



Gloom, Doom or Boom?

Analysis of the Global Economic Expansion

Dr. Marc Faber

*Editor and Publisher of "The Gloom, Boom & Doom" Report
and author of the best-selling book "Tomorrow's Gold"*

Frank Holmes

*CEO and Chief Investment Officer
U.S. Global Investors*

Evan Smith

*Co-Manager of the Global Resources Fund
U.S. Global Investors*

Marc Faber Limited
Suite 3311-3313
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Tel: (852) 2801 5411/10
Fax: (852) 2845 9192
Email: mafaber@attglobal.net

Website: www.gloomboomdoom.com



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

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





Gold/Dollar/Oil Relationship

5 Year Correlation	Gold
Oil	+90%
Dollar	-70%

Source: Bloomberg



Topics For Discussion

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:

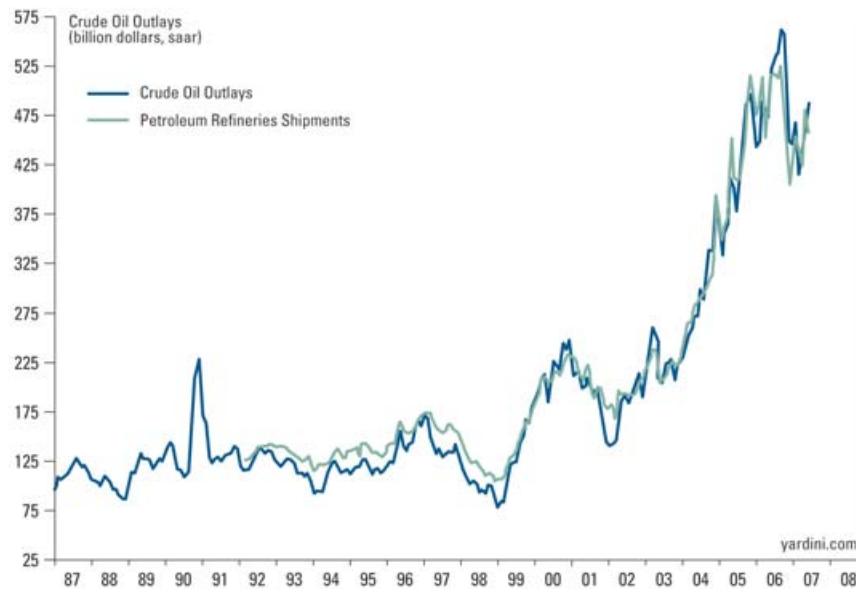
- Geopolitics: Increased Tensions, Resource Nationalism
- Politics: A Shift to the Left
- Pandemics: Human Transmission of Diseases
- Trading Blocks: Protectionism
- Derivatives: Systematic Risks
- CDO and ABS: Untested Markets
- Demographics: Slowing down Growth in the West
- A Dollar Crisis: Foreign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



Incremental Demand From China

Lifts Commodity Prices and Greases the Economies of Resource Producers

US Crude Oil Outlays

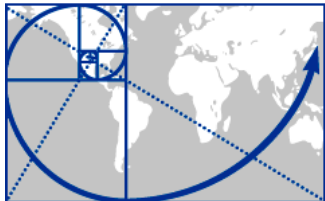


* Total daily crude oil demand multiplied by 365 days and the price of a barrel of crude oil.
Source: Energy Intelligence Group, "Oil Market Intelligence" and Census Bureau.

Asian Crude Oil Outlays



* Total daily crude oil output multiplied by 365 days and the price of a barrel of crude oil.
Source: Energy Intelligence Group, "Oil Market Intelligence".



U.S. Global Investors

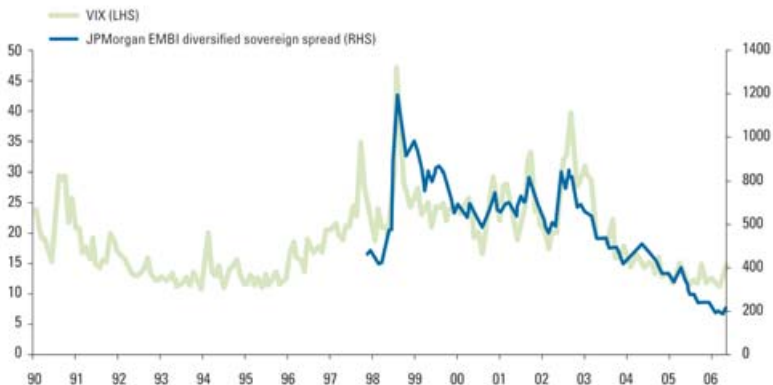
First Synchronised Global Boom in 200 Years of Capitalism

Global Economy has become more synchronised



Source: ABN Amro

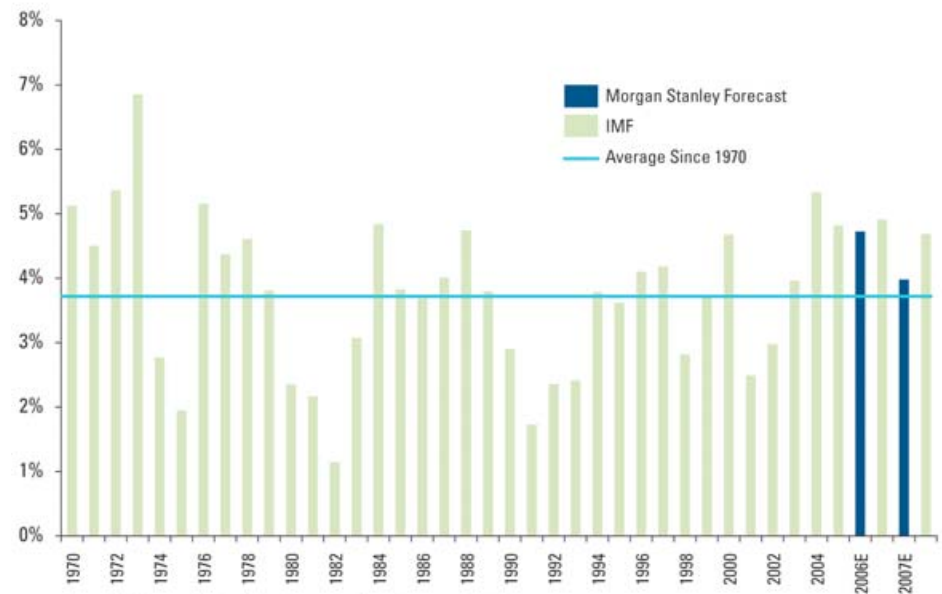
Risk Premiums Remain Low



Source: ABN Amro

www.usfunds.com • www.gloomboomdoom.com

Global Real GDP Growth (%)



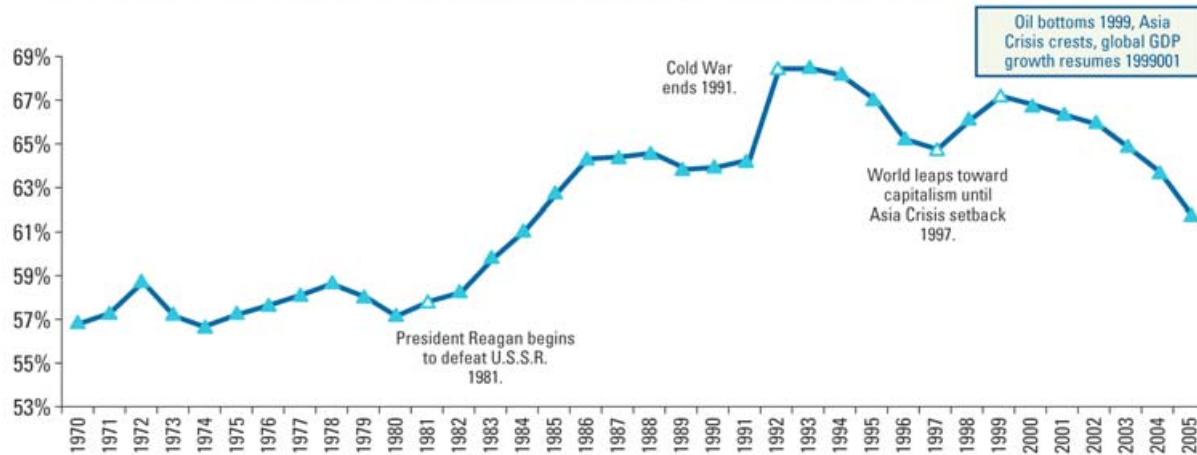
Source IMF, Morgan Stanley Global Economics Team. Date as of 06/30/06

Source: Morgan Stanley

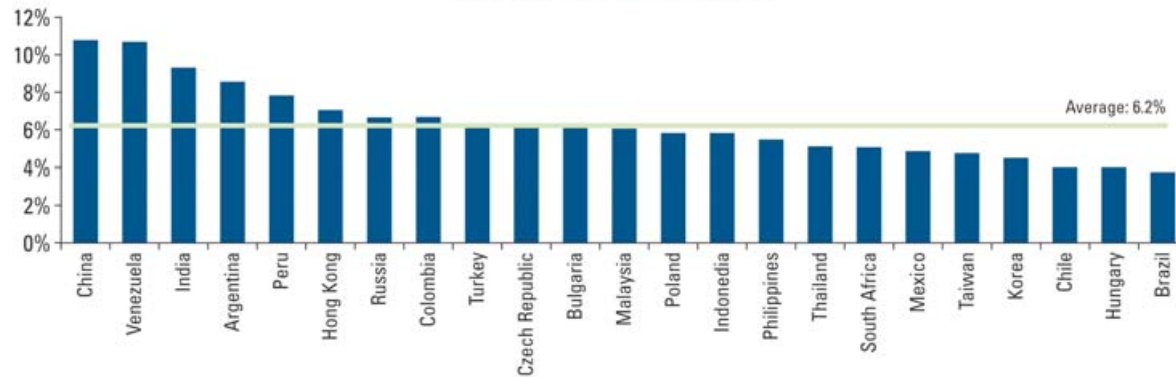


Reallocation of Capital to Non-G7 Countries

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



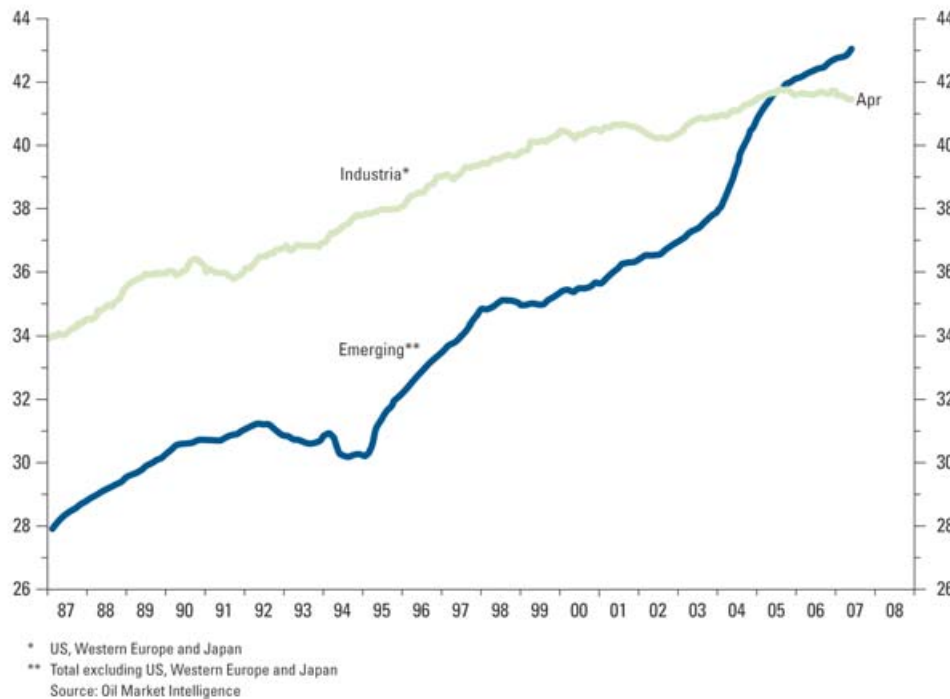
Real GDP (Y/Y)



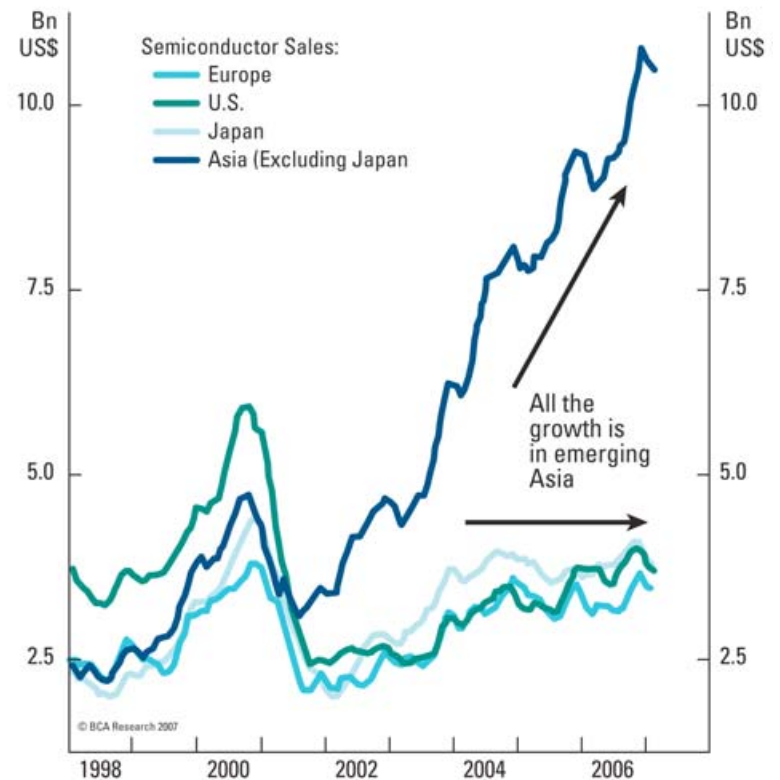


Faster Growth in Emerging Economies

Emerging Economies' Oil Consumption



Semiconductor Sales in Asia



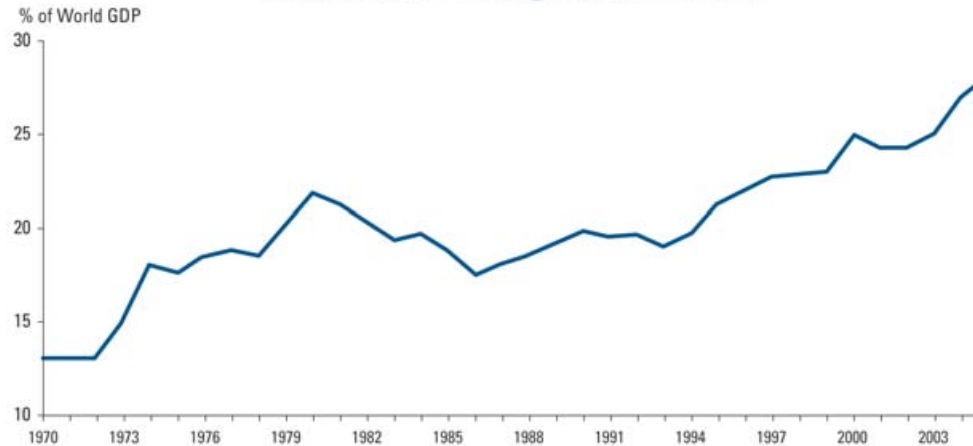
Source: Oil Market Intelligence, Ed Yardeni, www.yardeni.com

Source: The Bank Credit Analyst

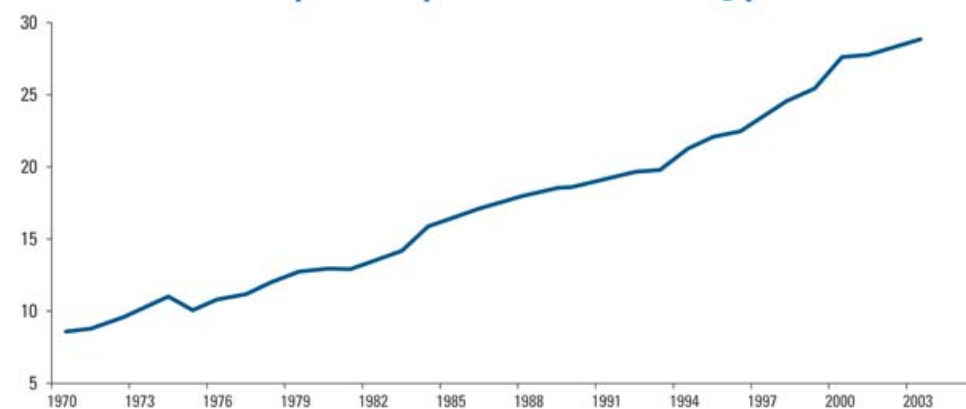


Global Trade Links are Strengthening

Trade as Percentage of World GDP



Share of imported inputs in manufacturing production

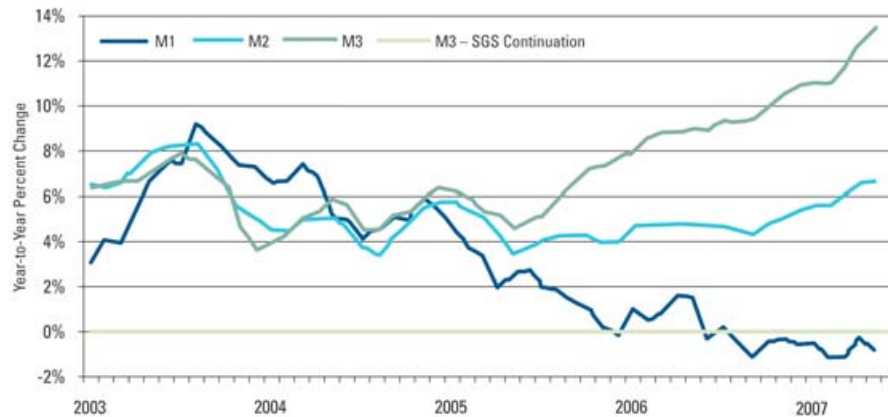




Current Economic Boom

Is Characterised by Strong Monetary Growth and ...

US Annual Money Supply Growth, With M3 Continuation



Source: John Williams, www.shadowstats.com

Euroland's M3 Growth Rate



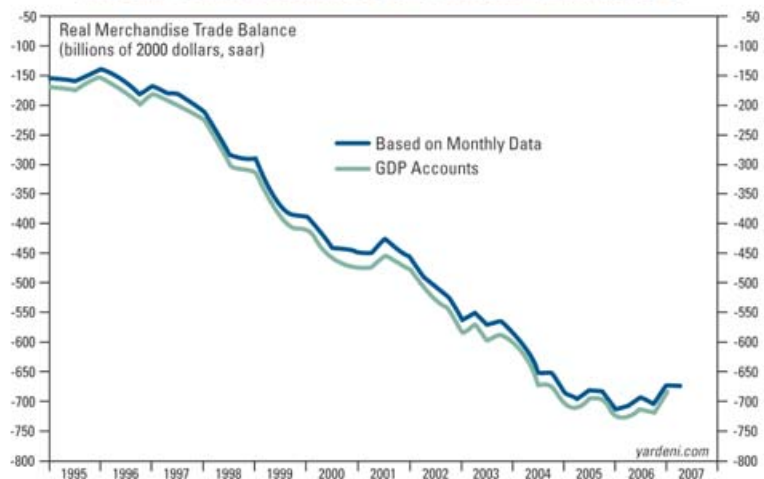
Source: Bridgewater Associates



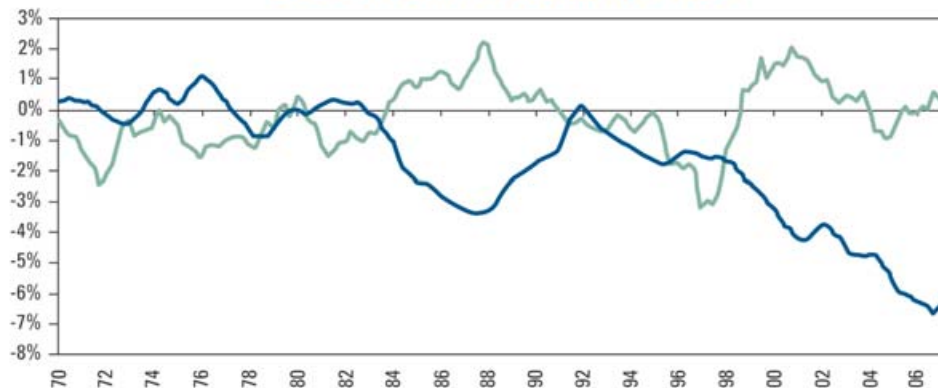
“Excessive Consumption”

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

Real Merchandise Trade Balance



US Current Account % GDP

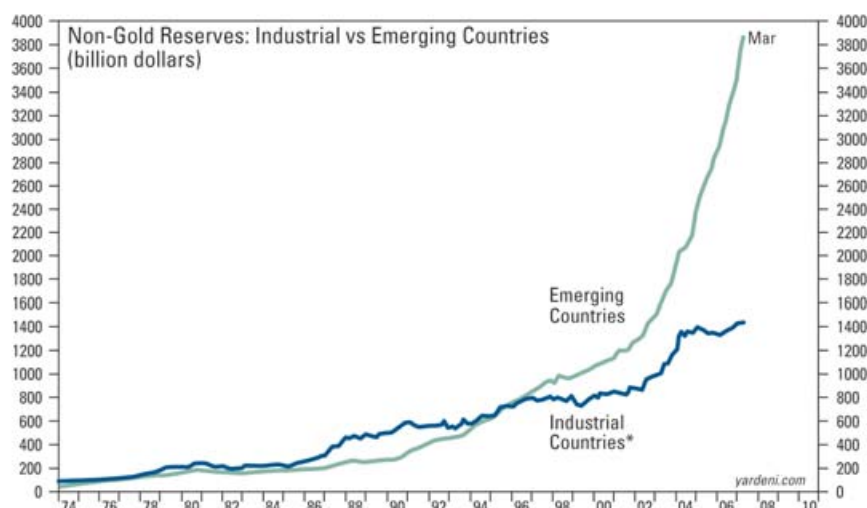


Source: Ed Yardeni, www.yardeni.com; Bridgewater Associates



... The Accumulation of

Foreign Exchange Reserves by Emerging Economies



* Includes United States, Canada, Australia, Japan, New Zealand, Austria, Belgium, Luxembourg, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom. Source: IMF International Financial Statistics.

Source: Ed Yardeni, www.yardeni.com



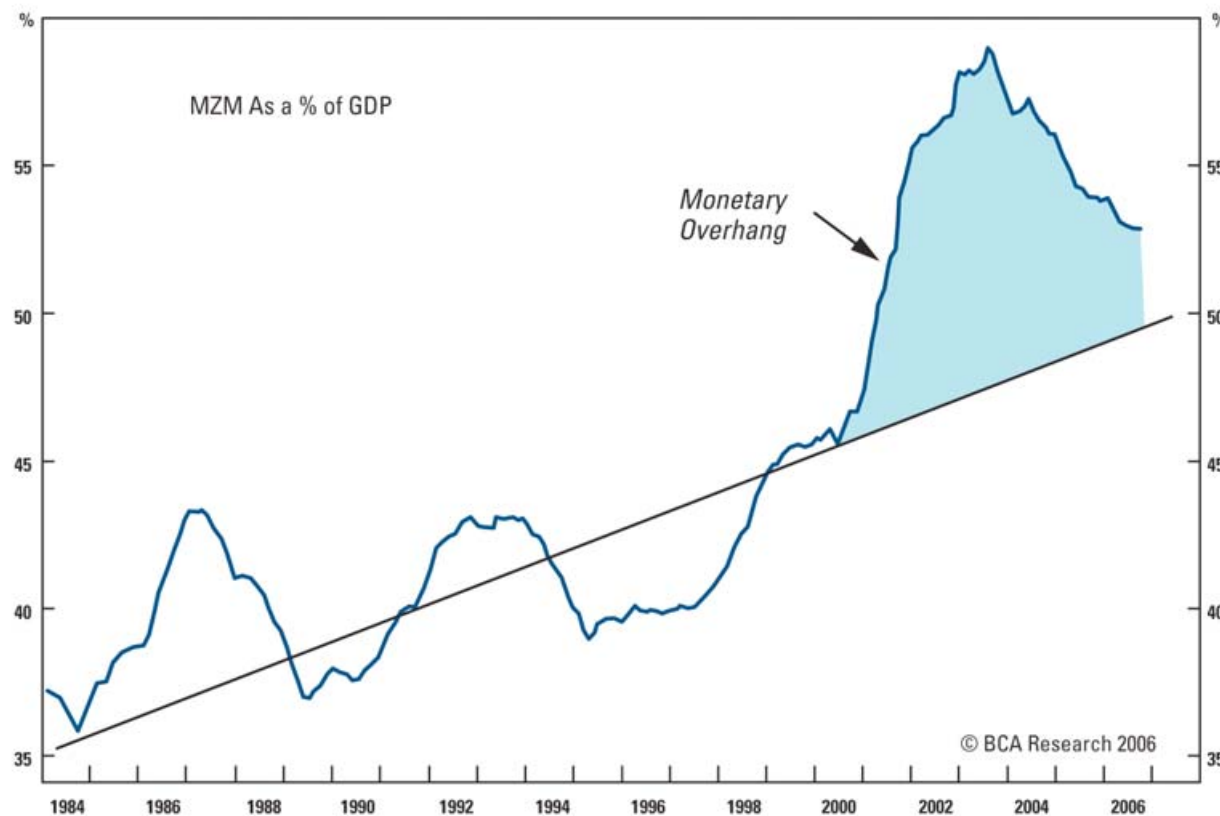
* Includes United States, Canada, Australia, Japan, New Zealand, Austria, Belgium, Luxembourg, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom. Source: IMF International Financial Statistics.

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

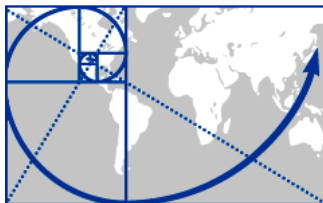


Excessive Liquidity

Also Leads to Inflated Asset Markets and Rolling Bubbles



MZM is a measure of money supply.

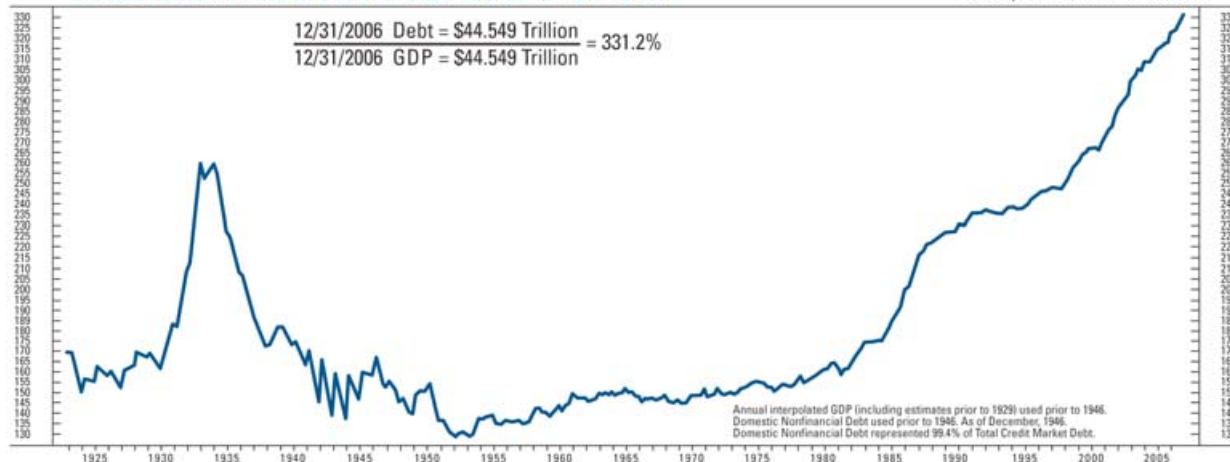


U.S. Global Investors

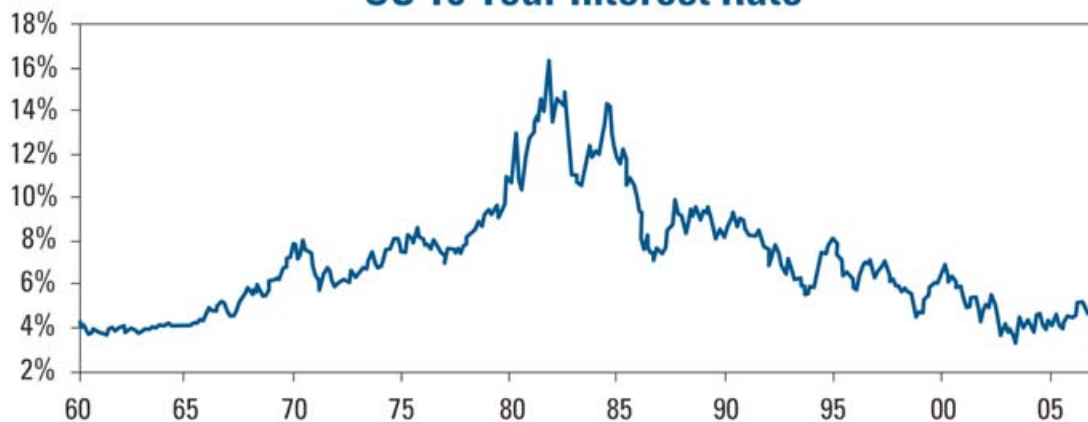
US Debt Ratios Have Been Pushed Higher by Reflation

Total Credit Market Debt as a % of GDP

Quarterly Data 12/31/1922-12/31/2006



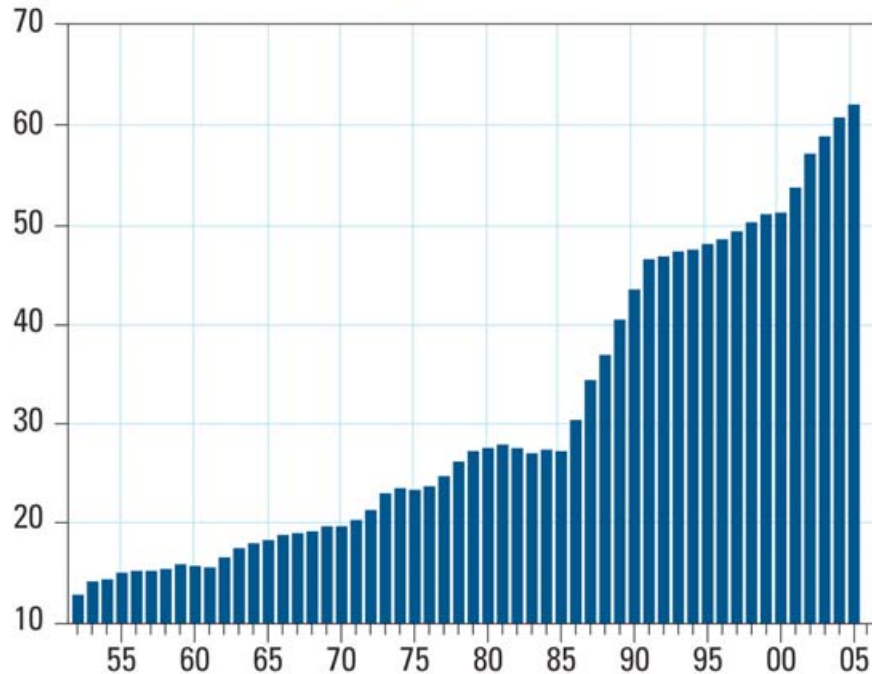
US 10 Year Interest Rate





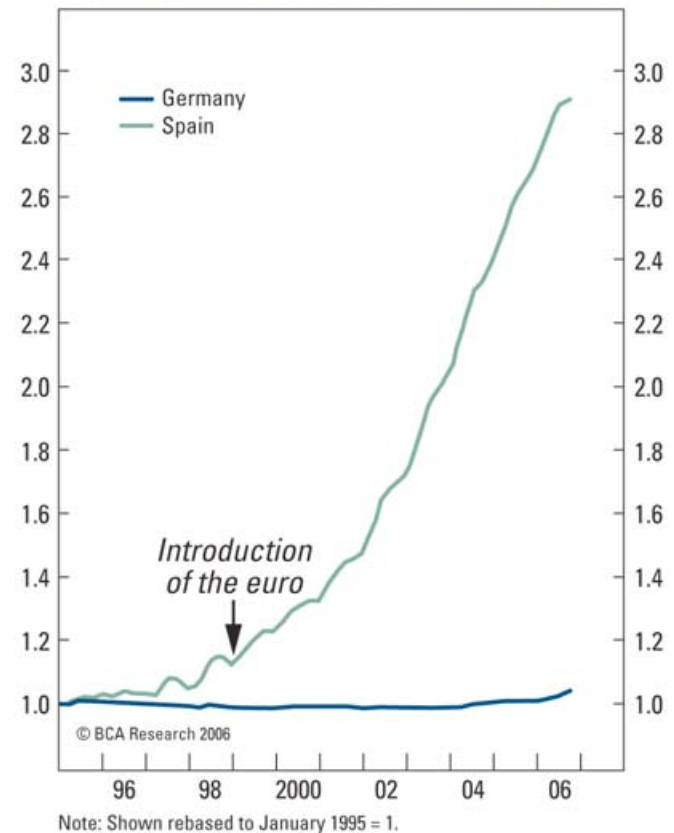
Excessive Credit Growth Creates Bubbles Everywhere!

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



Source: Paul Kasriel, Northern Trust

Level of House Prices in Spain and Germany, 1995 – 2006



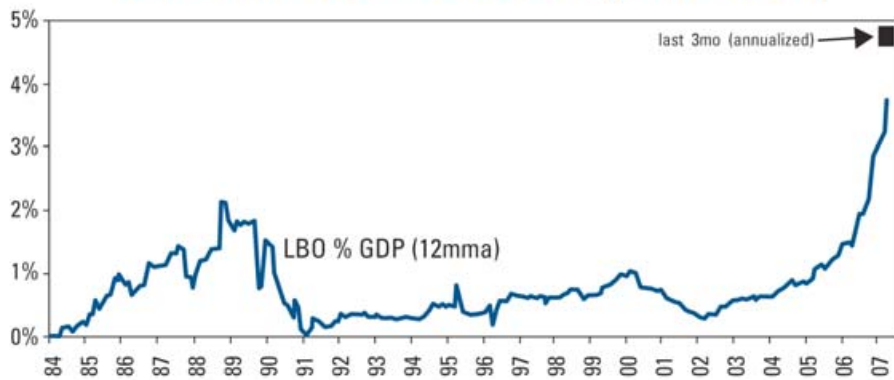
Source: The Bank Credit Analyst



The LBO Boom:

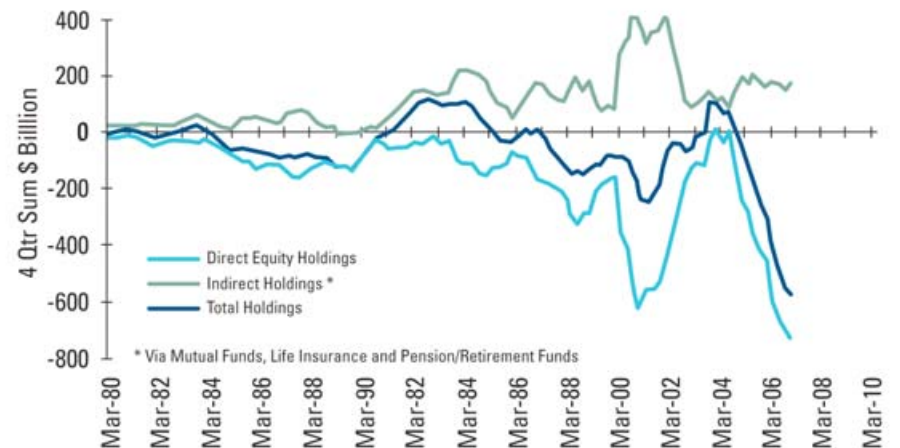
Another Consequence of Easy Money

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

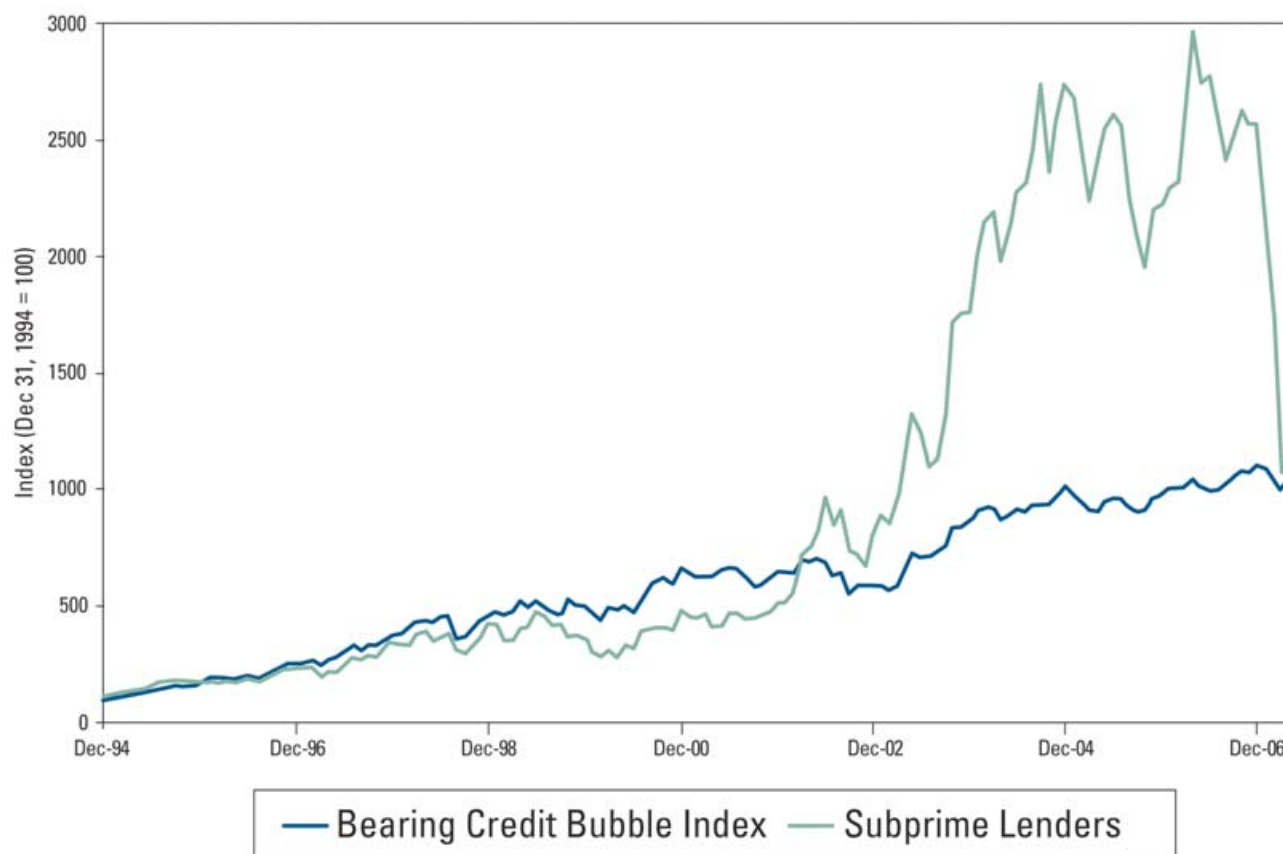


Source: Gerard Minack, Morgan Stanley



Diminishing Availability of Credit

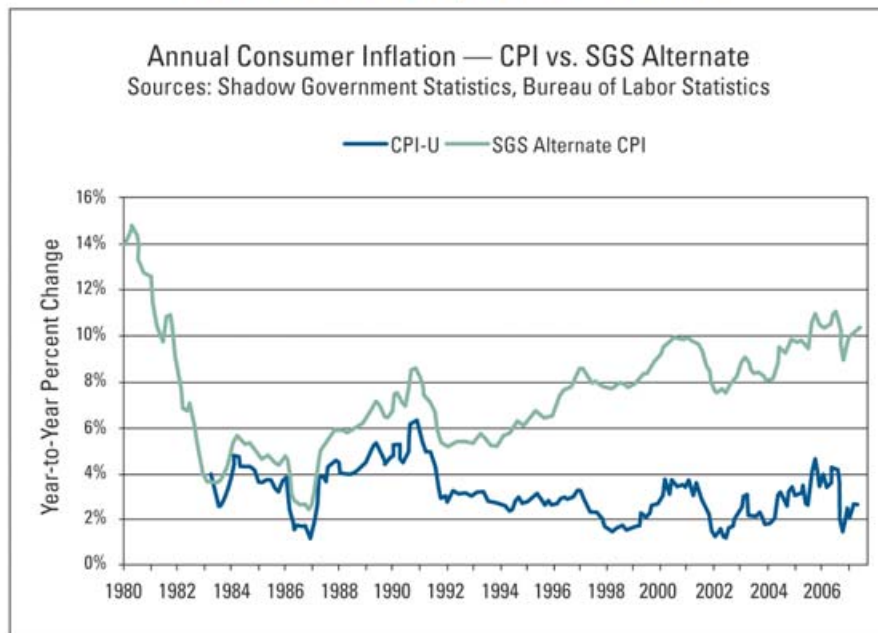
as a Result of the Subprime Lending Crisis — Lending Standards Tighten!



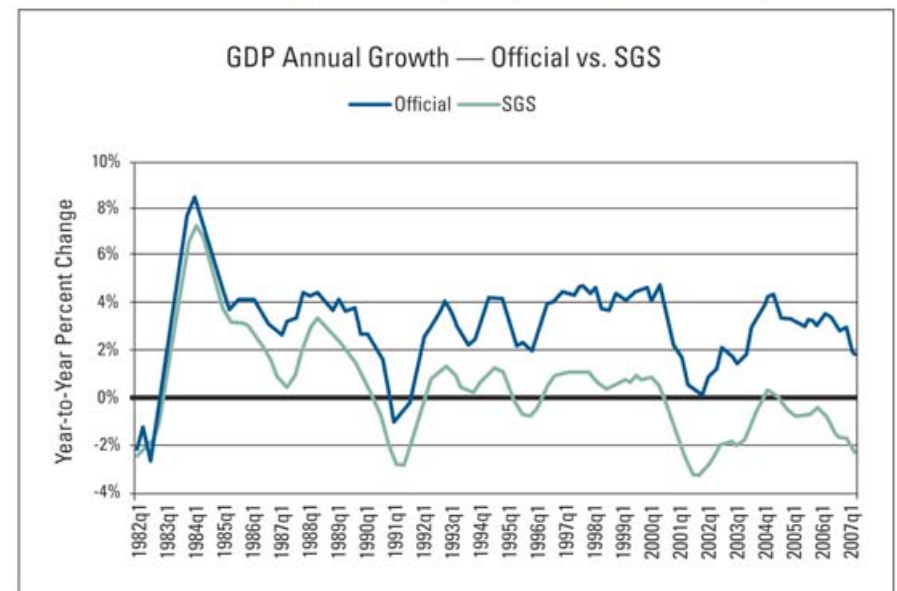


Higher Inflation and Economic Stagflation

CPI Inflation, 1982 – 2006



Real GDP Growth, 1982 – 2007

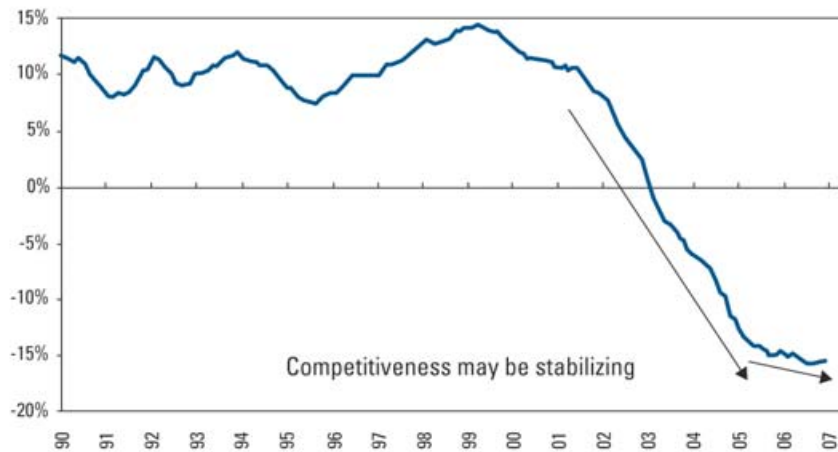




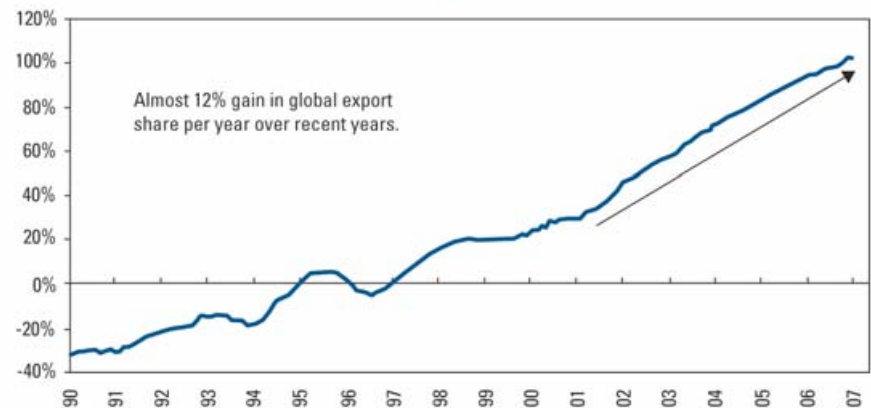
Substandard US Employment Gains

and Low Domestic Capital Spending
Bring About a Loss of Competitiveness

United States Competitiveness



China Competitiveness



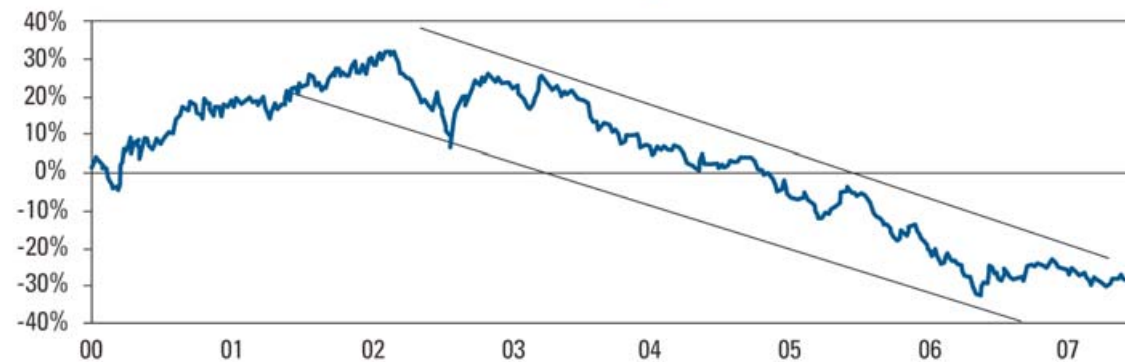


Unsustainable Imbalances!

US Net Asset Balance as % of GDP



US Asset Returns versus Foreign Asset Mix, 2000 – 2006





Current Account Deficit

Problem of Current Account Deficit

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

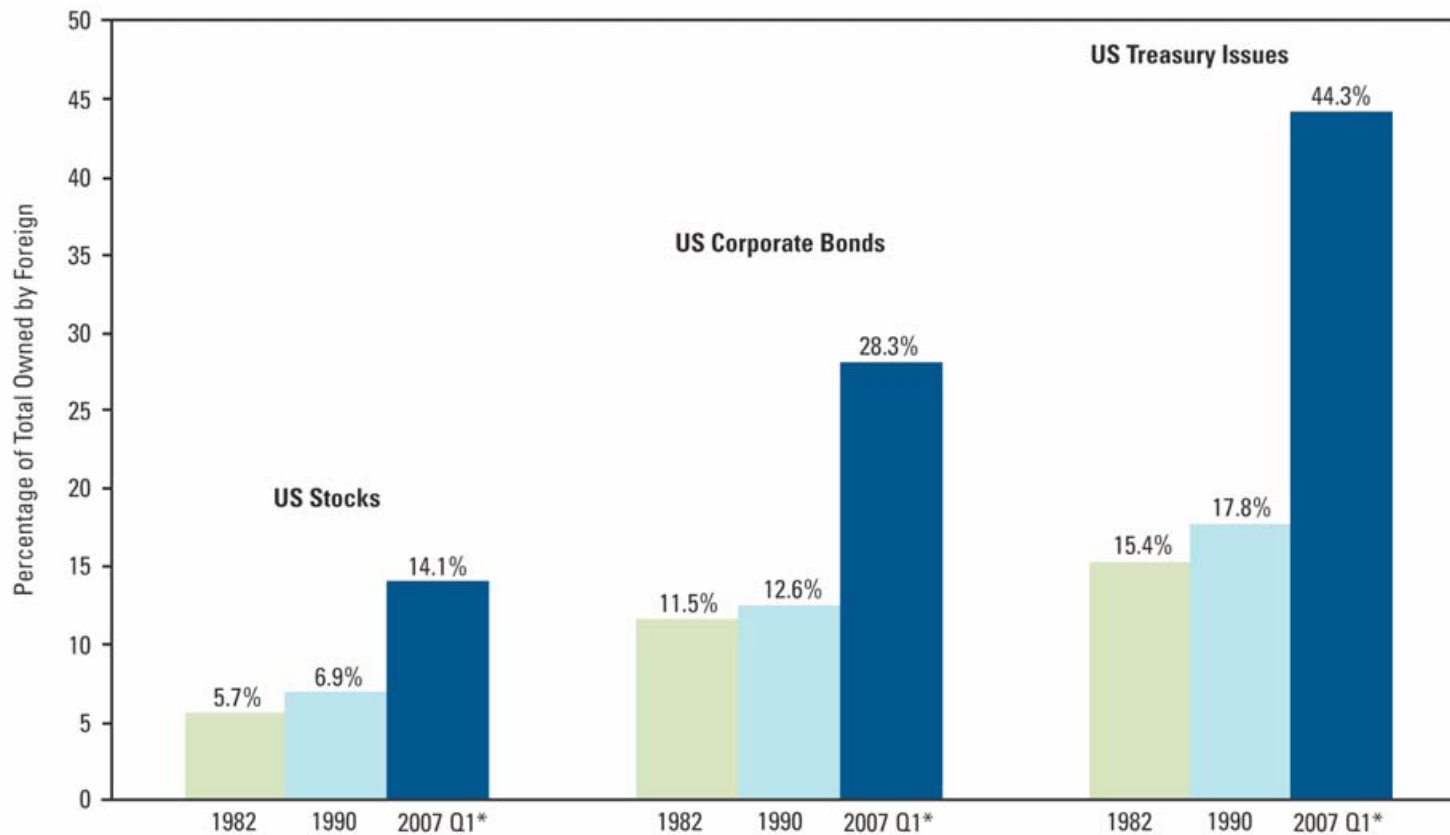
But How to Stabilise the Current Account Deficit?

- Tight Money?
- Massive US Dollar Devaluation?
- Capital Controls, Protectionism?



Problem of Current Account Deficit:

Large Foreign Ownership of US Bonds

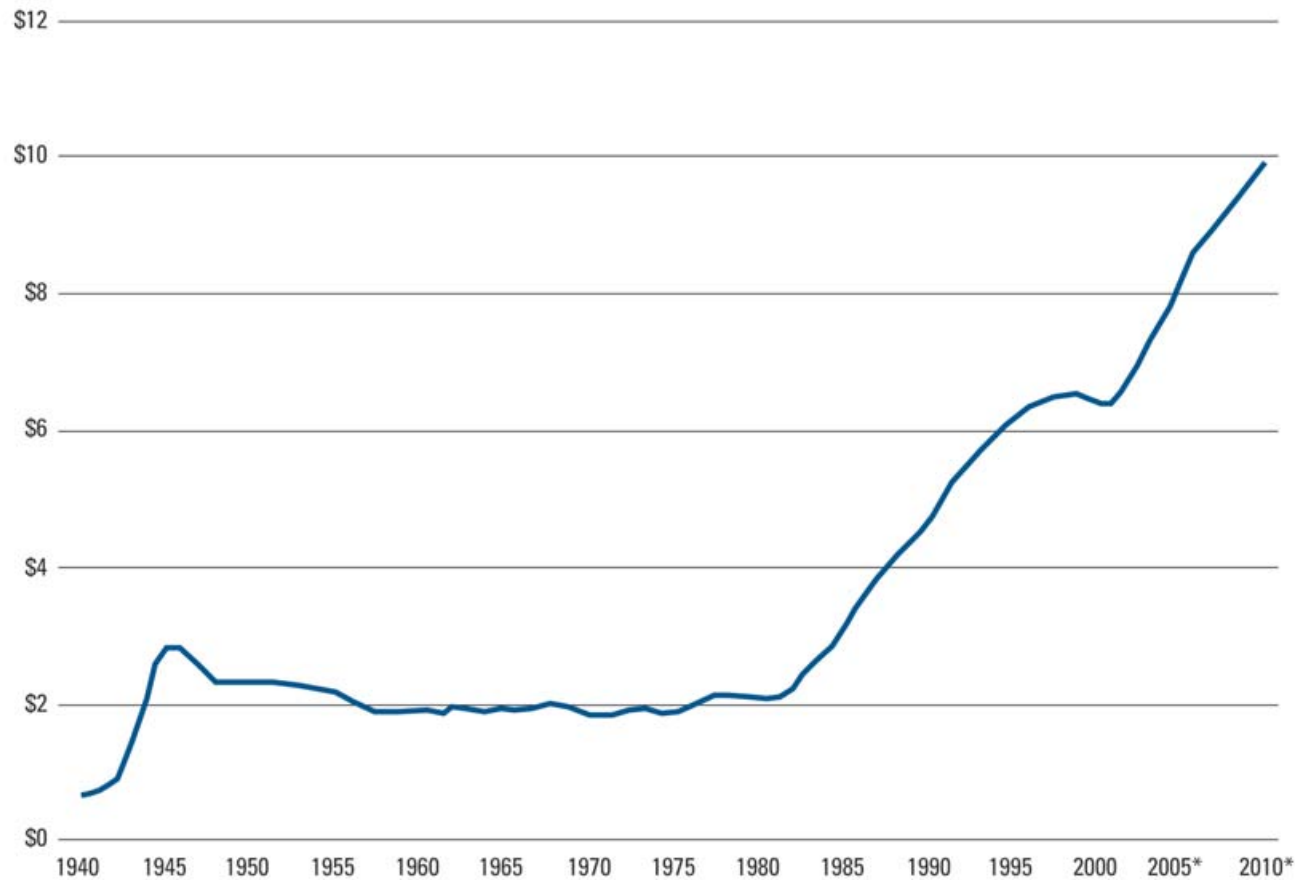


* Data for 2007 Q1 are preliminary



Gross Federal Debt

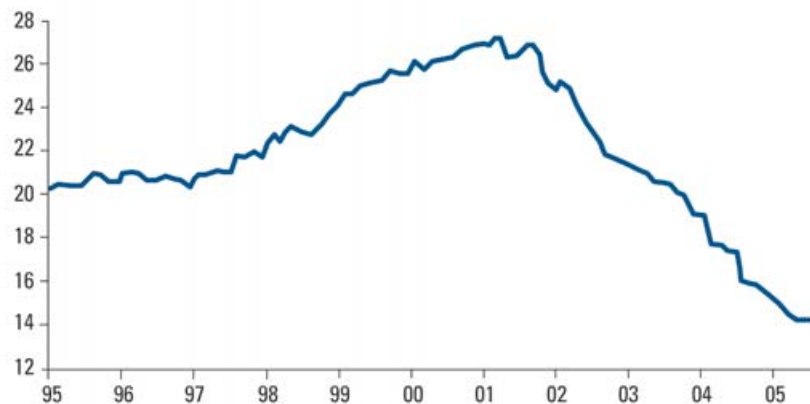
(in trillions of \$2005)



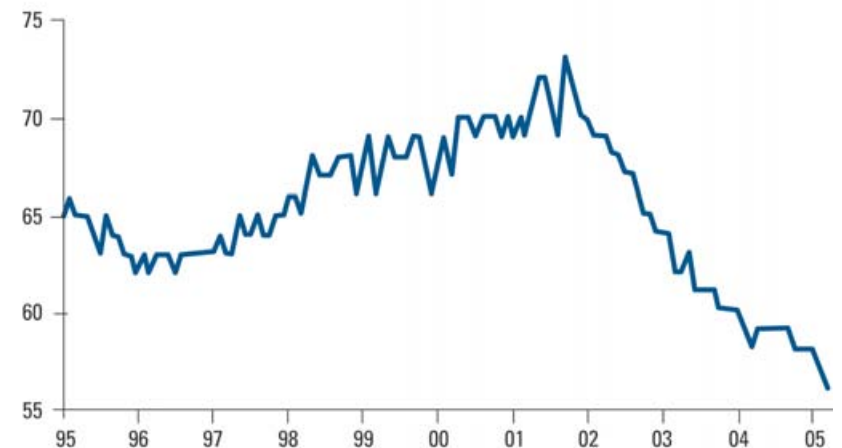


Problem of Rising Interest Rates!

**Share of US Treasury Dept.
15+ Years Down to 14%**



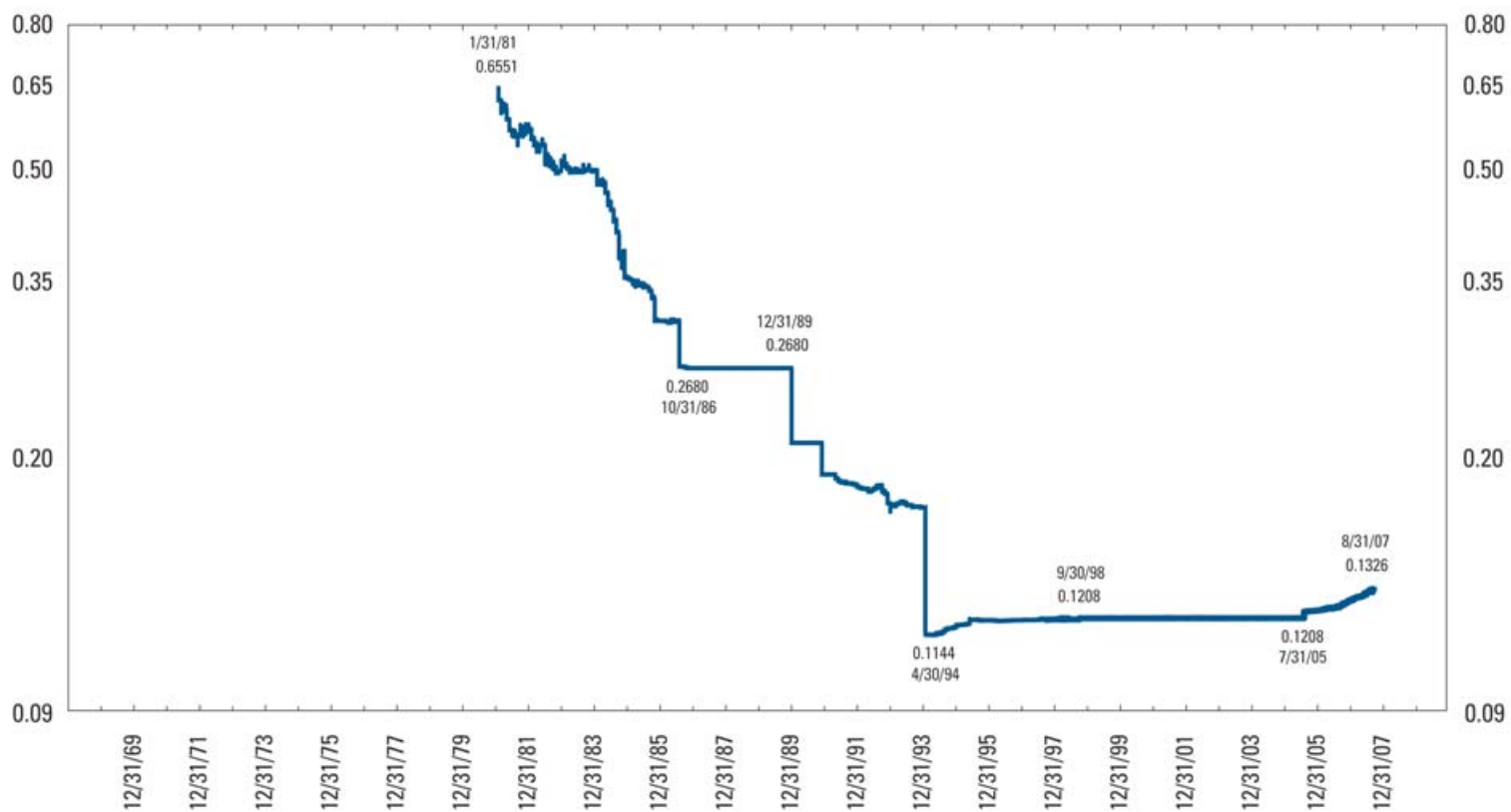
Debt Term Down to 56-Months





Chinese Yuan: An Important Upturn

Chinese Yuan (Monthly Spot — in US\$)

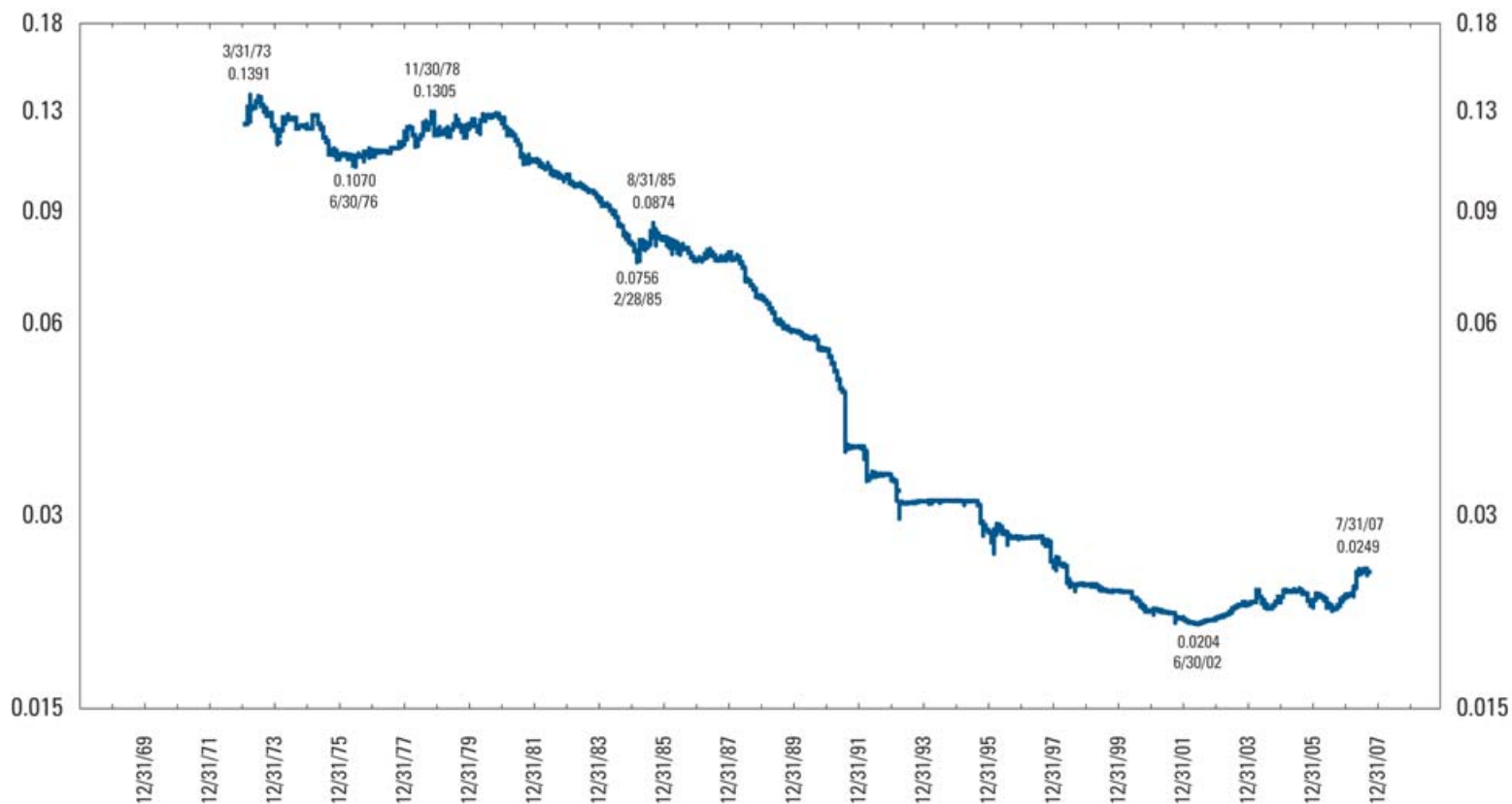


Copyright © 2007 Thechartstore.com. Data as of August 2007.

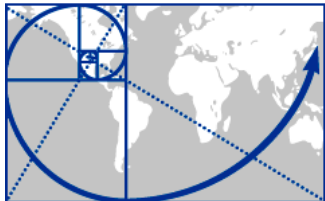


Indian Rupee, 1973 – 2007

Indian Rupee (Monthly Spot — in US\$)

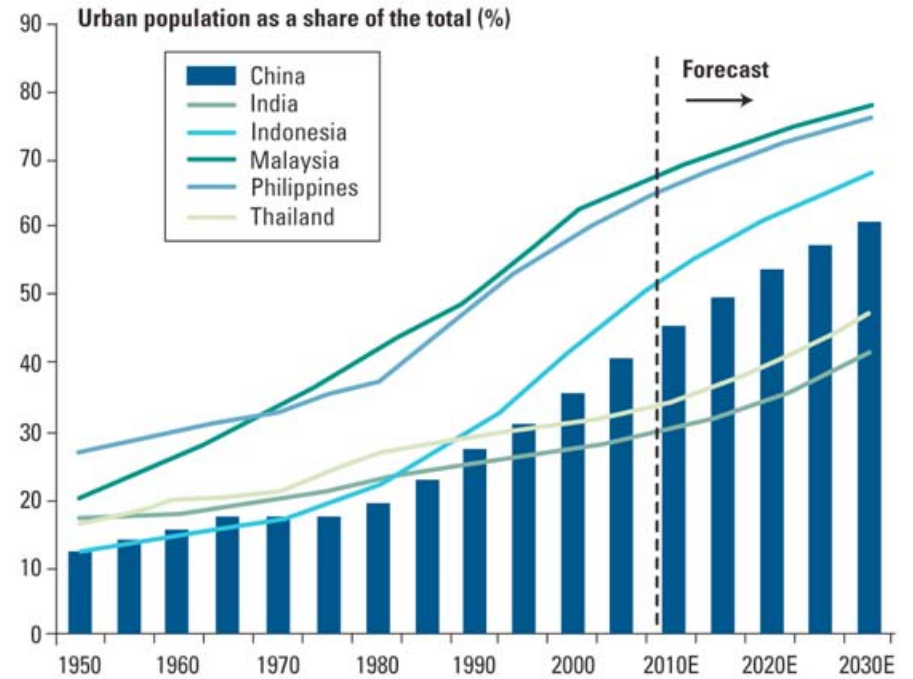
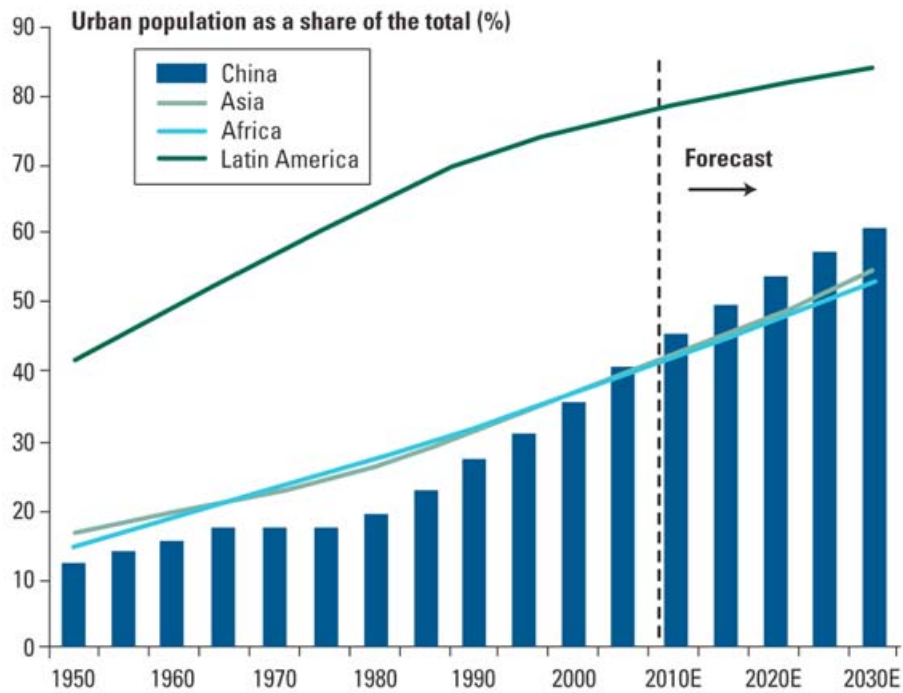


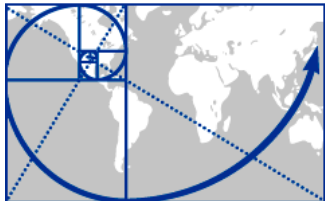
Copyright © 2007 Thechartstore.com. Data as of August 2007.



U.S. Global Investors

Urbanisation in Asia

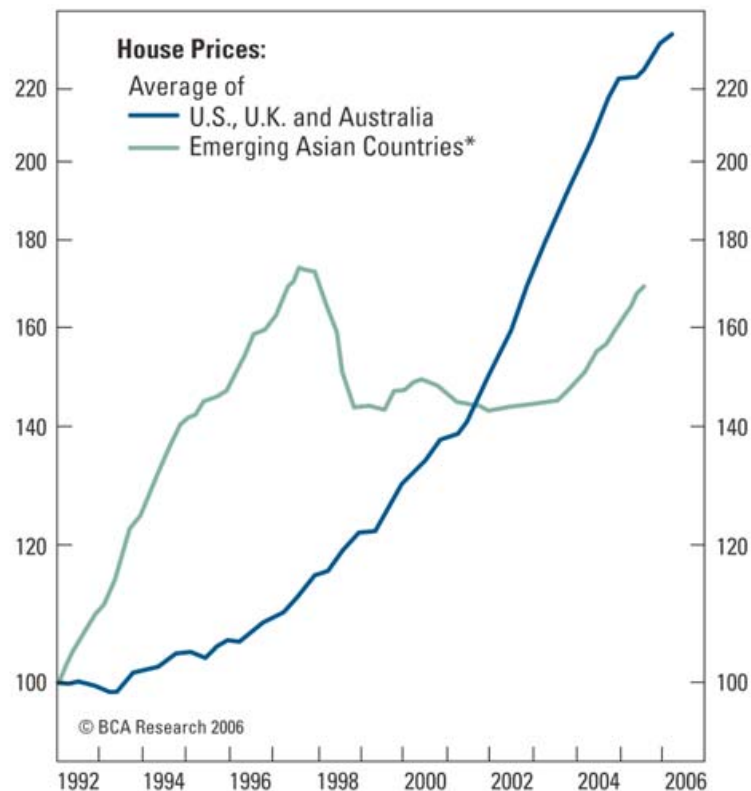




U.S. Global Investors

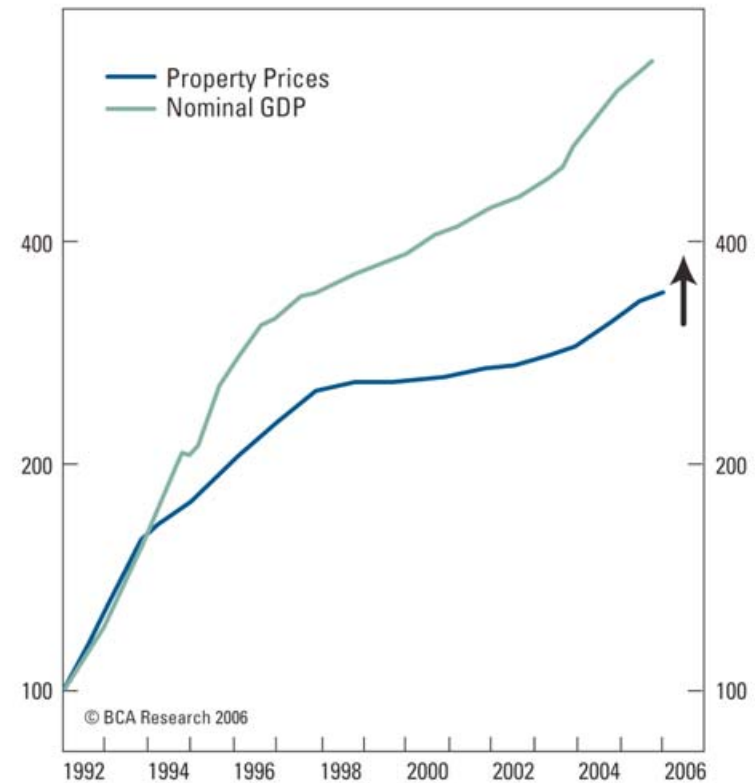
Global Property Prices

Asia versus Anglo-Saxon Countries



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

Chinese Property Prices



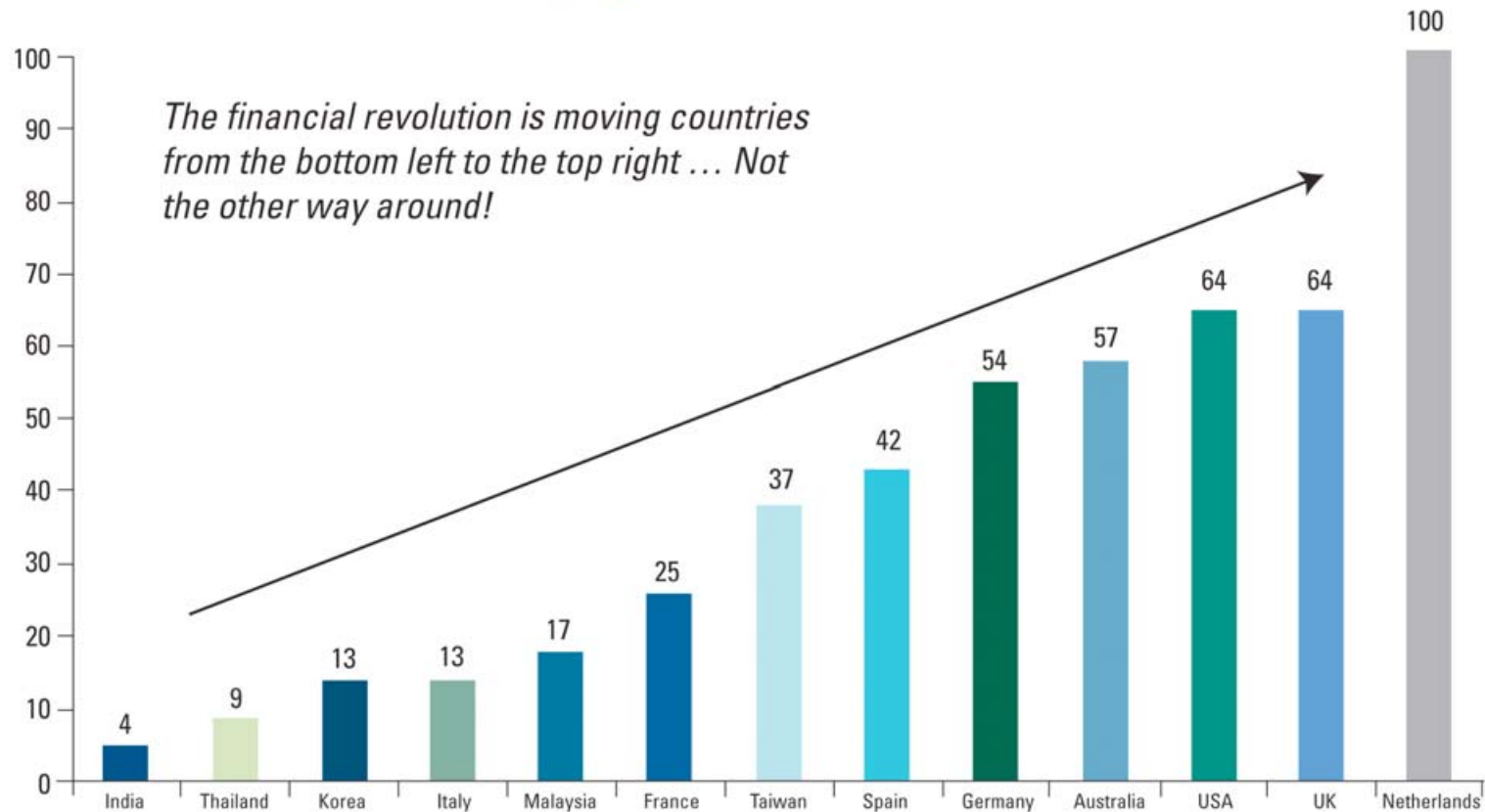
Note: Both Series are Rebased to January 1992=100



The Financial Revolution at Work:

Which Way Will Debt Levels Go?

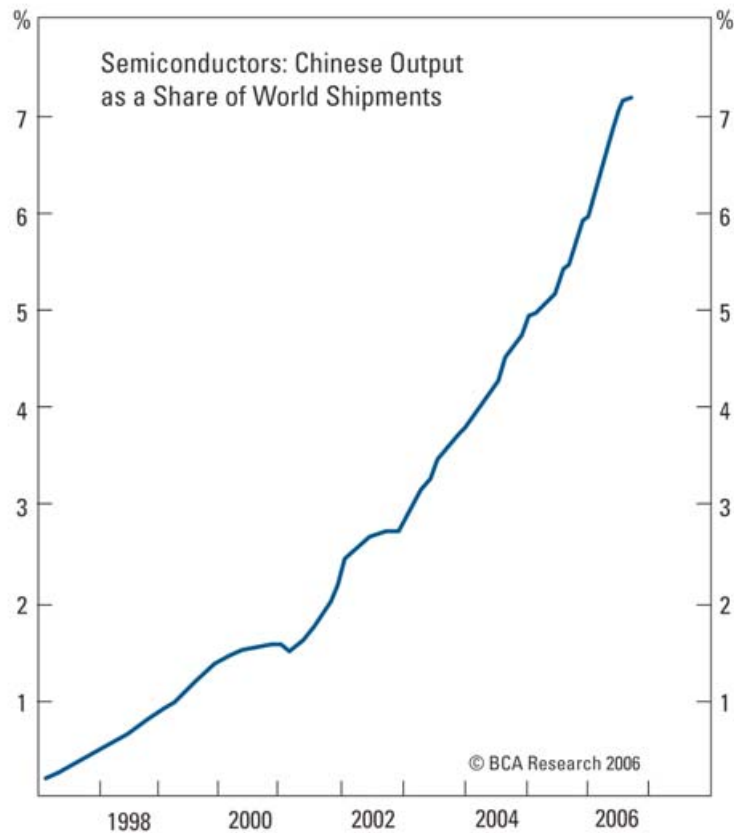
Mortgage Loans as a % of GDP



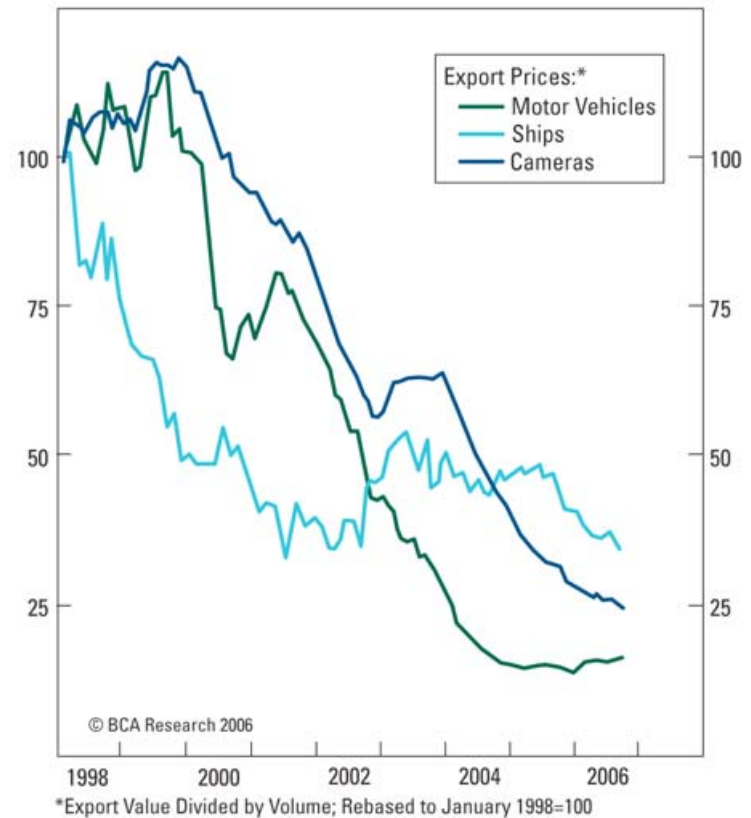


China Moving Up the Value-Added Chain!

China's High-Tech Sector



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



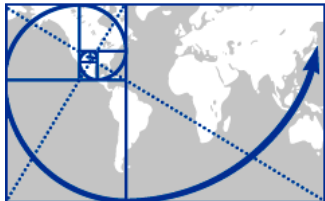


China's Share

Of World Commodity Consumption (2004)

Global and Chinese Consumptions in 2004				
Commodities	China	World	Shares	Rank
<i>Energy</i>				
Crude Oil	6379	82493	8%	2
Naphtha	684	3220	21%	1
Gasoline	1069	14880	7%	2
Diesel	2150	12850	17%	2
<i>Industrial Metals</i>				
Aluminum	5943	29537	20%	2
Copper	3335	16720	20%	1
Nickel	140	1246	11%	3
Zinc	2551	10078	25%	1
Steel	272000	964614	28%	1
<i>Agriculture</i>				
Soybeans	40212	206129	20%	2
Corn	131500	680238	19%	2
Wheat	102000	608076	17%	1
<i>Livestock</i>				
Pork	46725	90237	52%	1
Beef	6703	49757	13%	4
<i>Soft Commodities</i>				
Cotton	8187	23496	35%	1
Sugar	11600	127093	9%	2

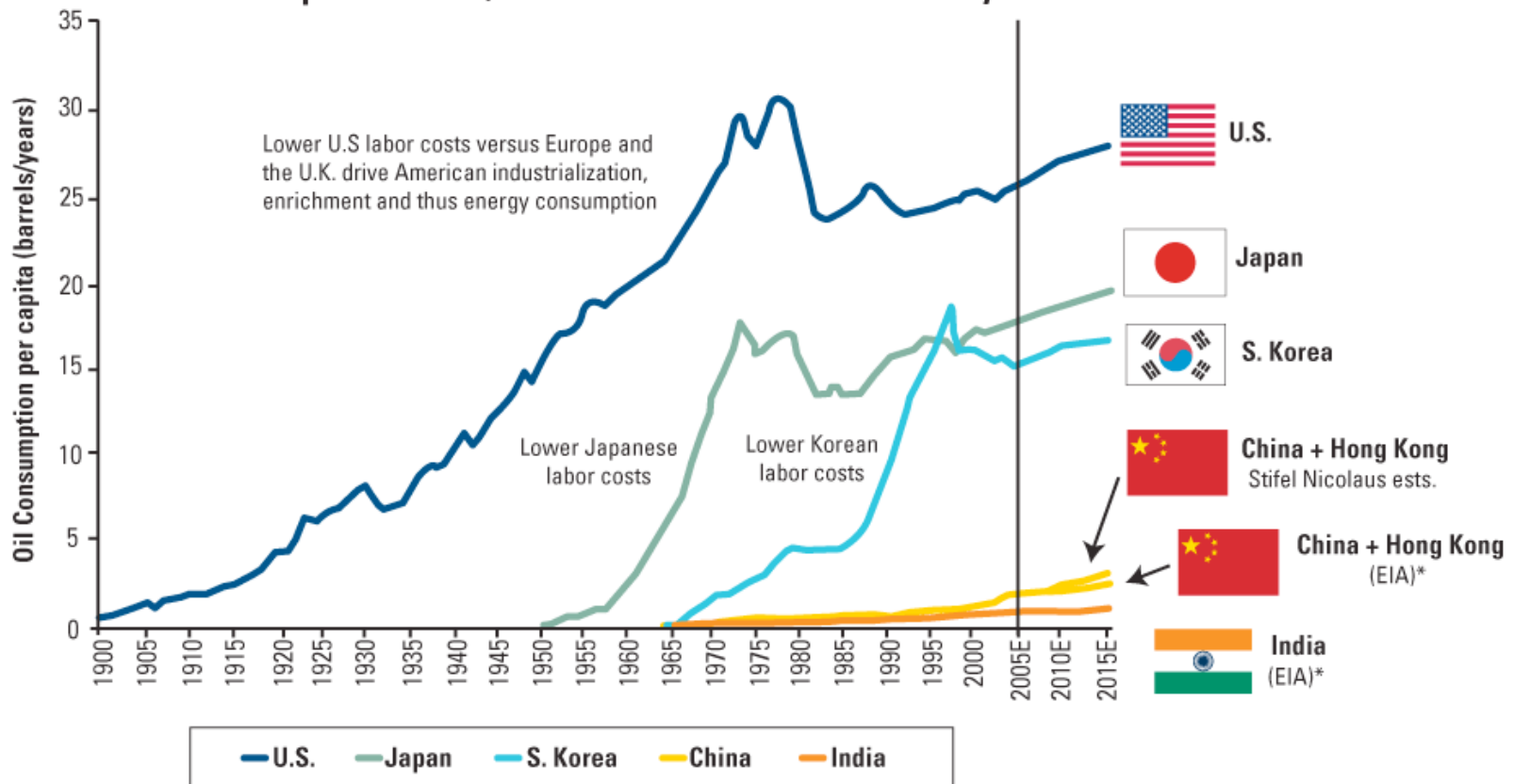
Units: thousand metric tons except thousand barrels per day for energy commodities



U.S. Global Investors

Oil Consumption

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

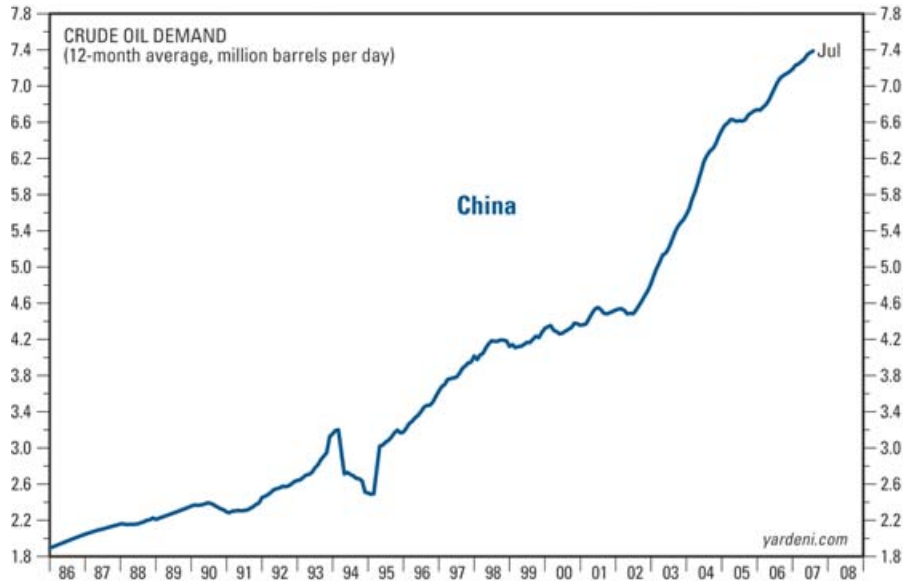


*The two lower lines are EIA's High Growth case for China + Hong Kong and India

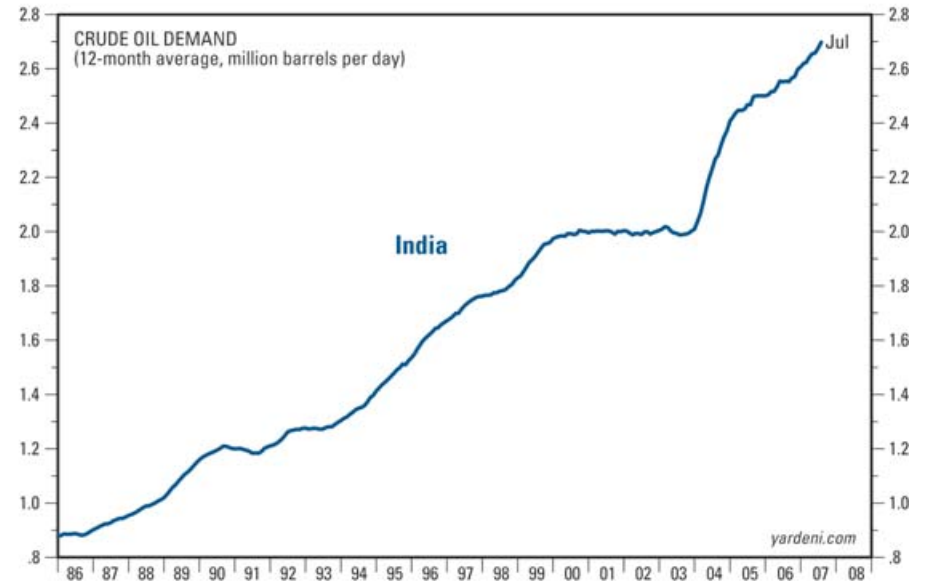


World Oil Demand

China Crude Oil Demand



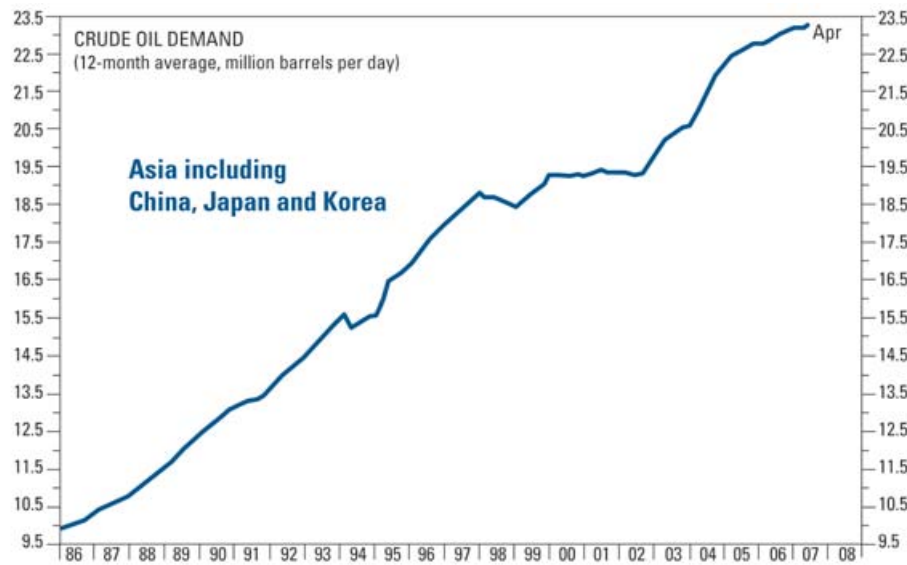
India Crude Oil Demand



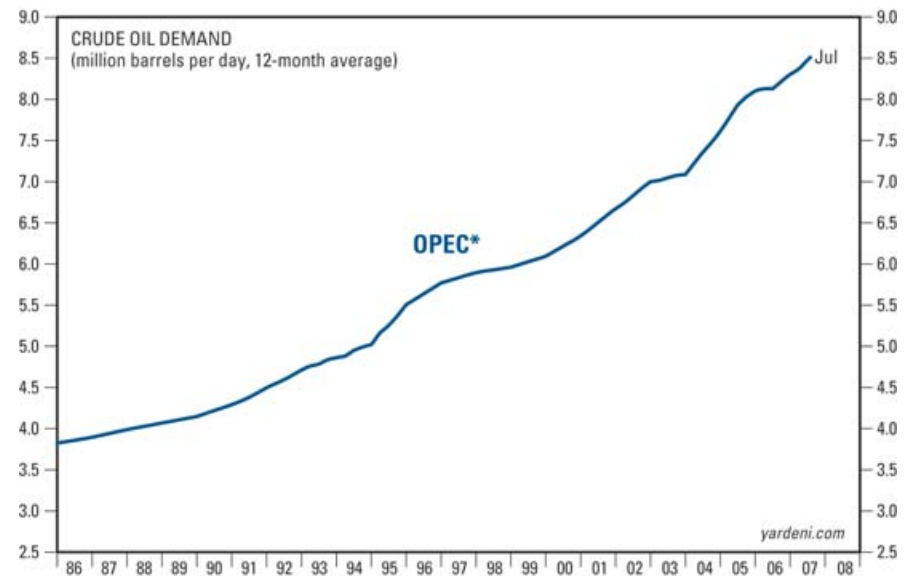


Crude Oil Demand

In Asia and in OPEC Countries, 1986 – 2007

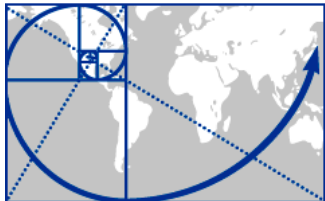


Source: Oil Market Intelligence



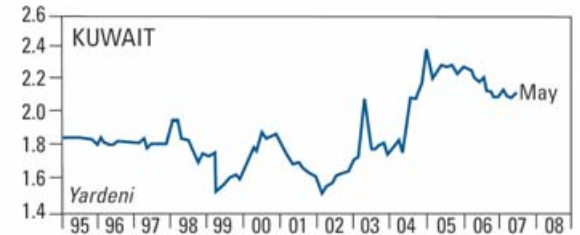
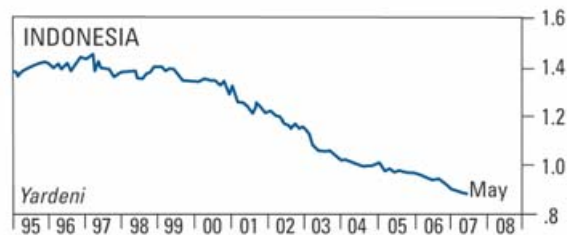
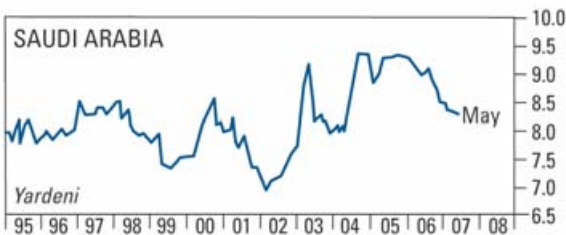
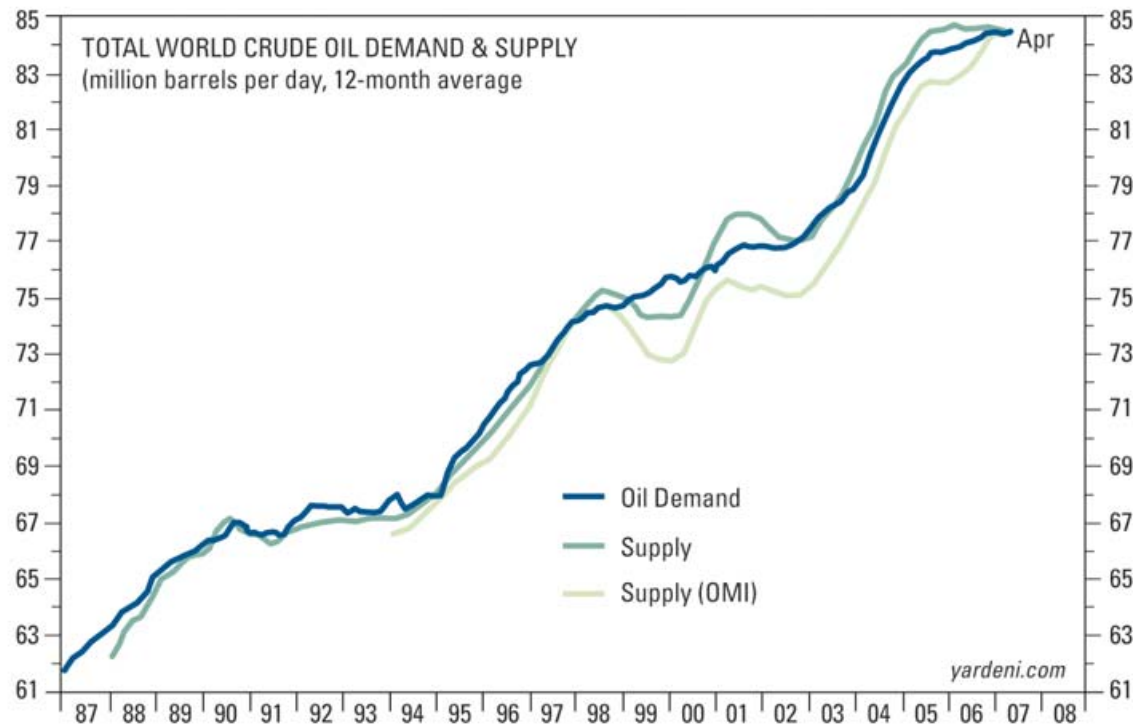
* Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Neutral Zone, Nigeria, Qatar, Saudi Arabia, UAE, and Venezuela.
Source: Oil Market Intelligence.

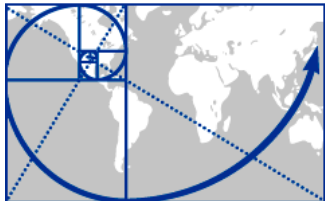
Source: Ed Yardeni, www.yardeni.com



U.S. Global Investors

By How Much Can World Oil Supplies Increase?

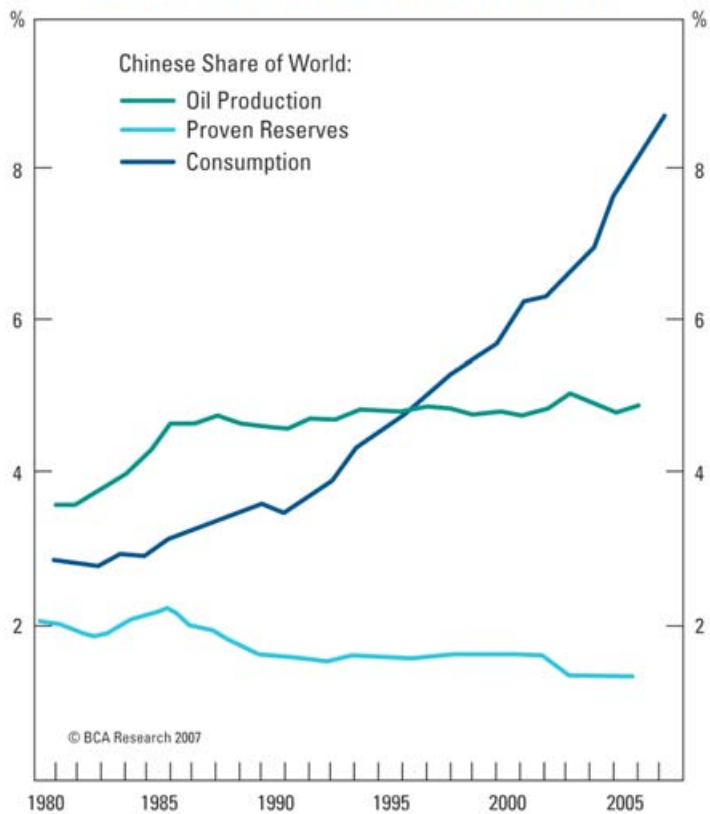




U.S. Global Investors

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

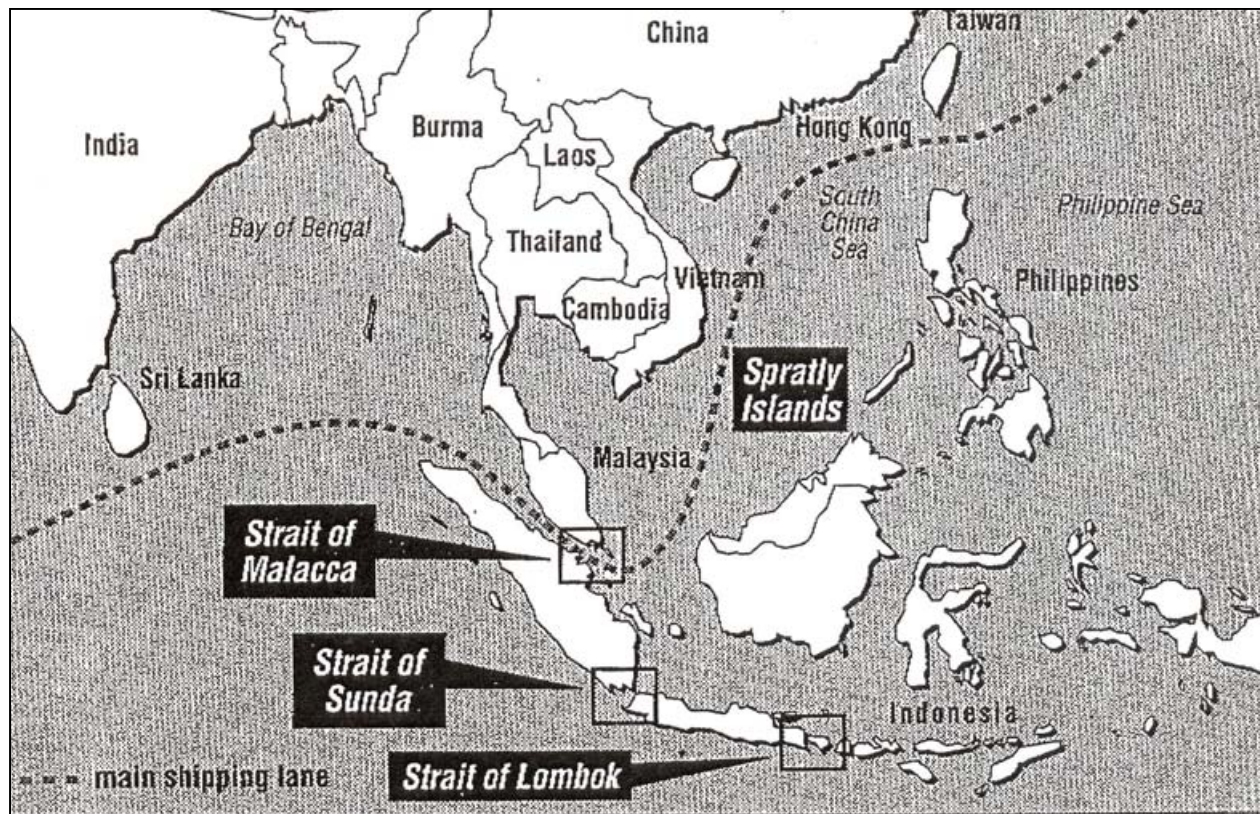


Observing Members: India, Pakistan, Mongolia, Iran!



The Geopolitics of Oil in Asia:

The Control of the Sealanes



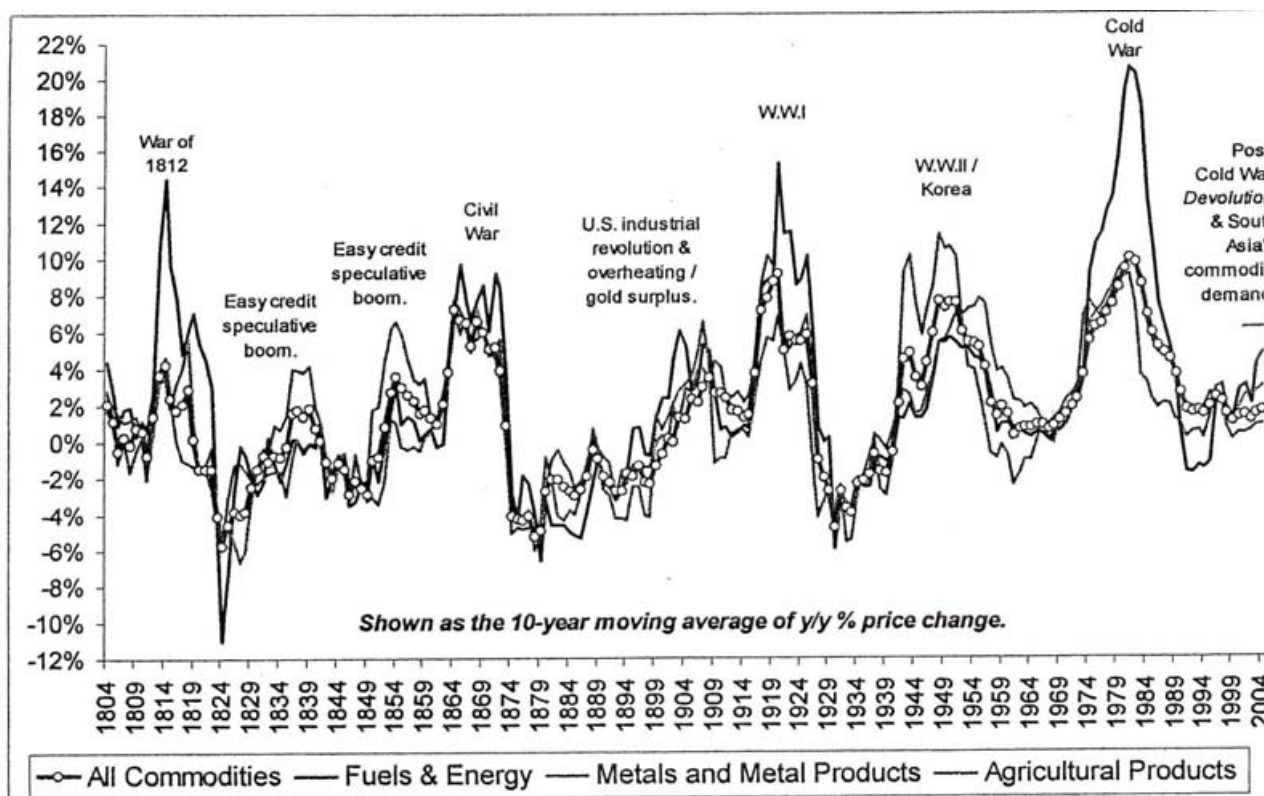
Source: Dr. Marc Faber



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.

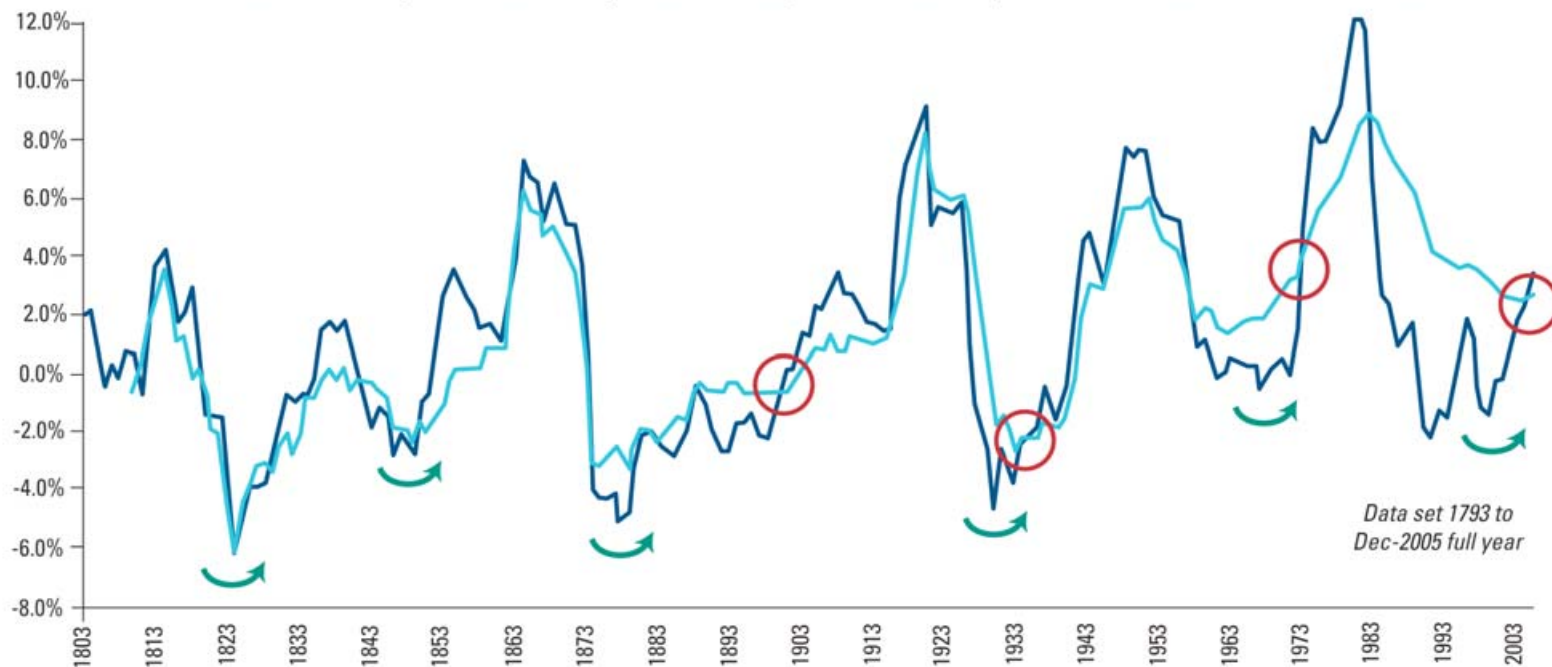




Long Cycles

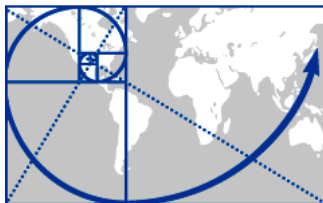
In Commodity Prices, Consumer Prices and Interest Rates

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).**



Data set 1793 to Dec-2005 full year

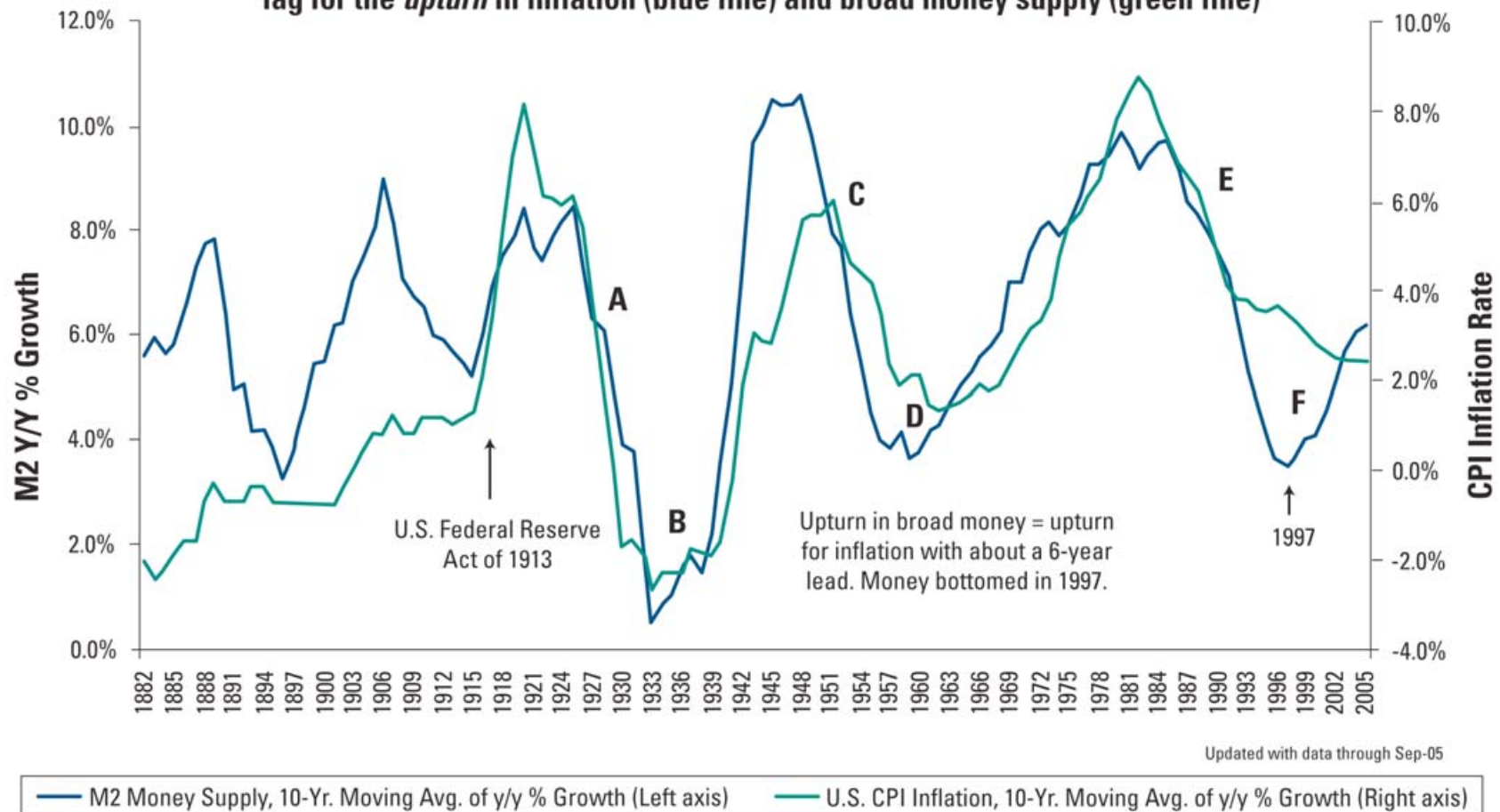
— PPI All Commodities (1793 – 1956) and CRB Commodity Futures (1957 – now) Linked Commodity Price Index UNITED STATES Y/Y % Change, 10-Yr. Moving Average
 — U.S. Consumer Price Inflation, Y/Y % Change, 10-Year Moving Average



U.S. Global Investors

Money Supply Growth and Inflation

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)

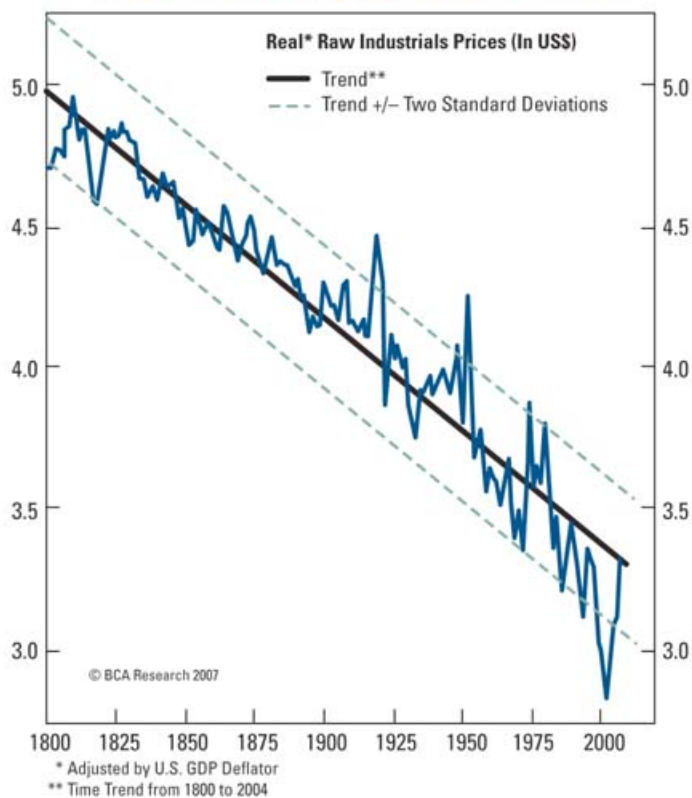




Commodity Prices:

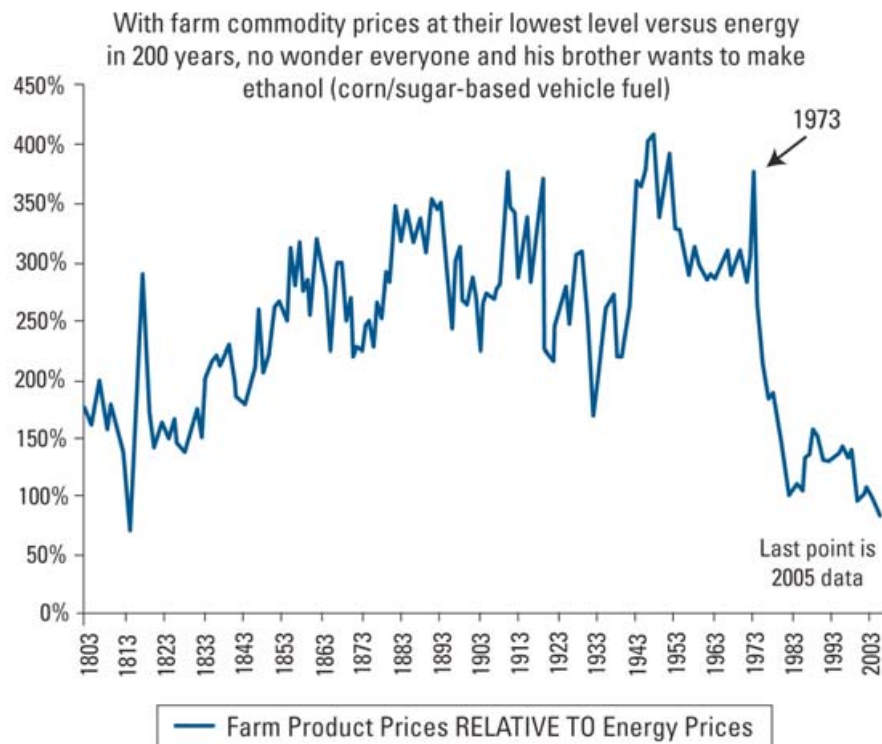
Some Bubbles, but Still Low in Real Terms

Real Raw Industrial Prices



Source: The Bank Credit Analyst

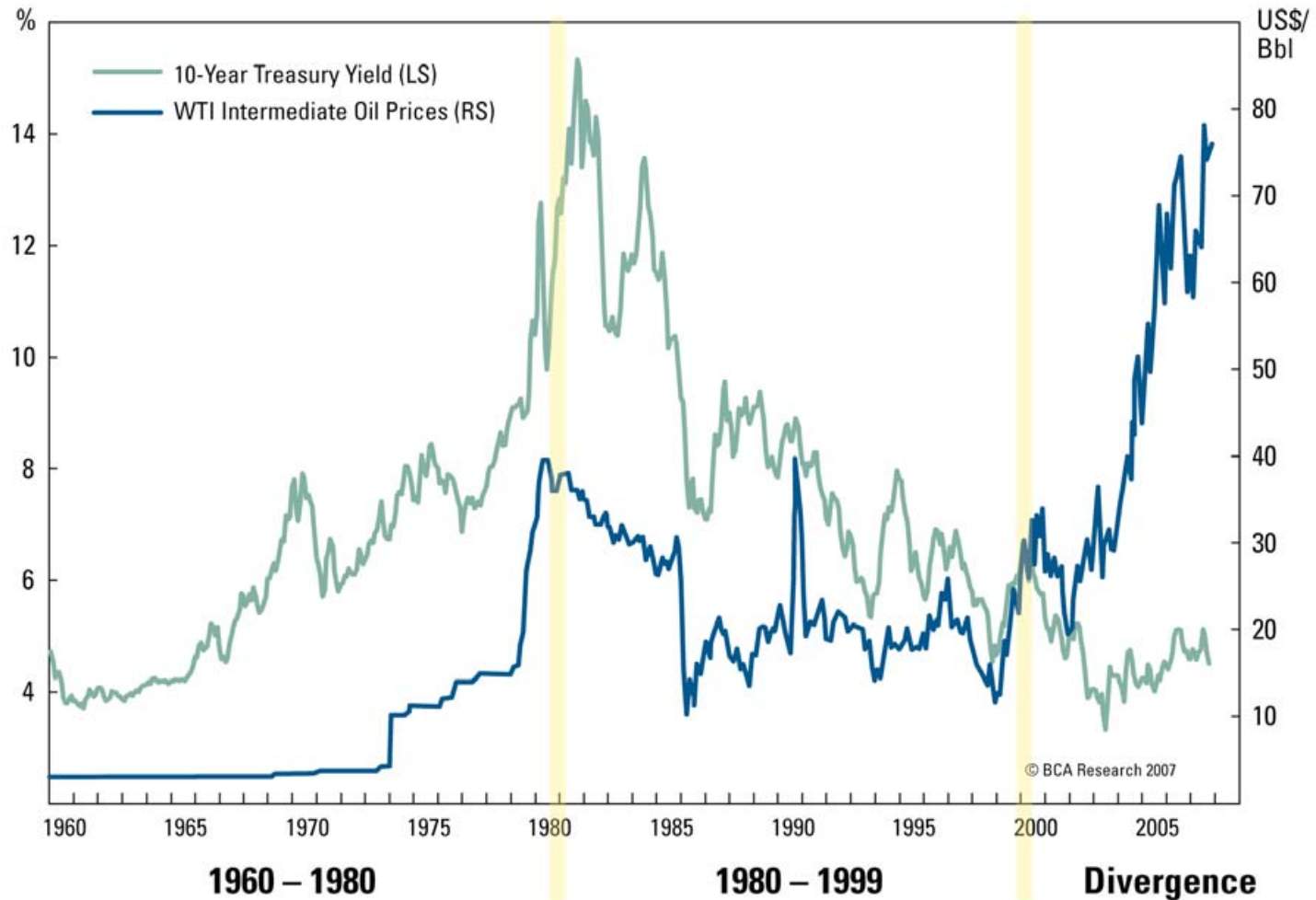
Farm Commodity Prices

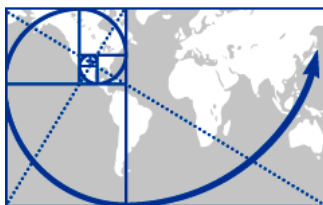


Source: Barry Bannister, Stifel Nicolaus



Bond Yields Diverge from Oil





U.S. Global Investors

Is There a Chinese Stock Market Bubble?

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



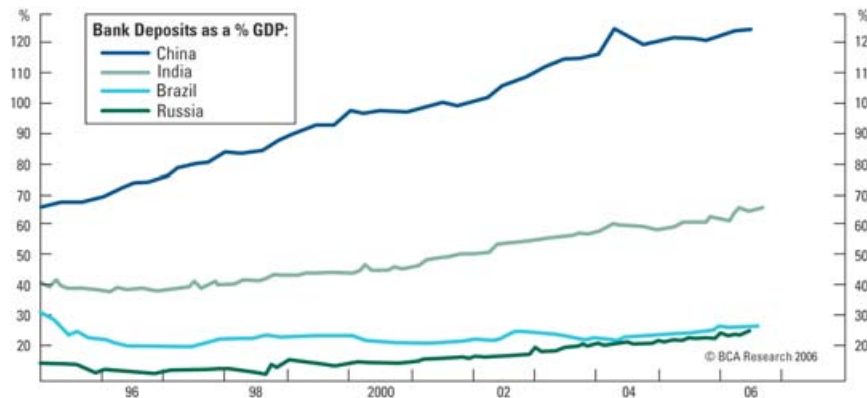
Source: Credit Suisse

New Account Openings, 2004 – 2007



Source: Credit Suisse

Bank Deposits as a percentage of GDP, 1995 – 2006



Source: The Bank Credit Analyst



Japanese Stocks Compared to US Stocks

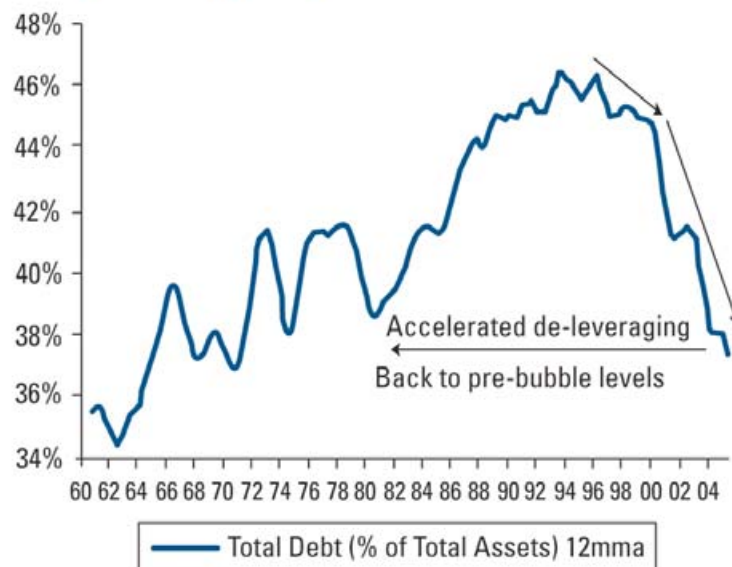
Japanese Stocks 1984 – 2007 Compared to US Stocks 1924 – 1955



Note: Series are adjusted by the consumer price index and are rebased to 100 at the start of the indicated periods.

Source: The Bank Credit Analyst

Improving Corporate Balance Sheet



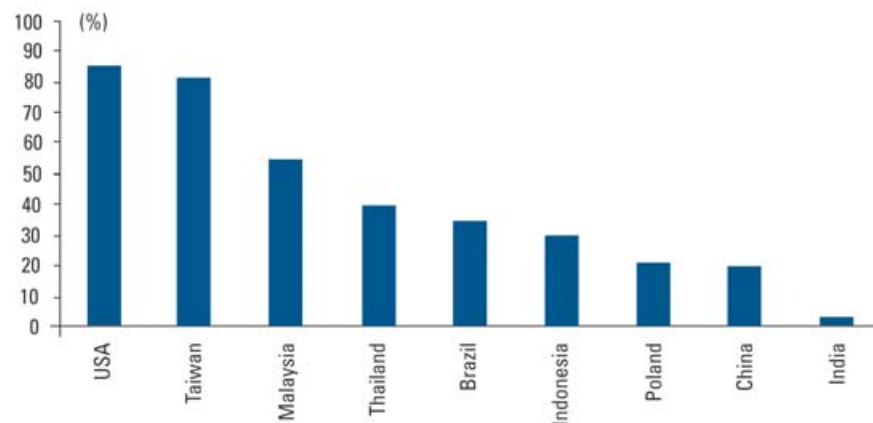
Source: Bridgewater Associates



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

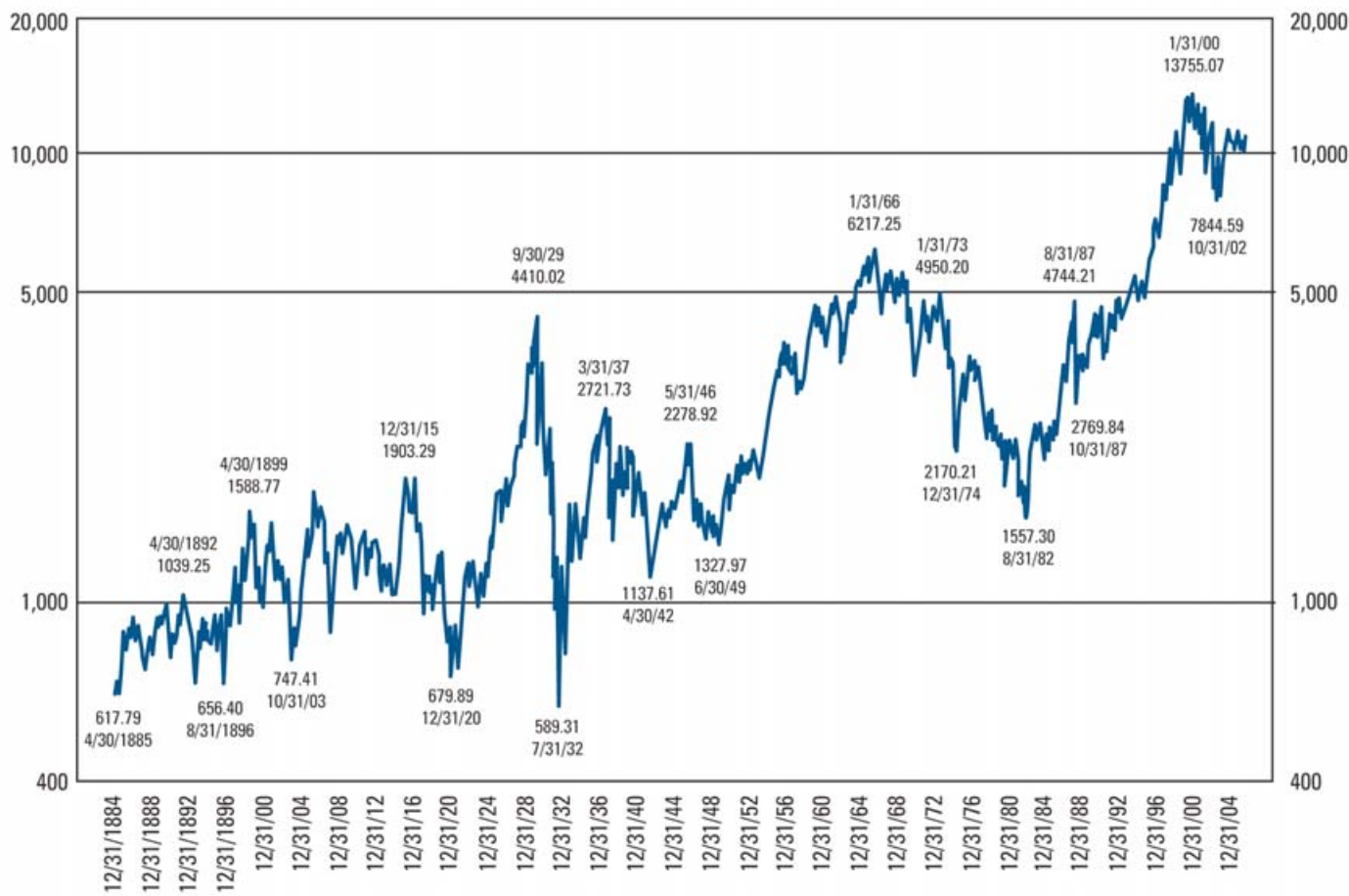


Source: The Bank Credit Analyst



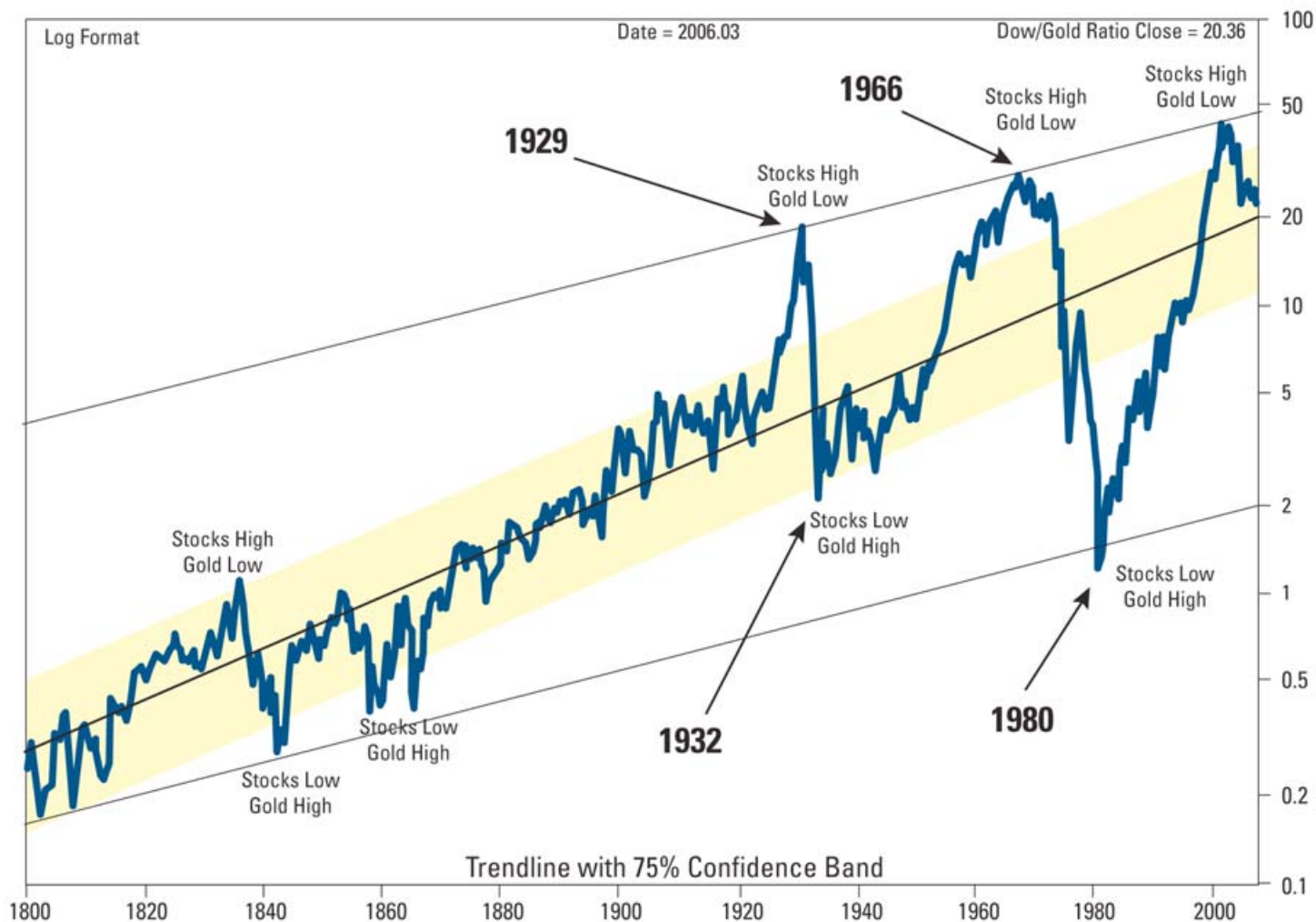
Dow Jones Industrial Average Monthly

Adjusted For Inflation by the CPI 1885 – 2004





Dow Gold Ratio 1800 – 2006





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.



Disclosure

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.

All opinions expressed and data provided are subject to change without notice. Some of these opinions may not be appropriate to every investor.

Foreign and emerging market investing involves special risks such as currency fluctuation and less public disclosure, as well as economic and political risk. Gold funds may be susceptible to adverse economic, political or regulatory developments due to concentrating in a single theme. The price of gold is subject to substantial price fluctuations over short periods of time and may be affected by unpredicted international monetary and political policies. We suggest investing no more than 5% to 10% of your portfolio in gold or gold stocks.

Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. Users acknowledge that they have not relied upon any warranty, condition, guarantee, or representation made by Lipper. Any use of the data for analyzing, managing, or trading financial instruments is at the user's own risk. This is not an offer to buy or sell securities.



Disclosure

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