Gloom, Doom or Boom?
Analysis of the Global Economic Expansion

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Fund Performance

World Precious Minerals Fund (UNWPX)
Best Gold Fund
Winner of the 2007 Lipper Fund Award for the Best Gold-Oriented Fund for its consistent performance over the three-year period ending 12/31/06. The fund ranked 1 of 49 funds in its category over that period.

Global Resources Fund (PSPFX)
Best Natural Resources Fund
Winner of the 2007 Lipper Fund Award for the Best Natural Resources Fund for its consistent performance over the five-year period ending 12/31/06. The fund ranked 1 of 72 funds in its category during that period.

The award selection process began with Lipper calculating a Consistent Return score for each fund for the three- and five-year time period as of 12/31/06. Consistent Return is a quantitative metric that incorporates two characteristics: risk-adjusted return, and the strength of the fund's performance trend. The top-scoring Consistent Return fund within each classification received the awards. Past performance is no guarantee of future results.
Global Resources Fund ranked #1 by Morningstar Principia

The Global Resources Fund ranked 3,209 out of 13,379, 6 out of 11,293, 1 out of 9,792, and 98 out of 5,603 Domestic Stock funds for total return for the 1-, 3-, 5- and 10-year periods as of June 30, 2007. Past performance does not guarantee future results.
Gold: The Asset Class

Source: U.S. Global Research
## Gold/Dollar/Oil Relationship

<table>
<thead>
<tr>
<th>5 Year Correlation</th>
<th>Gold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>+90%</td>
</tr>
<tr>
<td>Dollar</td>
<td>-70%</td>
</tr>
</tbody>
</table>

Source: Bloomberg
The First Synchronised Global Economic Boom in the 200-year History of Capitalism!

Origin of the boom: Expansionary US monetary policies, a growing US trade deficit, Chinese export and import boom lifting commodity prices and the economies of resource producers.

How Sustainable is the current Boom?

Consequences of the Boom:
- Rising Commodity Prices
- China exports Inflation
- Shift in Growth, Wealth, and in the Balance of Power
- Rising Wealth Inequity
Topics For Discussion

Monetary Policies

How Asset Inflation shifts into Consumer Price Increases

The Asset Shortage Theory!

Where do we find Relative Value?
Topics For Discussion

Global Threats:

- Geopolitics: Increased Tensions, Resource Nationalism
- Politics: A Shift to the Left
- Pandemics: Human Transmission of Diseases
- Trading Blocks: Protectionism
- Derivatives: Systematic Risks
- CDO and ABS: Untested Markets
- Demographics: Slowing down Growth in the West
- A Dollar Crisis: Foreign Exchange Controls, Inflation
Incremental Demand From China

Lifts Commodity Prices and Greases the Economies of Resource Producers

Source: Ed Yardeni, www.yardeni.com
First Synchronised Global Boom in 200 Years of Capitalism

Global Economy has become more synchronised

Source: ABN Amro

Source: Morgan Stanley
Reallocation of Capital to Non-G7 Countries

G-7 Nominal GDP as a Percentage of Global GDP (All Translated into U.S. dollars)

Real GDP (Y/Y)

Source: Barry Bannister, Stifel Nicolaus & Co, Bridgewater Associates
Faster Growth in Emerging Economies

Emerging Economies’ Oil Consumption

Semiconductor Sales in Asia

Source: Oil Market Intelligence, Ed Yardeni, www.yardeni.com
Source: The Bank Credit Analyst

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Global Trade Links are Strengthening

Trade as Percentage of World GDP

Share of imported inputs in manufacturing production

Source: World Bank, World Development Indicators Database; OECD Structural Analysis database
Current Economic Boom

Is Characterised by Strong Monetary Growth and …

Source: John Williams, www.shadowstats.com

Source: Bridgewater Associates
“Excessive Consumption”

Leading to a Soaring U.S. Trade and Current Account Deficit, and…

Source: Ed Yardeni, www.yardeni.com; Bridgewater Associates
Foreign Exchange Reserves by Emerging Economies

Please note: Reserves accumulate much faster in developing countries. Also, Japan accounts for most of the growth in reserves among industrial countries. Poor countries finance US consumption

Source: Ed Yardeni, www.yardeni.com
Excessive Liquidity

Also Leads to Inflated Asset Markets and Rolling Bubbles

MZM is a measure of money supply.

Source: BCA Research
US Debt Ratios Have Been Pushed Higher by Reflation

**Total Credit Market Debt as a % of GDP**

12/31/2005 Debt = $44.549 Trillion
12/31/2006 GDP = $44.549 Trillion

**US 10 Year Interest Rate**

Source: Ned Davies Research, Bridgewater Associates
Excessive Credit Growth Creates Bubbles Everywhere!

Source: Paul Kasriel, Northern Trust

US Commercial Banks: Mortgage Related Assets/Total Bank Credit %

Source: The Bank Credit Analyst
The LBO Boom: Another Consequence of Easy Money

Leveraged Buyout at Close to 5% of GDP – An All-Time Record! (1984 – 2007)

Source: Bridgewater Associates

The Household Sector: A Large Net Seller of Equities

Source: Gerard Minack, Morgan Stanley
Diminishing Availability of Credit

as a Result of the Subprime Lending Crisis — Lending Standards Tighten!

Source: Bearing Asset Management
Higher Inflation and Economic Stagflation

CPI Inflation, 1982 – 2006

Real GDP Growth, 1982 – 2007

Source: John Williams, www.shadowstats.com
Substandard US Employment Gains and Low Domestic Capital Spending Bring About a Loss of Competitiveness

United States Competitiveness

China Competitiveness

Source: Bridgewater Associates
Unsustainable Imbalances!

US Net Asset Balance as % of GDP

US Asset Returns versus Foreign Asset Mix, 2000 – 2006

Source: Bridgewater Associates
Problem of Current Account Deficit

- Weak Dollar
- Transfer of Wealth
- Rising Import Prices — Higher Inflation
- Rising Interest Payment Burden

But How to Stabilise the Current Account Deficit?

- Tight Money?
- Massive US Dollar Devaluation?
- Capital Controls, Protectionism?
Problem of Current Account Deficit:

Large Foreign Ownership of US Bonds

US Treasury Issues

US Corporate Bonds

US Stocks

* Data for 2007 Q1 are preliminary

Source: Federal Reserves Board and Goldman Sachs
Gross Federal Debt

(in trillions of $2005)

Source: 2005 National Priorities Project, Inc.
Problem of Rising Interest Rates!

Source: David Rosenberg, Merrill Lynch
Chinese Yuan: An Important Upturn

Chinese Yuan (Monthly Spot — in US$)

Source: Ron Griess, www.thechartstore.com
Indian Rupee, 1973 – 2007

Indian Rupee (Monthly Spot — in US$)


Source: Ron Griess, www.thechartstore.com
Urbanisation in Asia

Source: UNPD
Global Property Prices

Asia versus Anglo-Saxon Countries

House Prices:
Average of
- U.S., U.K. and Australia
- Emerging Asian Countries*

Chinese Property Prices

Property Prices
Nominal GDP

*Average of China, Taiwan, Hong Kong, Singapore, Korea, Thailand and Malaysia
Note: Both Series are Rebased to January 1992=100

Source: The Bank Credit Analyst
The Financial Revolution at Work:

Which Way Will Debt Levels Go?

Mortgage Loans as a % of GDP

The financial revolution is moving countries from the bottom left to the top right … Not the other way around!

Source: GaveKal Research
China Moving Up the Value-Added Chain!

China’s High-Tech Sector

China’s Massive Productivity Gains in Higher Value-Added Industries

Source: The Bank Credit Analyst
## China’s Share

### Of World Commodity Consumption (2004)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>China</th>
<th>World</th>
<th>Shares</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Energy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude Oil</td>
<td>6379</td>
<td>82433</td>
<td>8%</td>
<td>2</td>
</tr>
<tr>
<td>Naphtha</td>
<td>684</td>
<td>3220</td>
<td>21%</td>
<td>1</td>
</tr>
<tr>
<td>Gasoline</td>
<td>1069</td>
<td>14880</td>
<td>7%</td>
<td>2</td>
</tr>
<tr>
<td>Diesel</td>
<td>2150</td>
<td>12850</td>
<td>17%</td>
<td>2</td>
</tr>
<tr>
<td><strong>Industrial Metals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aluminum</td>
<td>5943</td>
<td>29537</td>
<td>20%</td>
<td>2</td>
</tr>
<tr>
<td>Copper</td>
<td>3305</td>
<td>16720</td>
<td>20%</td>
<td>1</td>
</tr>
<tr>
<td>Nickel</td>
<td>140</td>
<td>1246</td>
<td>11%</td>
<td>3</td>
</tr>
<tr>
<td>Zinc</td>
<td>2551</td>
<td>10078</td>
<td>25%</td>
<td>1</td>
</tr>
<tr>
<td>Steel</td>
<td>272000</td>
<td>964614</td>
<td>28%</td>
<td>1</td>
</tr>
<tr>
<td><strong>Agriculture</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Soybeans</td>
<td>40212</td>
<td>206129</td>
<td>20%</td>
<td>2</td>
</tr>
<tr>
<td>Corn</td>
<td>131500</td>
<td>680238</td>
<td>19%</td>
<td>2</td>
</tr>
<tr>
<td>Wheat</td>
<td>102000</td>
<td>608076</td>
<td>17%</td>
<td>1</td>
</tr>
<tr>
<td><strong>Livestock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pork</td>
<td>46725</td>
<td>90237</td>
<td>52%</td>
<td>1</td>
</tr>
<tr>
<td>Beef</td>
<td>6703</td>
<td>49757</td>
<td>13%</td>
<td>4</td>
</tr>
<tr>
<td><strong>Soft Commodities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton</td>
<td>8167</td>
<td>23496</td>
<td>35%</td>
<td>1</td>
</tr>
<tr>
<td>Sugar</td>
<td>11600</td>
<td>127093</td>
<td>9%</td>
<td>2</td>
</tr>
</tbody>
</table>

*Units: thousand metric tons except thousand barrels per day for energy commodities.*

Source: Goldman Sachs
Oil per capita rises rapidly in response to the growth afforded by inexpensive labor, then levels off in a service economy.

Lower U.S. labor costs versus Europe and the U.K. drive American industrialization, enrichment and thus energy consumption.

*The two lower lines are EIA's High Growth case for China + Hong Kong and India.

Source: Stifel, Nicolaus & Company, Inc
World Oil Demand

China Crude Oil Demand

India Crude Oil Demand

Source: Ed Yardeni, www.yardeni.com
Crude Oil Demand

In Asia and in OPEC Countries, 1986 – 2007

Source: Oil Market Intelligence

Source: Ed Yardeni, www.yardeni.com
By How Much Can World Oil Supplies Increase?

TOTAL WORLD CRUDE OIL DEMAND & SUPPLY
(million barrels per day, 12-month average)

Source: Ed Yardeni, www.yardeni.com
The Geopolitics of Oil

**Chinese Share of World Oil Demand and Production**

Source: The Bank Credit Analyst

**Map of Iran**

Source: Perry-Castaneda Library Map Collection
The SCO Includes:

China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan

Observing Members: India, Pakistan, Mongolia, Iran!
The Geopolitics of Oil in Asia:

The Control of the Sealanes

Source: Dr. Marc Faber
Rising Commodity Prices

Lead to International Tensions — Wars Lead to Soaring Prices

PPI for Energy, Agriculture, Metals and All Commodities, Y/Y%, 10-yr. M.A.
Long Cycles

In Commodity Prices, Consumer Prices and Interest Rates

There have been five previous upturns in U.S. commodity prices since 1793. Perhaps this is #6, and it may have implications for the CPI. A key inflection point seems to be when the moving average of the commodity index decisively crosses through the consumer price index (1900, 1934, 1974 and 2004).

Source: Barry Bannister, Stifel Nicolaus, BLS, US Census

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Money supply growth and inflation are inexorably linked, and there is about a 6-year lag for the *upturn* in inflation (blue line) and broad money supply (green line).
Commodity Prices:

Some Bubbles, but Still Low in Real Terms

Real Raw Industrial Prices

Farm Commodity Prices

Source: The Bank Credit Analyst

Source: Barry Bannister, Stifel Nicolaus
Bond Yields Diverge from Oil

Source: The Bank Credit Analyst
Is There a Chinese Stock Market Bubble?

Source: The Bank Credit Analyst

Shanghai A-Share Index and Nominal GDP, 1992 – 2006


Source: Credit Suisse

Bank Deposits as a percentage of GDP, 1995 – 2006

Source: The Bank Credit Analyst
Japanese Stocks Compared to US Stocks


Source: The Bank Credit Analyst

Improving Corporate Balance Sheet

Source: Bridgewater Associates
Asian Investment Themes

- Real Estate
- Healthcare
- Local Brands
- Commodities

- Tourism
- Financial Services
- Infrastructure
- Plantations

Share of Organised Retail Activity

Source: Christopher Wood, CLSA

Car Ownership

Source: The Bank Credit Analyst
Dow Jones Industrial Average Monthly

Adjusted For Inflation by the CPI 1885 – 2004

Source: www.thechartstore.com
Dow Gold Ratio 1800 – 2006

Source: www.sharelynx.com
Conclusions

Secular downtrend in interest rates, which began in 1981, has ended.

Secular uptrend in commodity prices is still intact. Sharp corrections should be expected.

China and other rapidly growing emerging economies are increasingly having an inflationary impact on the world.

Central bankers are becoming hostage to inflated asset markets. Should tight monetary policies become necessary their implementation will be difficult.
Conclusions

However, the market may from time to time bring about tight monetary conditions by curtailing the availability of credit.

Stagflation with asset prices in real terms declining is a distinct possibility in some countries.

Resources nationalism and resource driven geopolitics will surely continue to increase international tensions.
For more complete information about the World Precious Minerals and the Global Resources Funds, go to www.usfunds.com or call (210) 308-1234.

Please consider carefully the fund's investment objectives, risks, charges and expenses. For this and other important information, obtain a fund prospectus by visiting www.usfunds.com or by calling 1-800-US-FUNDS (1-800-873-8637). Read it carefully before investing. Distributed by U.S. Global Brokerage, Inc.

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The U.S. Trade Weighted Dollar Index provides a general indication of the international value of the U.S. dollar. The S&P Volatility Index (VIX) shows the market’s 30-day volatility, and is a widely used measure of market risk. The JP Morgan Emerging Markets Bond Index (EMBI) tracks total returns for traded external debt instruments in the emerging markets. The Bearing Credit Bubble Index is designed to track a credit bubble that is thought to be forming due to a boom in industries involved with credit. The index, designed by Bearing Asset Management, aggregates and tracks stocks of banks, brokers, credit card and credit insurance companies, government sponsored entities, homebuilders, non-bank financial companies, and subprime lenders. The Consumer Price Index (CPI) is one of the most widely recognized price measures for tracking the price of a market basket of goods and services purchased by individuals. The weights of components are based on consumer spending patterns. The Producer Price Index (PPI) measures prices received by producers at the first commercial sale. The index measures goods at three stages of production: finished, intermediate and crude. The Reuters/Jefferies CRB Index is an unweighted geometric average of commodity price levels relative to the base year average price. The Commodity Price Index is a fixed-weight index or (weighted) average of selected commodity prices, which may be spot or futures prices. It is designed to be representative of the broad commodity asset class or a specific subset of commodities, such as energy or metals. The Shanghai A-Share Stock Price Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares listed on the Shanghai Stock Exchange that are restricted to local investors and qualified institutional foreign investors. The index was developed with a base value of 100 on December 19, 1990. Tokyo Price Index (TOPIX) is an index that measures stock prices on the Tokyo Stock Exchange (TSE). This capitalization-weighted index lists all firms that are considered to be under the ‘first section’ on the TSE, which groups all of the large firms on the exchange into one pool. The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies. The Dow Jones Industrial Average is a price-weighted average of 30 blue chip stocks that are generally leaders in their industry. 07-589