that interest is growing, particularly with the more sophisticated investor. Hedge fund managers and institutional investors like the idea of owning a real asset. They end up working with us because, while they can buy gold anywhere, they can get it cheaper with us, know the gold is real, and know they can sell it anytime. Further, with our software, they're able to get the data and reporting they need to analyze and monitor their holdings.

The crux of the program is simple but powerful: electronic buying and selling, fantastic pricing due to competitive bidding, non-bank storage in various locations around the world, delivery available whenever you like, metals insured for full face value, and audited by a Big Four accounting firm. It's exactly the same type of service a billion-dollar hedge fund gets when it orders a traditional financial security.

JEFF: It almost takes away the need to buy GLD.

SAVNEET: It's been our goal to make ordering physical bullion as easy as buying an ETF, and we think we've done that. What would you rather get when you buy gold: the physical product that you can store internationally and take delivery anytime you want, or part of a trust that owns the metal?

If you can buy physical gold for a similar cost and with similar liquidity, I believe you should always buy the physical asset. It's the equivalent of buying a home directly or through a trust in which you own shares – you'd always buy it directly. The ETFs have done a tremendous job of growing and educating the gold market; we envision this platform becoming the next leg of growth for the industry.

JEFF: Good point. I was impressed with some of the people behind the service, too.

SAVNEET: What's interesting is that as GBI has grown, we've attracted people from *outside* the gold industry, investors who've come to believe that gold belongs in a portfolio. We have some high-level executives, government officials, and businesspeople.

General Wesley Clark is a board member of our company, as well as Sallie Krawcheck, the former president of Merrill Lynch. Both are now big believers that gold should be part of a portfolio. We think when you have people like that become associated with physical gold, it means you're on the right path and going in the right direction.

JEFF: I know a number of analysts who tout different programs or stocks but don't own them, so… are you using the product?

SAVNEET: I am. In fact, all of our senior management has metals with the company.

JEFF: With all the big players you've been in contact with, can you give us a sense for how many of them own gold?

SAVNEET: I can tell your readers that since we work with many of the large wealth-management firms in the United States, the ownership of physical gold is extremely tiny. It is very rare for one of our salespeople or myself to run into an investor at a large wealth-management firm and find they own physical gold. In fact, it's shocking how low the number is.

So when people ask me if gold is in a bubble, I tell them, "In order for there to be a bubble, it has to be widely owned, and it's not." When there was a tech bubble almost everyone owned it – the doorman, the laundryman, the guy around the corner, every pension fund, every state fund... we're obviously not at that level yet.

JEFF: Which implies there's a long way to go in this bull market. I assume you have a bullish outlook on precious metals?

SAVNEET: Yes, absolutely. I think the underlying trends of negative real interest rates, the sheer growth in money supply, and burgeoning Asian demand are secular trends that won't end for a while. If you look at our company, not one person came out of the gold industry. We all left existing careers and chose to enter this industry. I think that's the most honest way of saying we believe we'll be here for a long time.

JEFF: Very good. Thanks for taking the time to tell us more about this great new product.

SAVNEET: You're welcome.

→ The Hard Assets Alliance is an easy way to achieve direct bullion ownership, as well as internationally diversify your holdings. We recommend you take advantage of it.

TOP

Gold Stocks

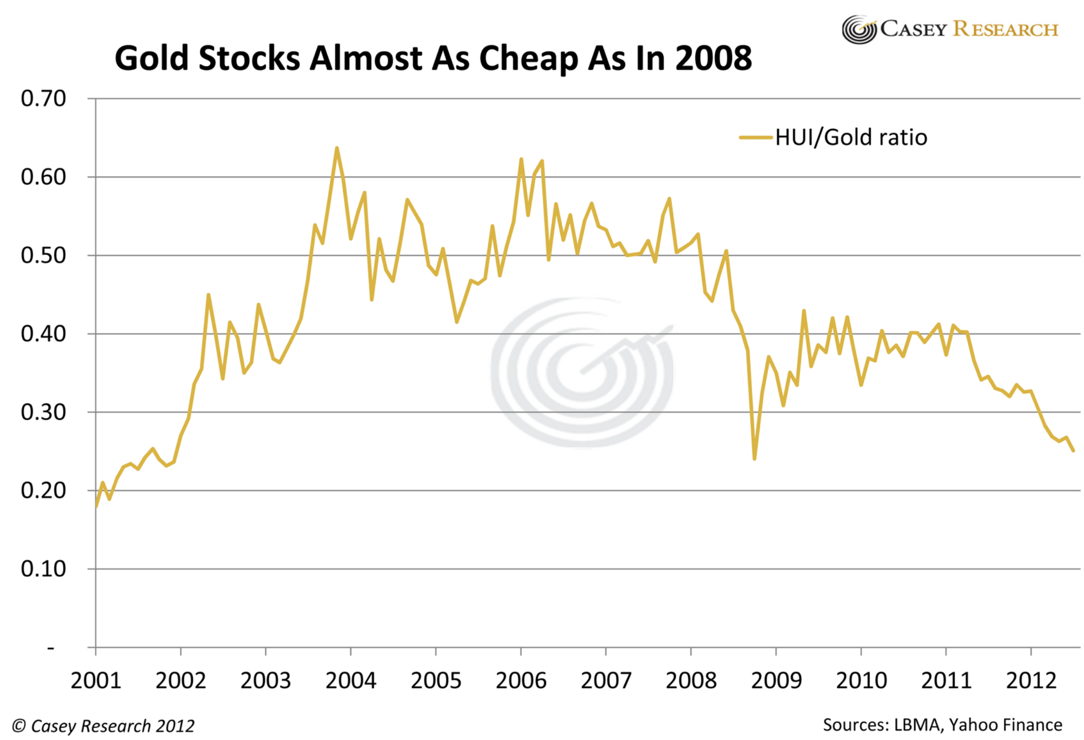
[All prices and symbols US; prices as of July 31.]

There's really only one question on investors' minds about most gold stocks right now: how low can they go?

Let's look at two of history's biggest selloffs for gold stocks. In 2008, GDX (Gold Miners ETF) fell roughly 70% from peak to trough within seven months. And as we outlined last month, gold stocks fell by approximately 66% in the mid-1970s, stretched over a 40-month period.

In our current market, GDX peaked on September 8, 2011, and has fallen 36.6% over the 11 months since. So the current decline has been smaller and shorter than the two biggest selloffs. We're *not* saying we'll match these historical declines; in fact, we note that these corrections occurred *during a bull market* and did not signal the death of *el toro*. On the contrary, they represented the buying opportunity of a lifetime.

And compared to the gold price, gold stocks are approaching the lows of 2008.



Equities remain deeply undervalued compared to the underlying metal.

While ratio analysis has its flaws, this is one we watch because the further gold shares lag gold, the greater their potential gains. Yes, it's been this way longer than we want. So if you don't yet have exposure to current prices, the opportunity to buy near decade-low valuations remains.

As for strategy, continue to be picky. Here's a good example why: three of our four Best Buys are in positive territory since we recommended them in the May 2012 issue, while GDX is down 8%. This trend of the best companies outperforming the precious metals industry as a whole will continue. I highly recommend taking advantage of it. [We've also outlined other valuable strategies.]

“The two most powerful warriors are patience and time.” – *Tolstoy*

Could gold stocks *stay* cheap? No guarantee, but it would be a historical anomaly for them to remain weak for long. Beyond historical clues, our current circumstances clearly dictate that “spendaholic” governments have no prayer of repaying their debts and honoring future entitlements in anything close to the purchasing power of today’s major paper currencies; you can’t solve overspending, over-borrowing, and over-leveraging with more spending, borrowing, and leveraging.

Even if this path is immediately abandoned (highly unlikely in our opinion), the consequences of existing debt, deficit spending, and money printing have yet to fully surface. However long that process takes, the gold bull market will continue. And once the price resumes its uptrend and breaks into new highs, gold stocks will follow. [If you missed our article on this topic, read the *Top Seven Reasons Gold Producers Will Soar.*]

Today’s risk is that the decline isn’t over. And if broader markets experience a big selloff, it’s likely gold stocks fall with them, albeit temporarily. No one knows the short-term direction, but because we’re convinced gold has much further to climb, the long-term picture for our equities is extremely strong, even if you add a tranche now and they fall further before climbing again. This does not mean to go “all in” – that day won’t come until price inflation really kicks in – but rather to get selective exposure to the current, deeply undervalued prices. If this fluctuation has bottomed, you’ll be glad you did.

If you have full exposure, then remain patient, avoid panicking, and stay the course. If this is your situation, it helps to stop watching daily price movements. Overall, *the more mentally prepared you are to hold until the gold market resumes its uptrend, the less you’ll worry.* If you do worry, I encourage reviewing your core beliefs about gold. As far as we’re concerned, the current weakness in price has little bearing on the enormous potential that still lies ahead.

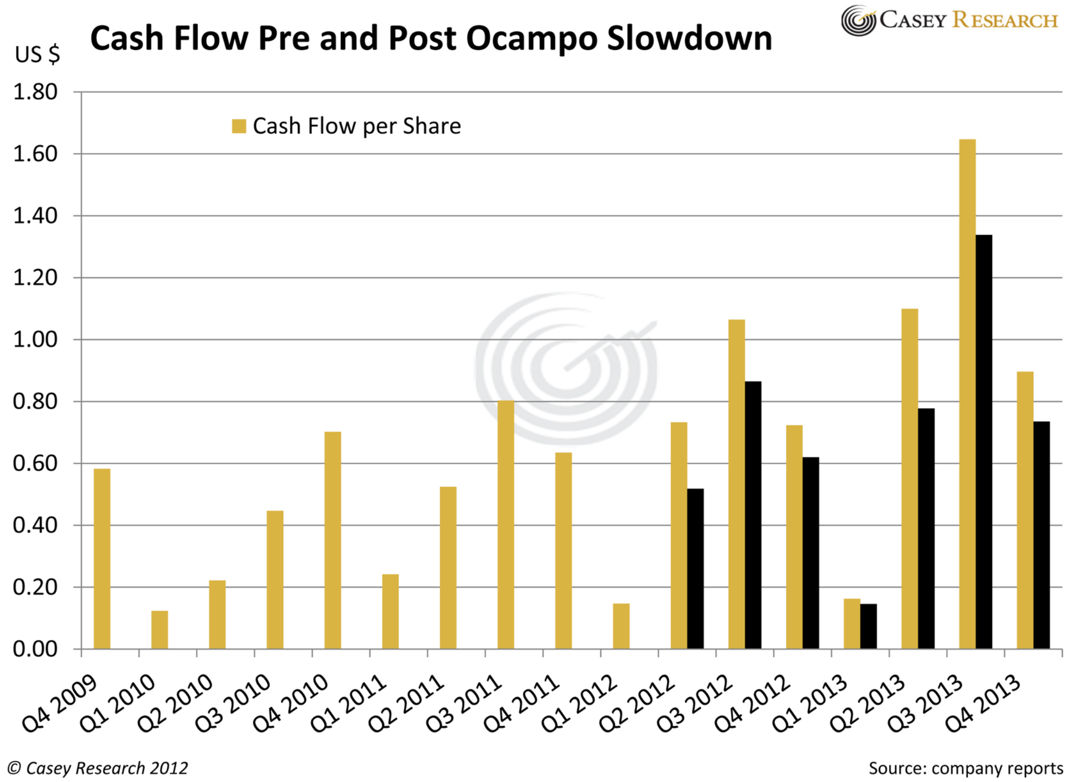
TOP

Select Company Updates

[Click on the company name to link to the latest portfolio page comments.]

AuRico Gold (AUQ): Buy Below $7 only. As we discussed on the portfolio page, management surprised us by announcing a dramatic drop in production last quarter, primarily from problems arising at its flagship Ocampo mine in Mexico, mostly high labor turnover. While the company outlined aggressive plans to resolve the problem, production will be lower and costs higher for the rest of the year. And the departure of President and CEO René Marion doesn’t help. He’s been named a finalist for the Ernst & Young Entrepreneur of the Year 2012 Awards. His leadership will be missed.

We’ve coolly examined the impact of this production drop, for both the short and long term. The principal negative is that cash flow (and profit) will obviously be lower. Here’s a picture of operating cash flow before and after the reduced production from Ocampo.



The chart reflects a worst-case scenario, under which OCF/share would drop from \$2.67 to \$2.15 (-19.5%) in 2012, and from \$3.81 to \$3.15 (-17.3%) in 2013. Not good, but neither is it a company-killer. And Ocampo is likely to be back to optimal levels in less than a year.

We also valued the company based on forward earnings. Using a 15% discount for the lost Ocampo production, the P/E for 2012 is 13.7 and for 2013 is 8.9. That doesn't look so bad; the average P/E for gold miners is about 19, which leaves AUQ still reasonably valued even considering the discount.

So, if we assume management can rectify the labor issues at Ocampo, and that AUQ's other mines will deliver as promised, this is a short-term hurdle and not a long-term problem. Ultimately, the company's growth path should remain intact. Keep in mind that AuRico has three long-life, low-cost mines (though costs will be temporarily higher at Ocampo), operations in low-risk political jurisdictions, development projects in Mexico and Canada, no debt, and plenty of cash. We thus have strong reason to remain optimistic that our original thesis with AUQ will play out.

Mining is a tough business, and setbacks happen to even the best companies – it's just the way it is, and we're not traders dancing in and out of positions with every shift of the wind.

As far as René Marion's departure, the management team is still strong: COO Russell Tremayne in Mexico, COO Peter MacPhail in Canada, VP of Technical Services Chris Bostwick, and VP of Exploration Chris Rockingham all have substantial experience.

The bottom line here, in our opinion, is that we got an unexpected detour in the road, but should be back on the highway by early next year. There are sound reasons to keep AUQ in our portfolio, and we want to give management the chance to rectify the issues at Ocampo. Another interesting possibility is that AuRico could be a buyout candidate, especially with how cheap the stock is right now. That's a total speculation on our part, though, and we wouldn't buy shares on that basis alone.

In the meantime, given that 2012 production will be less than originally expected, Buy only under $7. As with all our picks, shares should be bought with the expectation that they'll be held for the duration of the bull market – if that describes you, then buying a tranche while the stock is down will make your eventual exit more profitable.

Eldorado (EGO): Best Buy. Jim Cramer of CNBC issued a sell on the stock (along with most gold equities). This call is hogwash, as this company has the biggest growth trajectory of any large gold producer, low operating costs, conservative management, and strong financials. The stock has been the weakest of our Best Buys, but this is likely due to its European ties (see why we discount this concern in the June issue). Furthermore, the reinstatement of the mining permit in Greece (see portfolio page comments dated July 24) is a strong sign that the rule of law will be upheld there.

Eldorado remains a Best Buy. Unless we get another 2008-style meltdown, the stock appears close to bottoming and represents tremendous value at current levels. Get the best price you can, while you can. Full disclosure: I bought another tranche for my mother's account during the drop on July 23.

Endeavour Silver (EXK): Buy 1 Tranche; Best Buy at $7. The biggest news concerns the plan for the new El Cubo acquisition (see portfolio page comments of July 26). Pretty much as expected, we learned of lower Reserves and Resources.

However, cash costs were lower than anticipated due to considerable gold credits, and also because El Cubo is only 15 kilometers from the company's existing operations, meaning costs for administration, human resources, and purchasing will be lower, and mining equipment can be swapped as needed. Further, after modernizing and expanding an old leach plant at El Cubo, concentrates from Bolanitos will be trucked there instead of 1,000 km away to Guanacevi. This all increases productivity and lowers costs. Companywide operational costs are now projected at no higher than $7/ounce, still about $1 below the industry average.

The other issue with El Cubo is the labor union, which is widely regarded as "militant." Management tells us that they're seeing "a lot" of cooperation, and that the union has thus far been eager to work with them. Endeavour has built a good reputation in the Guanajuato mining community, and we're sure this helps. So far, so good.

(By the way, I'll be visiting the El Cubo mine in Mexico next month, along with Louis James of *International Speculator.*)

Goldcorp (GG): Buy 1 Tranche. Like AuRico, the company announced lower-than-expected production, forcing us to lower our expectations for the rest of the year (see portfolio page comments of July 11). So why the switch from Hold to Buy? Because, also like AuRico, we believe management will be able to solve their issues, in this case mine "de-stressing" at Red Lake and water deficits at Penasquito. We had moved GG to a Hold simply because we didn't know how far the stock might fall in reaction to the news. Production levels will still spike higher in both 2013 and 2014, as Goldcorp remains one of the few senior gold producers that can deliver meaningful growth over the next couple years. Long term, GG will be among the best-performing senior gold stocks, especially from current prices.

Kinross Gold (KGC): Hold. Options volume spiked to above six times the daily average on July 13 due to speculation on the street that Barrick may attempt to buy the company. Kinross still has operational issues on which management is working hard to resolve, but everything's for sale at the right price. While we wouldn't invest based on a rumor, speculation among analysts persists along these lines, including the possibility of breaking up the company.

The bigger news was that CEO Tye Burt was fired (see August 2 comments on the portfolio page). This wasn't exactly shocking news, given the company's recent missteps and the fact that KGC is one of the poorest-performing gold stocks of the bull market. We'll wait and see if replacement J. Paul Rollinson is able to right the ship.

Pan American (PAAS; not covered on the portfolio page): Close Position. As the dust settles from last month's announcement of a new proposed law by the governor of Chubut Province, Argentina, it seems clear that the Navidad project will be uneconomic if it's passed. Essentially, the government will end up taking more than 50% of the mine's profits. This was the fear that we outlined last month. President and CEO Geoff Burns summed it up best: "If the draft law is passed as submitted, there can be no other choice currently than to stop investing further in the project."

To be clear, open-pit mining remains illegal in the province. But will the government back off on its demands if the law is changed? At this point, a revised law would have to substantially reduce the government's take. We give that low odds (though they may compromise some). Meanwhile, political risk continues escalating in Bolivia. At this point, keeping the stock would mean we're hoping more than investing. I hate selling at such a loss, but the outlook is dim for Pan American. If you still own shares, we recommend exiting during the next big rally in precious metals. We'll no longer cover the company.

Silvercorp (SVM): Buy 1 Tranche. *Louis James just returned from China, and here's what he reported about his visit to Silvercorp…*

I spent some time with XL honoree Rui Feng in China, discussing China and mining in general, as well as Silvercorp's growth and challenges. I also went to check out the construction of Silvercorp's GC mine with Myles Gao, Silvercorp's president and COO. I believe GC will add substantial value, but more on that in a moment.

A quick note on Myles. During the whole time I was with him, he was absolutely straight with me, frankly discussing various issues Silvercorp has and how they intend to deal with them. They need more power on site at GC, for example – it's a limitation at present – but they are working on more than enough additional power and backups. They discovered some new veins while building a water-diversion tunnel at GC, but Myles doesn't think they are continuous enough to be mined. And so forth.

I mention this because Myles was recently attacked by one of Silvercorp's detractors for stumbling over some historic resource figures in a speech. I won't link to the nonsense, because the critics don't deserve the attention. The whole idea of the criticism was silly; historic (non-43-101) figures shouldn't be relied upon anyway, and they have no bearing on the current 43-101-compliant resource figures, based on many hundreds of drill holes. Anyone can forget a number while on the podium – it's meaningless. For the record: I believe Myles is an honorable man and a competent mining executive.

Silvercorp's Myles Gao stands to the right of your analyst, along with the key personnel building the GC mine, at one of the portals.

Back to GC. The mill is framed and foundations are in place for satellite facilities. Housing is built, as is the mine's assay lab. Underground development is connecting previously existing parts of the mine and ramping down to access ore at lower levels. The mill should be operational by September, and mine development should enable production by November – though, of course, we should expect a ramp-up of production as field optimization and debugging proceeds through the commissioning process. Myles and the crew have done this before; I believe the mine will be completed on time and on budget.

Silvercorp's GC mill, under construction. You can see the head-frame that will hoist ore up the shaft atop the hill, with blue water tanks just to the left. Stepping down to the left: the fine ore bins, the top floor where the ball mills will grind the ore, followed by space for the flotation cells. The circle at the bottom will be the thickener. It's a pretty standard setup.

But the market has given Silvercorp no value for adding this new source of production – is the mine even worth building? The grade at GC is less than half that of the company's Ying mine, so Silvercorp's terrific profit margins will, on average, decline – no doubt. Not every mine can be as fantastically profitable as Ying, but that doesn't mean they are not worth building.

If GC were a standalone mine in, say, Mexico, it would generate a substantial valuation for the company that owned it. I tramped through miles of tunnels, I saw the mineralization where it was supposed to be (and some not discovered in drilling), and I've no doubt that GC will add to the bottom line, when it's up and running.

Mineralization in GC veins. You can't see the silver, but lots of sparkly sulfides can tell even a non-geologist where to look.

What about the rest of Silvercorp? Well, the Ying camp is mining at full capacity, still at exceptionally high grades, but the tax holiday the company enjoyed for the first few years is over. Wages are rising, and China is getting more serious about protecting its natural environment. It's unlikely we'll ever see the 70%+ margins of the early days again. As this new reality continues sinking in and the usual ups and downs of mining continue to rock shareholders from time to time, we may well see some significant weakness in the share price before GC is completed and starts adding to the bottom line.

Rui joked with me that if the shares got too cheap, he'd just buy them himself and take the company private. Actually – I do believe he would. But I suspect a bigger Chinese mining company would take Silvercorp over first, before that could happen.

Be that as it may, GC's production will start adding to Silvercorp's cash flow by the end of this year, and that should hit the bottom line as the mine ramps up to full production. That *is* the bottom line: earnings will rise. Whatever Silvercorp's P/E is or should be, as the E rises, the P must also, and that's good for us who are in before the value is added.

So stick with buying in tranches and this growing company should deliver excellent returns in time – if some of the super-high-grade blue sky the company is working on doesn't materialize and change the game first.

Full disclosure: Jeff Clark bought a tranche of SVM during the drops on July 27 and August 3.

→ Remember to check the [portfolio page] on a regular basis, as we provide updated comments on most company press releases, including recently released quarterly reports. An easy way to stay in touch is to check the "Key Updates for Subscribers" section at the end of every Metals and Mining Monday in the *Casey Daily Dispatch*.

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BIG GOLD pulse

SilverSaver, our top recommendation for automated metal accumulation, now offers **real-time pricing**, meaning you can buy during market hours (between 9am and 3pm Central time) instead of settling for the daily SilverSaver Base Price. As long as your account is funded, it gives you the advantage to jump online and grab a lower price should gold or silver drop during the day. And there's no additional cost to use the service.

Miles Franklin, one of our top recommended bullion dealers, now offers **limit orders for buying bullion**. Just tell them the price you want and if gold or silver drop to your bid, your order gets filled automatically. The cost is $15 plus $0.45/oz for gold or 1c/oz for silver, and the order is good for 30 days. You can specify which coins or bars you want ahead of time, or tell them when your order triggers. Miles Franklin asks that investors fund their account ahead of time. Keep the extra cost in mind if you consider using the service.

→ Are you part of the new trend in gold ownership? However you choose to buy and hold bullion, I hope you'll build a meaningful position so that no matter what happens next, your purchasing power and living standards are protected.

Jeff Clark, Senior Editor

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BIG GOLD PORTFOLIO

Security	Symbol (CN)	Rec Date	Rec Price	8/3/2012	Market Cap (M)	Change Since Rec	30-Day Change	Current Recommendation
Metals Funds								
SPDR Gold Trust	GLD	4/20/2007	$68.70	$155.55	$65,730	126.4%	0.2%	Accumulate on dips
iShares Silver Trust	SLV	3/18/2008	$19.38	$26.96	$8,550	39.1%	1.2%	Accumulate on dips
Central Fund of CN	CEF (T.CEF.A)	1/19/2008	$12.83	$20.01	$5,090	56.0%	1.1%	Accumulate on dips
ETFS Physical Swiss Gold Shares	SGOL	4/15/2010	$115.83	$158.54	$1,760	36.9%	0.2%	Accumulate on dips
ETFS Physical Silver Shares	SIVR	5/14/2010	$19.25	$27.55	$411	43.1%	1.1%	Accumulate on dips
"Accumulate" means don't buy all at once; stagger your purchases by adding on any significant dip in price.								
Large Producers								
Goldcorp	GG (T.G)	3/10/2011	$45.86	$35.98	$28,180	-21.5%	-4.3%	Buy 1 tranche
Kinross	KGC (T.K)	4/20/2007	$14.04	$7.72	$8,790	-45.0%	-5.3%	Hold
Yamana	AUY (T.YRI)	4/18/2008	$14.49	$14.78	$11,030	2.0%	-4.0%	Best Buy; B 2nd tranche @ $14
Our stink bid @ $14 got filled last month; leave bids there for now.								
Mid-Tier Producers								
Randgold	GOLD (LSE.RSS)	12/21/2007	$35.65	$90.63	$8,220	154.2%	0.7%	Buy 1st tranche @ $85; BB @ $75
Eldorado Gold	EGO (T.ELD)	12/15/2009	$11.84	$10.83	$7,720	-8.5%	-12.1%	Best Buy
First Majestic Silver	AG (T.FR)	7/5/2011	$19.08	$16.16	$1,710	-15.3%	11.8%	Best Buy; B 2nd tranches <$16
AuRico Gold	AUQ (T.AUQ)	12/6/2011	$9.25	$6.60	$1,860	-28.6%	-17.6%	Buy <$7 only
Small Producers								
Alamos Gold	AGIGF (T.AGI)	12/15/2010	$17.25	$16.00	$1,917	-7.2%	0.6%	Buy 1 tranche
Endeavour Silver	EXK (T.EDR)	3/6/2012	$9.51	$7.86	$692	-17.4%	-3.2%	Buy 1 tranche; BB @ $7
Silvercorp	SVM (T.SVM)	10/15/2009	$4.89	$4.93	$841	0.8%	-10.8%	Buy 1 tranche/Strong Buy
Royalties/Streams								
Franco-Nevada	FNV (T.FNV)	2/10/2011	$35.80	$48.74	$7,020	36.1%	7.8%	Best Buy; B 2nd tranche <$46
We expect FNV to continue to be a top performer in this bull market. Buy only on pullbacks; we suggest bids at $46 or below.								
Royal Gold	RGLD (T.RGL)	10/23/2007	$31.67	$77.60	$4,630	145%	-1.0%	Buy 1 tranche under $70 only
Silver Wheaton	SLW (T.SLW)	3/18/2008	$17.62	$27.62	$9,770	56.8%	2.9%	Hold
Gold Stock Funds								
Market Vectors Gold Miners ETF	GDX	8/13/2010	$54.60	$42.86	$8,200	-21.5%	-4.3%	Accumulate on dips
Tocqueville Gold Fund	TGLDX	11/12/2010	$84.55	$60.76	$2,050	-28.1%	-2.6%	Accumulate on dips
US Global Gold	USERX	5/19/2008	$17.27	$10.91	$155	-36.8%	0.9%	Accumulate on dips
US Global World Precious Minerals	UNWPX	8/14/2009	$13.71	$10.76	$323	-21.5%	-0.2%	Accumulate on dips
Stock funds should be viewed as long-term holdings. Accumulate on dips.								
Dividend Payers								
Agnico-Eagle	AEM (T. AEM)	10/23/2007	$52.95	$43.65	$7,460	-17.6%	7.9%	Buy 1 tranche @ $40 for 2% yield
A $42.10 stock price would yield 1.9%, but given the recent run-up in price, we'd leave bids @ $40.								
Newmont	NEM (NMC)	4/3/2012	$48.53	$44.67	$21,940	-8.0%	-8.0%	Buy 1 tranche @ $46.66 for 3% yield
You can capture a 3.1% yield @ $45.16 and 3.2% @ $43.75.								

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