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Second Quarter 2013

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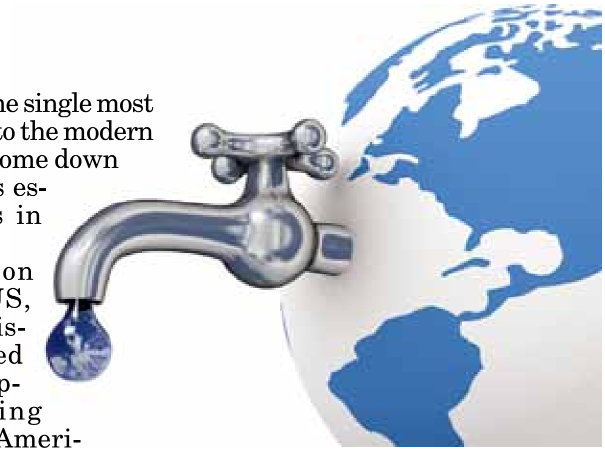
# Water Stocks:

## *High Quality at a Premium Price*

By Roger Conrad
InvestingDaily.com



I've often called oil the single most important commodity to the modern world. But when you come down to it, even black gold's essential nature pales in comparison to water.

With the exception of the Southwest US, North America has historically been blessed with an abundant supply of the life-giving liquid. In fact, many Americans still drink water pumped from wells dug on their property.

Water's relative abundance was the key factor shaping the modern service sector, and the reason it evolved quite differently from other essential services. Mainly, electricity, natural gas distribution and communications rewarded the advantages of scale from the beginning, and rapidly consolidated into bigger entities. That trend continues to this day, though companies generally have a more difficult time hurdling regulatory challenges to mergers as they grow larger.

In stark contrast, the water business in the US is still remarkably diffuse. While a couple dozen companies provide most electricity to consumers and businesses – and a half-dozen communications companies dominate their sector – there are currently some 155,000 public water systems in the US.

The Environmental Protection Agency (EPA) classifies public water systems as any network serving at least 15 connections or an average of 25 people at least 60 days per year. Community Water Systems (CWS) serve roughly the same population year round. The rest are either considered Transient or Non-Transient Non-Community Water Systems and include water supplies provided to some schools, factories, gas stations, etc.

As of 2010, there were almost 53,000 CWS in the US serving more than 300 million people. Roughly 77 percent of these (more than 40,000) served communities with fewer than 3,300 people. Meanwhile, some 80 percent of Americans were served

Continued on page 4

# Will Cheap Natural Gas Change US Steel Production?

Cheap natural gas unleashed from previously unreachable shale sources could eventually provide a boost to U.S. steel manufacturers, but the benefits have not shown up in their bottom lines just yet.

A recent Credit Suisse Research Institute report, entitled "*The Shale Revolution*," said ongoing development of shale natural gas "is set to unleash significant capital spending" that stands to benefit the steel industry and others in the long term. For one thing, steel piping is a key component in the exploration process, as it can take thousands of feet of pipe to reach underground shale rock formations. In addition, any future rebound in domestic manufacturing that occurs as a result of inexpensive, abundant natural gas could also increase demand for steel. Finally, steel companies could benefit in the long run if cheap natural gas lowers the cost of energy inputs.

"In terms of demand, steel will play an important part in both oil and gas infrastructure, including many specialist applications," the report said. "On the supply side, steelmakers would benefit from using natural gas in the steel-making process, with potential material cost savings and margin enhancement if they can retain them."

For now, though, the potential remains largely theoretical. An abundance of domestic shale resources has pushed natural gas prices down, and rig counts have actually been declining since late last year. The U.S. continues to import large amounts of steel, and new capacity is coming online domestically, creating oversupply issues that have kept steel prices weak.

Foreign competitors enjoy large steel inventories and low labor costs, making it likely that steel imports will continue. That is among the reasons industry players are cautious about domestic growth projections.

At the same time, large steel companies have made several significant investments in the

United States recently. A $750 million plant built by North Carolina-based Nucor Corp is scheduled to start operating later this year in Louisiana. Austrian steelmaker Voestalpine AG plans to build a roughly $700 million plant to make an intermediate material for steel in Texas, and Vallourec SA's V&M Star spent $650 million on an Ohio plant to supply tubular steel pipes specifically for oil and gas development.

The industry itself is hopeful about the potential natural gas holds.

"Natural gas is a game changer for our industry," American Iron and Steel Institute (AISI) President and CEO Thomas Gibson told The Financialist in an email. "The industry is developing new options and technologies for the production of steel as a result of natural gas availability."

The steel industry is vulnerable to unforeseen economic pressures, such as rising energy costs, and some manufacturers have opted to explore alternative production methods, such as using natural gas instead of coal. Either energy source can be used to purify, or remove oxygen, from iron ore – a key ingredient in steel. Coal was the industry go-to method, but that's changing as natural gas from shale sources becomes a cheaper option than coal.

"As an energy-intensive industry, the domestic steel industry's international competitiveness depends on our ability to capitalize on the discovery and development of North America's shale resources," said Gibson, of the AISI. "Our industry consumes large amounts of natural gas and will benefit from the increased supply resulting from shale production, which keeps gas both reliable and available at a low cost."

For the time being, the U.S. holds a competitive advantage in producing shale gas. The Boston Consulting Group expects U.S. natural gas to be about 50 to 70 percent cheaper than in other large developed economies such as Japan, China and Europe.

"The ability for Europe and China to get mass quantities over the next few years is unlikely, so the U.S. will have the advantage," said Hal Sirkin, a senior partner in BCG's Chicago office. Sirkin said it would take "many years" before other countries were able to mass-produce shale gas.

Sirkin said it is too early to anticipate what will happen with steel industry investments, partly because the prices of iron ore remain volatile. One thing, however, seems certain.

"There's clearly going to be a reduction in steel production costs," Sirkin said.

**Source:** *The Financialist*, published by Credit Suisse, www.thefinancialist.com.

# Water Stocks: *High Quality at a Premium Price*

Continued from page 1

by municipal systems, rather than investor-owned utilities.

This division of ownership and system size also reflects an ethos in many communities that water is a public good that should not be provided for profit. That in turn has prevented the kind of rapid consolidation we've seen in other essential services sectors.

## Pollution Forces Change

In recent years, however, a critical factor has emerged to turn the water sector on its ear. Mainly, systems have become degraded, as pollutants have entered rivers, lakes and streams from the air, land and water.

As a result, providing clean water particularly to urban areas – as well as treating sewage – is now a complex and expensive process. Systems serving less than 3,300 people simply lack the resources to deploy the necessary treatment and storage technology, and also have difficulty ensuring the integrity of pipes and mains.

The problem for many municipalities is compounded by the fact that cash reserves once meant to ensure water systems have long since been appropriated for other uses. Moreover, many are cash-strapped from the recent recession, just when the need to remove mercury and other harmful substances is becoming more acute.

Enter investor-owned water utilities, a group so small that one sector executive once referred to them as similar to "collector cars." The group of nine I track in my *Utility Forecaster* advisory, for example, cover barely 10 percent of the US population.

Most meet the EPA's definition of "Very Large Water Systems," which means they serve more than 100,000 people. But even the largest US investor-owned water utility – **American Water Works Co Inc.** (NYSE: AWK) – serves just 2.2 million people nationwide. No. 2 provider **Aqua America Inc**. (NYSE: WTR) has roughly that many customers in nine states. After that, size drops off quickly: **California Water Service Group** (NYSE: CWT): 500,700 customers; **American States Water Co** (NYSE: AWR): 256,000 customers; **SJW Corp** (NYSE: SJW): 237,600 customers; **Connecticut Water Service Inc** (Nasdaq: CTWS): 122,000 customers; **Artesian Resources Corp** (Nasdaq: ARTNA): 81,200 customers; **The York Water Co** (Nasdaq: YORW): 63,779 customers and **Middlesex Water Co** (Nasdaq: MSEX) with 64,000 customers.

These companies have been able to meet clean-water standards on their own. That's partly because of scale and partly because as investor-owned utilities they can go to regulators and ask for rate increases to pay for needed capital spending.

The upshot is they're in a position to take over adjacent smaller water systems that are struggling to meet an ever-tightening array of industry regulations. As they add these systems, they make improvements that add to rate base, and therefore to revenue and earnings.

Aqua America and American Water Works have been the most effective at employing this growth strategy. And the more scale they've achieved, the more effectively they've been able to absorb systems. But even the smallest of these have proved to be effective acquirers.

## Reliable Growth, Not Cheap

The result is US water utilities have been among the most reliable growth stocks in the world in recent decades. It may be some years before we see takeovers of larger municipal systems, if ever. But with so many small systems struggling to provide the basic amenity of safe drinking water, there's no shortage of takeover targets to keep growth going.

Unfortunately, water utility stocks do have a very big problem now, despite the lack of business operating risk and reliable growth of dividends and earnings: Their secret is out, and momentum investors have piled into their shares.

Aqua America, for example, has reported some very nice earnings in recent months and is about as certain a bet as possible for another dividend boost of 5 percent to 6 percent in November. Since the beginning of the year, however, its share price has jumped by more than 24 percent. Today, the stock yields barely 2 percent and sells for more than 3.3 times book value.

American Water Works boasts similarly strong credentials and is an equally good bet to raise its dividend at a double-digit rate – probably as soon as next month. But here too, we've seen a mighty run and the stock yields just a bit more than 2 percent.

Obviously, there's no law that stocks boosted by momentum have to lose all their gains, or at least within any particular time frame. Beyond that, I'm convinced Aqua and American will be worth these prices at some point in the future.

The higher a stock's price rises, however, the loftier the expectations baked into it. That means a greater chance of disappointment that reverses the upside momentum, even if the underlying company remains sound, as these no doubt will.

Clearly, this is one sector for which high quality comes at a high price. I've personally invested in water utilities for many years. I couldn't be more pleased with my results, and I have no intention of bailing out now.

But my gains didn't come from riding momentum. They're the result of patiently reinvesting dividends over time, when these stocks were laggards as well as when they've been leaders, as they are now.

Regular dividend reinvestment always buys you more shares when prices are low, and fewer when they're high. That's still a sound strategy in the water sector, despite its run-up. But new buyers should tread with care. Nothing is a buy at any price, no matter how solid the underlying business.

**Editor's Note:** Roger Conrad is the Chief Investment Strategist of Investing Daily and North America's leading authority on utility stocks and income investing. Roger is also editor of *Utility Forecaster*, www.utilityforecaster.com, the nation's leading advisory on essential services stocks, bonds and preferred stocks. *Utility Forecaster* was named the top-performing investment newsletter of 2012 by *The Hulbert Financial Digest*. For more information visit Investing Daily's website at www.investingdaily.com.

## Resource Stocks: Gold, Silver & Oil & Gas Shares

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### The one commodity that's surviving this resource crash

Ian Wyatt: "It's not a good time to be a commodity investor.

Metals are hopeless. Gold is at a three-year low. Silver prices haven't been this low since 2010. Copper, platinum, palladium – all of them are in a full-on tailspin right now as the Fed's $85-billion-a-month bond buyback plan has given the dollar strength.

Oil isn't faring much better. Spot prices on light crude oil dipped below $90 a barrel for the first time all year yesterday. Oil prices have declined nearly 9% in April.

Soft commodities are also taking it on the chin.

Coffee has been on the decline for two solid years. The price of corn just bumped up against a 15-month low. Soybeans have been up and down, with prices almost exactly where they were a year ago.

The commodity investing picture is pretty bleak – unless you want to buy on the cheap and take a chance that one of these plummeting resources has hit bottom. That's risky, though. When a commodity as reliable as gold has been for the last decade is tanking with seemingly no end in sight, it's hard to feel safe investing in any commodity.

Amid this downward spiral, however, there is one natural resource that has thrived. It's a resource that a year ago looked way worse than gold, silver or coffee do now, having declined steadily for four straight years. Now it's making a comeback.

I'm talking about natural gas. While most other commodities have fallen flat, here's how natural gas prices have performed in the past year:


That's a 118% gain, including a 35% kick in the past two months. Not bad.

Now, we should put natural gas' run in its proper context. When the rally began last April, natural gas was dirt cheap – trading below $2 per million BTUs for the first time in more than a decade. Savvy commodity investors were bound to start snatching it up eventually.

My colleague, Kevin McElroy, saw this coming. Last April, Kevin wrote the following:

*"I truly believe the opportunity we now see in natural gas will, in retrospect, appear to be a complete no-brainer. Right now, it's tough to be one of the first investors in this hated and cheap commodity. But I don't' think you'll be disappointed."*

Quite prophetic. But Kevin didn't like natural gas just because it was cheap. There were plenty of reasons to like nat gas – especially at decade-low prices.

Global natural gas consumption is projected to increase 17% in the next four years, according to the International Energy Agency. China is the main catalyst behind those projections – its natural gas consumption is expected to double by 2017.

A cold, long winter has helped spark the run-up in natural gas over the last two months. Stockpiles have dropped below their five-year average for the first time since 2011. That's also a reason to like natural gas over the long haul.

Natural gas supply is no longer outpacing demand the way it was for most of the past decade. Demand is finally catching up with the increased production hydraulic fracturing, or "fracking," has allowed. After dipping in 2009, U.S. natural gas consumption has risen three years in a row – including a 4.4% increase in 2012.

But China is the major reason this natural gas rally isn't over. Right now, China consumes only 4% of the world's total natural gas supply – less than South Korea or Japan. However, consumption has already increased 37% in the past two years, and the IEA expects it to double in the next four years. Increased emphasis on "clean energy" by the most populous country in the world should pay major dividends for natural gas investors for years to come.

The best way to play the natural gas boom is to invest in a company like **Chesapeake Energy** (NYSE: CHK) or an ETF such as **United States Natural Gas** (NYSE: UNG). Respectively, they're up 18% and 26% this year.

However, because U.S. natural gas exports are extremely limited right now, a better way to gain exposure to China's natural gas boom is to buy shares of **Cheniere Energy** (NYSE: LNG) – the only U.S. nat-gas firm with a license from the Department of Energy to build an export terminal. It's already paying off – shares of LNG are up 37% year-to-date and 70% in the last six months.

If and when the U.S. government loosens its vice grip on natural gas exports – 19 of the 20 firms that have applied for licenses to build export terminals have been rejected – other companies should benefit from China's expected natural gas boom.

Long term, there's plenty of reason to believe in natural gas. For now, it's simply the fastest-rising commodity on the market.

Not that there's much competition."

## Resource Stocks: Gold, Silver & Oil & Gas Shares

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### For utilities, it's all about quality and growth

Genia Turanova: "We expect utilities to out yield U.S. treasuries in the foreseeable future. This justifies our commitment to the sector; we retain our recommendations, and in this issue add to them.

Our newest recommendation, **Duke Energy** (DUK), formed by a merger of Duke Power with Progress Energy, now stands as the largest U.S. electric power holding company, with about $114 billion in total assets. Its regulated utility serves upward of 7.2 million electric customers in six southeast and Midwest states; its U.S. and international business segments own and operate diverse power generation assets in North and Latin America, including a growing portfolio of U.S. renewable energy assets. With market capitalization of nearly $49 billion, 58,000 GW of generating capacity, 32,000 miles of electric transmission, and 250,000 miles of electric distribution lines – and a gas service and distribution in Ohio and Kentucky, to boot – Duke represents the kind of strong, yet adequately diversified utility we admire. Its 10.5 GW of nuclear generation capability sports a best-in-class performance record.

Duke implements excellent diversification of fuel mix. Here, over the last few years, the company invested about $9 billion in some 6,600 MW of new capacity that has replaced up to $6,800 MW of old coal and oil capacity. The company is also well positioned to address current environmental standards, having invested over $7 billion in air emission controls since 1999. Duke, moreover, is poised to recover its fleet modernization investments as its current rate cases are resolved.

Naturally, we also like Duke for its solid balance sheet, growth prospects and above-average dividend yield of 4.4 percent. Buy up to 74.

Over the last few years we have been happy with performance from **NextEra Energy** (NEE), a utility that serves as something of a growth engine, while providing a healthy 3.6 percent yield. Indeed, the company in February raised its dividend to 66 cents per share, in line with a plan announced in 2012 to pay out 55 percent of adjusted earnings by 2014.

The company consists of a regulated utility, Florida Power & Light, one of the largest U.S. electric utilities, serving some 4.6 million customers, and NextEra Energy Resources, which is the largest generator in North America of renewable wind and sun energy. In fact, NextEra is now developing 600 MWs of wind power in Canada and also plans to bring 900 MWs of solar power on line by 2016 – a big factor behind the expected and continuing shift in NextEra Energy's portfolio mix.

But developing alternative energy is only part of NextEra's upside. The company is actively involved in a plan to attract more businesses to Florida, a state which itself is amidst a turnaround. Rates in its regulated business are set through 2016, and there is further potential for its unregulated arm, NextEra Energy Resources, to outgrow expectations. NextEra is a buy up to 80.

**Southern Company** (SO) is the Southeast's premier energy company and also one of the largest U.S. utilities by market capitalization. It was a weaker performer over the last year-but has easily beaten the S&P 500 since we first recommended the shares. The stock has returned a total of 54.9 percent since we added it to our portfolio in 2007, and yields a healthy, safe 4.3 percent. In 2012 the company raised its dividend for the eleventh time in as many years.

From headquarters in Atlanta, Southern operates chiefly in Alabama, Florida, Georgia and Mississippi – all business-friendly states, with above-average long-term population and economic growth. It helps, as well, that regulatory environment in these states is traditionally friendly to utilities.

The company maintains 43,000 megawatts of generating capacity – from coal, oil, gas and nuclear resources. In February 2012, the Nuclear Regulatory Commission approved plans to build two new nuclear reactors at its Vogtle site south of Augusta, Georgia – the first new U.S. plants approved since 1978. These mega-projects will determine, in no small measure, future growth prospects of the company. Construction for the first unit is expected to start in 2016.

But power is not everything: Southern Co. also operates a budding telecommunications with a valuable fiber optic network. Southern therefore successfully weathered the economic storm and increased earnings at a steady single-digit rate. We expect Southern to continue to benefit from the continuing low interest rate environment, which allows it to efficiently refinance and invest in capital infrastructure.

Southern has grown its dividend 4 percent annually for the last five years. The company has strong traditions favorable to stockholders and we think that will continue. Southern offers a solid package of low-risk income, growth and capital preservation. It remains a buy up to 54.

The weakest-performing utility in the group has been **FirstEnergy Corp.** (FE). The company has been impacted by plant closings and lower power pricing; superstorm Sandy was a negative factor as well. However, we retain our recommendation. At current levels, and with dividend yield of 5.6 percent, it's hard not to count the company's many positives.

First, indeed, the income this stock generates. Second, the utility holds leverage to power prices. And, finally, First Energy's commitment to debt reduction and new growth projects (future transmission projects and nuclear upgrades) via asset sales and plans for $300 million or more in equity sales. The announced equity sales are dilutive, however, and the company lowered its guidance somewhat. Consequently, this issue we lower out buy – up – to price on FirstEnergy, to 42.

**What to do now:** For income and further price appreciation, buy Duke Energy Corp. and NextEra Energy. For reliable income, buy FirstEnergy Corp. and Southern Company."

## Resource Stocks: Gold, Silver & Oil & Gas Shares

THE DINES LETTER
P.O. Box 22, Belvedere, CA 94920.
1 year, 14 issues, $295. www.dinesletter.com.

### TDL's May Seasonalities: for Gold & Silver

James Dines: "The Dines Gold Stock Average (DIGSA) has risen 25 times and declined 19 times (neutral once) in the past 45 Mays, for a somewhat bullish record of 57%. The Dines Silver Stock Average (DISSA) has risen 22 times and declined 22 times in the last 45 Mays (neutral once), neutral, so there are no useful odds to play silver this May."

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### The rare earth follies

Joseph Shaefer: "It is obvious, with the silly certainty of hindsight, even to the guy in the mirror, that my enthusiasm for the rare earth sector, was early. The prices for the material have collapsed as almost no one besides Hollywood wanna-be greenies bought hybrid vehicles that gobble up rare earths instead of gasoline. (And they only trot them out when there are photographers nearby; the rest of the time they're in their Hummers or Lambos...)

Yet the investment case remains the same, albeit displaced by a year or two. **Lynas** (LYSDY) is still likely to be first to market with significant quantities of processed materiel from their mines in Oz and their processing plant in Malaysia. The big question mark for Lynas is whether the opposition parties, trying to fire up local resentment of the incumbent party, will succeed in gaining enough seats to win the upcoming election and, if they do, whether they will then have to shut Lynas down or quietly agree that the income and prestige of having them there trumps the nonsense they told the people about the (non-existent) health risks. The stock is now selling for book value and as if it is discounting a complete shut-down of the plant.

However, I believe there are clauses in the contract with the current government that compel Malaysia to pay a hefty fee if they shut the plant down arbitrarily. I've heard, but cannot verify, figures as high as $1.1 billion. If that's the case, this may be the time to nibble at some Lynas if you haven't already. If they make money by selling rare earths to Japanese firms for your smartphones, LCD monitors, TVs, etc., so the Japanese don't have to deal with Chinese hegemony, or they get a billion bucks for their troubles, the stock should benefit.

On to much-maligned Molycorp. Here the bad news is that their cost of production is currently higher than what they can sell their light rare earths for in the marketplace. It's the punch line to the old joke – but Moly isn't laughing – "We're losing money on every sale, but we're making up for it in volume." Their cash flow has plunged as a result and they are now the Peck's Bad Boy of the mining world, with their common stock bumping along at just above a new low, having declined from 35 to 5. How the mighty have fallen.

But all is not bleak. The company can survive and thrive if they have the courage to radically slash their expenses, hunker down and wait for prices to improve or the Chinese to withhold product in a snit over some Japanese fishing vessel or some such. You see, Molycorp already has nearly $200 million in light rare earth inventory! They can keep selling what they need to from inventory to fulfill their contractual obligations to the companies they already supply at locked-in (and higher than spot) prices. It will take courage on the part of their leadership. After all the promises the now-departed former CEO made and the grandiose plans upon which they floated their two recent stock offerings, it will be a bitter pill to watch them slow construction to a snail's pace and lay off huge numbers of hard-to-replace technicians and workers. If I were the management consultant advising them, I'd tell them to do it in a New York minute. Yes, they might be sued by those who sputter, "But you said you were going to build out the Phoenix project with the money I gave you during the IPO," but I'd tell them they'll be sued for more and by more if they et the stock go to zero. And what they do have is still quite valuable.

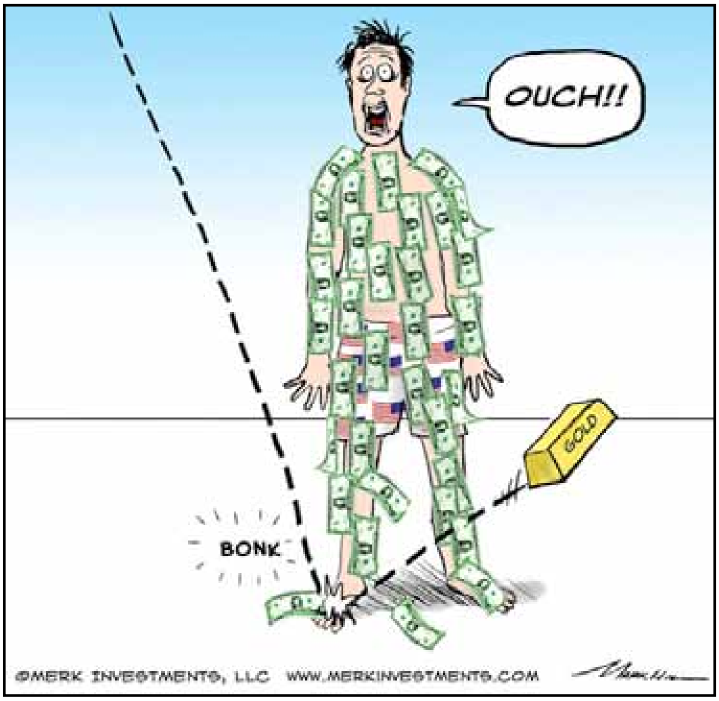
As new CEO Constantine Karayannopoulos said on a rent conference call, "[In 2012] we successfully transitioned from what was largely a development company to what is now a global operations and production company. Molycorp is the world's only fully integrated global solution for reliable rare earth supply. By combining the world's best rare earth resource at Mountain Pass with the world's best rare earth processing capabilities from Molycorp Canada and Silmet, we are now vertically integrated on a global scale from a world-class upstream rare earth resource to some of the world's most advanced downstream rare earth processing facilities."

We will stick with Molycorp for now though we will do in these pages what we have done for all our clients and ourselves: we'll exchange the common stock for the 6% convertible notes of 2017. Since both the common and the convert have fallen, we are taking a loss on the common, but we are also buying the notes at a price that no one imagined as recently as three or four months ago.

Buying the 6% notes around 70 ($700 per note) by selling our common shares for $520 per 100 or so gives us the notes at a price that yields 8.6% to maturity just four years hence. I believe the company will be viable then and, if it isn't, its debt obligations will have been assumed by the company taking over its assets."

# Gold and Currency Outlook

By Axel Merk
Merk Investments




Anyone who's ever had a brick fall on one's feet knows how much it can hurt. It's little consolation if that brick is made of gold. What's happening to the price of gold? And has our outlook changed, be that for gold, the U.S. dollar or currencies more broadly?

With regard to gold, the primary change is in its price. That's not a very good reason to be more positive or negative on the fundamentals of the yellow metal. Since the market appears to be in a "glass half-empty mood", let's list some of the negatives:

• China's GDP growth has slowed to 7.7%, ushering in an era of more modest growth. In the past, disappointing growth numbers out of China have, on occasion, been a negative for the price of gold, as well as broader "risk sentiment".

• Indeed, as European Central Bank (ECB) President Draghi has recently pointed out, the reason the ECB isn't printing more money is because other central banks have shown that it doesn't work. For the time being, the market appears to agree: the printing presses have not achieved a great deal, as exemplified by lackluster growth in the developed world. Indeed, we have pointed out many times that the biggest threat we might be facing is economic growth. That's because once the money that's been "printed" starts to "stick", then deficits start to matter as bond markets throughout the world might sell off.

• The Eurozone has not fallen apart, and rampant inflation has not taken hold. Sure, certain prices have skyrocketed, but overall, the market as a whole is rather complacent. As such, it's only reasonable for gold to take a breather.

• There's a lot of "exit" talk at the Federal Reserve (Fed) with even doves calling for a phasing out of purchases towards the end of the year. Never mind that a "phasing out of purchases" is not an exit. As we discussed in our recent analysis "Fed Exit – What Exit?", much of this talk might be wishful thinking. Surely the Fed would like to go back to a more normal environment, but recent disappointing data, such as disappointing nonfarm payroll and retail sales reports show that such talk might be premature. Still, forward looking markets might start to price in that "at some point" there may be an exit from the highly accommodative monetary policy.

In the past, we have cynically indicated that there's never been a Eurozone crisis; instead, there's a global crisis. It is naïve to think that Japan's problems are all solved with the one time salvo of the Bank of Japan. Similarly, the Bank of England is about to get Mark Carney as their governor, suggesting that a higher inflation target and/or nominal GDP targeting is in the cards. And in the U.S., Bernanke's term is ending early next year; the last time we checked, Paul Volcker was not the most likely candidate to succeed Bernanke, but super-dovish Janet Yellen was the front-runner. Taken together, there are plenty of reasons to believe that we haven't seen anything yet with regard to the price of gold – and with that, we mean on the upside. However, investors were reminded of the fact that gold is historically rather volatile, even if recent volatility is on the high side even by historic standards. We also have to keep in mind that a lot of technical damage has taken place: many investors that bought gold in the past 2 years have paper losses and might be eager to sell on rallies. From our point of view, volatility is your friend, as it shakes out weak holders of gold, making price appreciation ultimately more sustainable.

The recent volatility in gold does raise a broader concern: it appears there are fewer and fewer actors in the markets, with trading ever more driven by computer models and hedge funds. When the going gets tough, few bids are in the markets. That's a challenge going far beyond the yellow metal, extending to stocks and other markets. Reduced liquidity makes for rocky markets. On that note, don't think for a moment that there is a place to hide: as we have indicated many times in the past, there may be no such thing as a safe haven anymore; in holding U.S. dollar cash, one's purchasing power may be at risk. But holding gold is certainly not "safe" either if you value your holdings in dollar terms rather than by the amount of troy ounces held. Central bank

Continued on next page

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have addressed this challenge by diversifying to baskets of currencies, including gold. Investors should not trust that their government will preserve the purchasing power of their currencies for them, but may want to take a more active approach. We happen to like currencies - and I shall group gold into this as the ultimate hard currency, as they carry no equity risk and typically low interest and credit risk; as such, in a volatile world, currencies and gold allow one to take a direct position on what we call the 'mania' of policy makers. We may not like what policy makers are up to, but we think that they are rather predictable.

Moving beyond gold, here's a brief update on our *Merk 2013 Dollar, Gold & Currency Outlook* we published earlier this year:

• Japan. In line with our forecast, the yen has weakened rather dramatically in recent months. In days of extreme risk aversion, such as this past Monday, the yen continues to be a beneficiary. But our analysis has shown that its status as a beneficiary of the "flight to safety" has continued to erode. Nothing goes down in a straight line, and the yen is no exception. Our medium term view on the yen is unchanged. With Japan's current account deficit eroding, Japan's massive debt burden is going to matter. Japan will, in our assessment, get more than it is bargaining for. Our outlook for the yen continues to be grim, as in worthless. Keep in mind, though, that Japan is large enough to matter for the rest of the world, fostering not just liquidity, but also volatility that may well be exported as Japan morphs into new stages. The one thing more dangerous than a determined politician is a determined politician with a two-thirds majority in parliament.

• We called the euro the potential rock star for 2013. But have since indicated that it may be a rocky ride to rock stardom. While it's become clear by now that policy makers in the Eurozone are more willing to tax widows and widowers than cede sovereign control over their budgets, we are encouraged by the fact that the market is ever more differentiating, targeting pockets in the Eurozone, such as a national banking system or select sovereign bonds, rather than selling of the euro as a whole whenever a crisis flares up in the Eurozone.

• With regard to the British pound sterling, we continue to await the arrival of Mark Carney, the current head of the Bank of Canada, to steer the Bank of England (BoE). In the meantime, however, as the BoE is in a holding pattern, the sterling is a beneficiary while the market focuses on crises elsewhere.

• Canada's economy is weakening, but here too we await the announcement of the successor to Carney. As we have previously indicated, if Macklem, his current deputy, is appointed, we may get a real hawk at the helm of the BoC.

• Similarly, the Australian economy is weakening, with the commodity sector possibly hit particularly hard in the second half of the year. What holds up the Australian dollar is the massive money "printing" in Japan. That has left us cautiously optimistic, but - just like any investment - it's not a risk free proposition. Early this year, we indicated that the New Zealand dollar is our favorite in the region; we continue to like the kiwi, as the currency is also called, but it's not immune from a broad-based selloff in the markets.

• The Chinese yuan has done quite well, in line with our expectations. China is likely the most prudent player in Asia, as other countries get ever more nervous about Japan's activist approach to the yen. In that context, our more cautious view on the Korean won has also shown to be prudent, as Korea has most to lose when the Japanese yen is weak, as the country sees its car export market threatened. Clearly, there's added volatility in the Korean won based on the tensions with the North.

With regard to the U.S. dollar, as we indicated, some Fed officials might have gotten ahead of themselves. It's almost as if they listen to staffers at the Federal Reserve Open Market Committee (FOMC) give their predictions, then carry that word to the street, without them actually paying attention to the interim news flow. Much of this is also a symptom of the times that the Fed might be "flying blind" as it controls the entire yield curve, robbing policy makers of feedback from the markets necessary to conduct prudent policy.

**Editor's Note:** Axel Merk is the President and Chief Investment Officer of Merk Investments, manager of the Merk Funds, www.merkinvestments.com. Follow Axel Merk on Twitter to receive real-time updates on the economy, currencies, and global dynamics at @AxelMerk.

# Atna Resources Producing Gold at the Pinson Underground Mine, the Company's 2nd Mine in Its Western U.S. Development Portfolio

## *Targeting Annual Gold Production of 300,000 Ounces*

2013 is shaping up to be a major expansion year for Atna Resources Ltd. (TSX: ATN; US OTC QB: ATNAF), as the company advances development at multiple mines and puts itself firmly on track to triple its gold production profile.

Gold production in 2012 at its flagship Briggs Mine in California totaled nearly 37,000 ounces of gold, virtually all of which were sold at record high prices for the company. In addition, the company made its first commercial gold shipment in December 2012 from its Pinson Mine in Nevada. Expanded operations at both Briggs and Pinson are expected to lift Atna's annual gold production to between 102,000 and 115,000 ounces of gold in 2013.

"We expect 2013 will see a substantial increase in Atna's gold production as Pinson transitions from development to gold production," says Atna Resources President and CEO James Hesketh. "Once this is completed we plan to accelerate development at our Reward Gold Mine, which will further increase Atna's gold production and financial strength."

Atna Resources has set itself an aggressive goal of producing upwards of 300,000 ounces of gold annually from four operating mines. The Briggs and Pinson mines alone have the potential to produce up to 200,000 ounces a year. Once the Reward Mine in Nevada comes on line in 2014, Pinson's production is expanded to include open pit operations, and production begins at the company's Columbia Project in Montana, Atna will be well within range of meeting its 300,000 ounce goal.

"Our primary focus this year is to get the Pinson Mine fully operating, to develop a solid cash flow, reduce our debt and start development at the Reward Mine," says Hesketh. "We have a fairly ambitious game plan for the next two years. We are building a real mining company."

### Growing Gold Production at Briggs, Pinson Resulted in Record Year for Atna

2012 was a banner year for Atna Resources – a strong performance amply reflected by a 30 percent hike in the company's share price and a 60% increase in overall market capitalization.

The year was marked by a 14% increase in gold sales and a 20% increase in sales revenues boosted by a 5% increase in gold sale prices. Market confidence in the company's strategic plans resulted in a mid-year $17.25 million oversubscribed bought deal financing led by Canaccord Genuity Corp. and including NCP Northland Capital Partners Inc. By the end of 2012, Atna had $19.3 million in cash, most of which will be used to further development at the Pinson and Reward projects. Full financials can be viewed on the company's website.

"We are in good shape financially," says Hesketh. "We own all of our projects and are building a true mining company the old fashioned way – with a long-term strategy that ensures that we do not get overextended, builds our gold production incrementally and focuses on maintaining a clean balance sheet with growing cash flow."

### Pinson Gold Mine to Become a Significant Gold Producer for Atna

Atna Resources' Pinson Gold Mine, located in a gold-rich area of Nevada, has the potential to become a major gold producer. With commercial production initiated, the company recently received a crucial permit that will allow it to construct and operate

Atna Resources' Pinson Underground Mine in Nevada expected to produce 550,000 ounces of gold over the next six years from current reserves.

an underground mine. The permit authorizes Atna to construct, operate and extract up to 400,000 tons of ore a year for offsite gold processing. Previously, Atna was only allowed to mine up to 36,500 tons of ore a year at the Pinson Mine.

"This is a major development for Atna's future growth and profitability," says Hesketh. "We expect production at Pinson to steadily increase through the year with significantly higher levels of gold production in the second half of 2013."

Exploration drilling at Pinson continues to confirm high gold grades within the underground mine. In December 2012, drill results included up to 45 feet grading at 0.911 oz/ton gold (31.2 g/t gold). A technical, NI 43-101-compliant study conducted in 2012 projects a minimum six-year mine life at Pinson, recovering about 550,000 ounces of gold at a rate of about 90,000 ounces a year from current proven and probably mineral reserves.

During 2013, underground mine expansion at Pinson will include development of spiral ramp access and multiple laterals to ore stoping areas, along with development of underground infrastructure including ventilating, water compressed air, maintenance facilities and ground support, as well as completion of surface infrastructure and dewatering wells. In 2012, Atna drove 1,192 feet of new ramp access and 2,140 feet of spiral, laterals and underground development work. An onsite assay lab is now in operation.

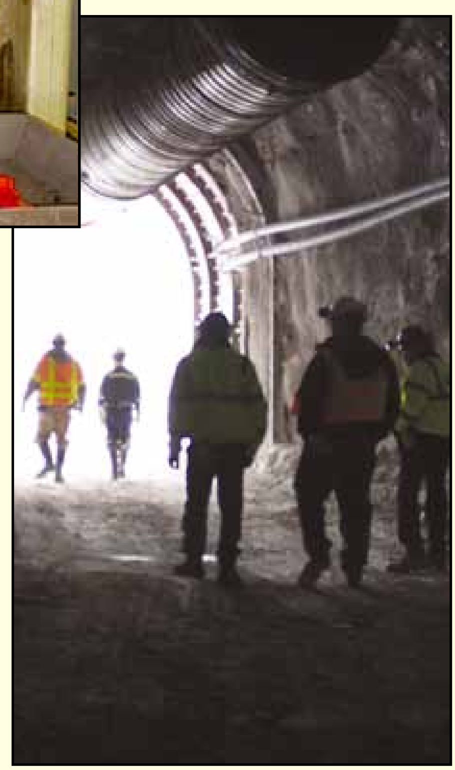
"The goal for 2013 is to end the year with a total of nine operating ore stoping areas with additional stopes continuously developed to replace depleting stopes," Hesketh says. "With underground truck haulage, the number of working faces should achieve a daily production rate of 800 to 1,000 tons of ore."

In addition, the Pinson project actually hosts a second mine – an open pittable source of gold where drilling has revealed up to 238 feet grading at 0.041 oz/ton gold (1.40 g/t gold). Pinson previously operated as an open pit mine, shutting down in 1999 due to

## Focus on Western U.S.

Atna's goal is to become the next mid-tier gold producer by incrementally building annual gold production to over 300,000 ounces. The company creates shareholder value by leveraging production to gold price, increasing its resource and reserve base through brownfield site exploration, and using cash flow and equity appreciation to drive acquisitions and merger based growth. Pictured below:


- *Top Left:* Gold pour at Briggs Mine
- *Bottom Left:* Gold doré bars from Briggs
- *Top Right:* View of Briggs Open Pit Mine
- *Bottom Right:* Miners exiting Pinson Underground Mine



low gold prices. Now that prices have risen substantially, Atna is considering reopening the pit, which it believes has the potential to produce up to 100,000 ounces of gold annually.

One major advantage for Atna is that it does not have to build a processing plant at Pinson. The mine is located on Nevada's prolific Getchell gold belt and Atna will be hauling its ore to nearby processing facilities operated by Barrick Gold Corp. and Newmont Mining.

"Pinson is on fast-track development, particularly because of third party processing," says Hesketh.

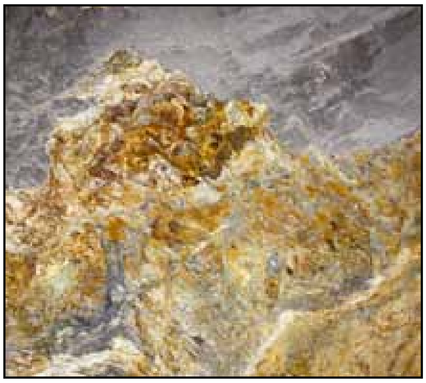
## Reward, Colombia Mines Lead Strong Portfolio of Development Projects

2013 will be an important year as well at Atna's open pit heap leach Reward Project in Nevada. Atna is planning to jump start development of that mine once solid cash flow from production is established at Pinson which will enable the company to also reduce debt – perhaps as soon as mid-year.

A technical report produced in 2012 extended the Reward mine life span by two years and it now has a projected six-year life span, projected to produce gold at an annual rate of about 35,000 ounces – equivalent to an NPV of $100 million (at a gold price of $1,500 and a discount rate of 5%). The company commenced a drill program in February 2013 to further expand the mine life.

Once Reward is in production, Atna's will turn its attention to its Columbia Gold Mine Project in Montana, which it would become the company's fourth operating mine. Atna is planning a feasibility study at Columbia later this year, and will seek expanded permitting for further development and operations. Columbia has a solid resource base: 741,000 ounces of gold (measured and indicated) plus and additional 453,570 ounces inferred. Once in operation, Columbia is expected to produce about 70,000 oz. of gold annually.

"We have a very large pipeline of development projects that we plan to bring in sequentially over the next four to five years," says Hesketh. "At that point, we will have four complete units producing between 250,000 and 300,000 ounces of gold a year."



Commercial gold production at Atna Resources' Pinson Mine's underground and open pit operations in Nevada expected to reach nearly 200,000 oz/year by 2016.

ATNA RESOURCES LTD.

**ATNA RESOURCES LTD.**
**TSX: ATN • US OTC QB: ATNAF**

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E-Mail: vkimball@atna.com
Web Site: www.atna.com

Shares Outstanding: 145 million
52 Week Trading Range:
Canada: Hi: C$1.54 • Low: C$0.76
US: Hi: $1.58 • Low: $0.7517

## Investment Considerations

Atna Resources is an impressive mining company poised to enter the ranks of mid-tier producers – its assets include two operating mines, two advanced properties nearing production, an impressive portfolio of exploration properties, significant reserves (1.2 million oz/Au) and resources (3.9 million oz/Au), a swiftly diminishing debt load, and most importantly operations in one of the lowest geopolitical risk areas of the world, the Western U.S.

Given the current price of gold and Atna's full production cost (including direct costs, royalties, depreciation and taxes) of about $1,100/ounce and basic cash cost of about $930/ounce, there is ample room for profit as Atna expands production at its Briggs and Pinson Mines – money the company intends to put right back in to developing its third and fourth gold mines.

"We have maintained a pretty consistent financial focus since we began mining operations in 2009," says Hesketh. "We are building a truly sustainable, mid-tier gold production company with the potential for half a billion dollars a year in revenues."

## Resource Stocks: Gold, Silver & Oil & Gas Shares

THE MONEYCHANGER
P.O. Box 178, Westpoint, TN 38486.
Monthly, 1 year, $149.
www.the-moneychanger.com.

### No time for croaking

Franklin Sanders: "When a market bottoms, you can't find a bull with a telescope and Geiger counter, and exactly then you must strangle your fears and buy. Right now, sentiment on gold and silver is universally pessimistic.

Therefore, you ought to be a raging bull.

Why? Because every month's gold's best Friend, the Federal Reserve, is pouring $85 billion of new money into the money supply. That alone has floated the moribund stock market corpses to new all-time highs. Can that money affect only a single market? Hardly.

Some of you, too, may be grumbling and mumphing at yourself – and at me – because you didn't climb into stocks for the wild ride. For my part, I never intended to climb into stocks, just like I never visit casinos or play blackjack, or undertake anything where the odds are dead set against me. Never mind how the Fed has by inflation raised stocks. Never mind, either, that some of that money is sloshing over into real estate. Both markets are in primary down trends (bear markets), and may yet see lower lows.

Meanwhile, silver & gold are in a correction in a primary uptrend [bull market]. After a long, wearing correction no time to jump out of that boat and into the leaky, sinking boat of stocks or real estate.

Besides, eventually that new money will also hit the gold and silver markets like a giant dose of methamphetamine.

Adding to all the bullish factors for gold and silver, the bank bailout in Cyprus flashed a warning flare worldwide that banks and government will steal your money. That will awaken more Realizers, and send them into metals.

Very few people are nimble enough to jump from market to market to catch every passing uptrend. Very few people want to devote their lives to watching and picking markets. That's one reason Americans, who are so trusting, entrust themselves to financial advisors who, from ill motives or from ignorance, fling away their capital. I know it's not sexy, I know it doesn't arouse the two primary investor motivators (fear and greed), I know it sounds simpleminded, but a strategy that simply follows the primary trend has one-all trumping benefit: it works.

Think back. In 2000 and 2001 we started selling stocks and buying silver and gold. Has it worked? Not counting for inflation, from January 2000 the Dow has risen 32.6%, the S&P 500 6.7%, Nasdaq composite has lost 16.3%, and the Nasdaq 100 has lost 25%. US dollar index has lost 17%. Since January 2000 gold has gained 464%, silver 430%. Y'all tell me whether our strategy works.

More: during the 1960-1980 bull market, gold rose 24 times, silver 38 times. During the 1982 – 2000 bull market, stocks rose 12 times. That history whispers that for silver and gold, the best is yet to come.

I can live with that."

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THE PRIMARY TREND
3960 Hillside Dr., Ste. 204, Delafield, WI 53018.
1 year, 12 issues, $80.
www.primarytrendfunds.com.

### Schlumberger carving out a two-year rounding bottom

Barry Arnold: "Houston, Texas-based **Schlumberger, Ltd.** (SLB: $74.89; 1.6%) is a leading oilfield service company, providing technology, project management and information services to the global oil and gas industry. With a market cap of $104 billion, SLB ranks as the #1 oilfield services company, ahead of Halliburton and Baker Hughes. We believe SLB's position as the industry leader, coupled with its stock price-basing pattern over the past two years, is creating both an undervalued and timely opportunity at current prices. We initiated positions in SLB common in the low-70s for clients and the Primary Trend Fund for the following reasons:

1. SLB is the preeminent player in this group, and its services are sought after by the Big Oils. We have owned it in the past, and we want our initial investment in this industry to be in the leader.
2. As the leader, SLB commands a slightly higher valuation than both Halliburton and Baker Hughes. However, SLB is still trading at the low end of its historical valuation range. SLB trades at 15.4x its 2013 earning's estimates of $4.74 per share and only 12.6x its 2014 EPS of $5.80… both in the bottom quartile. SLB's price-to-cash flow multiple is also cheap to 10.9x.
3. As of 12/31/12, SLB had $6.3 billion of cash on the books, yet long-term debt totaling only $9.5 billion. This equates to a debt-to-cap ratio of only 21.9%, down from 50% 10 years ago. SLB is in great financial shape.
4. SLB is a technology leader in the shale fracking segment as well as deepwater seismic characterization. It spent $1.2 billion last year alone on its research and development budget and just purchased Norwegian exploration software specialist Geo Knowledge.

SLB is down from its high of $115 five years ago and is slowly carving out a two-year rounding bottom. With a recently hiked dividend that yields 1.6% annually and cheap valuations, we recommend SLB to long-term investors for its 50% upside potential. Buy SLB common up to $77."

## Resource Stocks: Gold, Silver & Oil & Gas Shares

INVESTOR'S DIGEST of Canada
133 Richmond St. W., Toronto, ON M5H 3M8.
1 year, 24 issues, $137.
www.AdviceforInvestors.com.

### Tar sands giant now a well-oiled machine

Phillip Fine: "You can say one thing about Primrose Lake in northern Alberta: it blossomed forth during the fourth quarter of 2012.

Output at the tar sands site owned by **Canadian Natural Resources Ltd.** (TSX: CNQ; $32.10) topped 121,000 barrels a day – a 19 per cent increase quarter over quarter.

So robust was production that it offset weaker output at the company's Horizon site, say Jeff Martin and Tyler Reardon, analysts with Peters & Co. in Calgary.

Production at Primrose also topped the analysts' estimate of 113,000 barrels, while operating costs, at $7.95 a barrel, were 10 per cent lower quarter over quarter.

And although Horizon's fourth quarter volumes were low, they've bounced back in 2013, so far averaging 110,000 barrels a day – 8,000 barrels above what Messrs. Martin and Reardon had been hoping for.

Not surprisingly, the two analysts continue to recommend Canadian Natural Resources as a "sector outperform."

But they're boosting their 12-month price target to $37 from $35 a share, while making only minimal changes to their estimates.

Messrs. Martin and Reardon were in sync with our other analysts this month.

Of the 12 we polled, 10 rated Canadian Natural Resource a "buy" and only two, a "hold," lofting the company into No. 1 spot in our list of top-10 buys.

Based in Calgary, Canadian Natural is one of the world's biggest independent producers of crude oil and natural gas.

Not only is it the largest producer of heavy oil in Canada, it's also the second-biggest producer of natural gas.

In addition to North America, the company boasts assets in the North Sea, as well as off the coast of Africa.

For the three months ended Dec. 31, Canadian Natural's net income fell to $352 million, or $0.32 a share, from $832 million, or $0.76 a share, for the similar period in 2011.

Operating cash flow, not unexpectedly, was also lower, sliding 31.8 per cent to $1.5 billion, or $1.41 a share, while daily production slipped less than half a per cent to 658,000 barrels of oil equivalent.

For the year ended Dec. 31, Canadian Natural's net income fell to $1.9 billion, or $1.72 a share, from $2.6 billion, or $2.40 a share, for the similar period in 2011.

Operating cash flow was also lower, sliding 7.7 per cent to $6 billion, or $5.47 a share, while daily production climbed 9.3 per cent to 654,700 barrels of oil equivalent."

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DELIBERATIONS on World Markets, P.O. Box 182, Adelaide St. Station, Toronto, ON M5C 2J1. 1 year, 18 issues, $225. Introductory Trial, 4 issues, $49.

### Gold and silver under attack again

Ian McAvity: "Gold and Silver have been under attack again with the extraordinary surge in negativity killing the share prices of their producers even while the metal prices have not broken their lows of Q2-2012. I don't quarrel with the case for seasonal weakness in the Mar/Jun quarter, but if Jan/Feb flipped from being a "seasonally strong" period… the bearish mob might just have their pants firmly around their ankles if the widely discounted breakdown does not occur.

There's no question that the gold price behavior during the Cyprus bank fiasco was remarkably counter-intuitive to such an extent that it's hard to believe it wasn't carefully orchestrated to keep the potential arm bells from ringing too loudly."

## Resource Stocks: Gold, Silver & Oil & Gas Shares

KITCO NEWS, a daily column providing up to the minute coverage on the precious metals sector at www.kitco.com.

### CPM Group: Global Gold Supply Dips In 2012 But Forecast Up In 2013

Allen Sykora: "The global supply of gold fell in 2012 but is expected to rise in 2013, CPM Group said in its Gold Yearbook 2013.

The New York consultancy estimated overall refined gold supply declined 0.6% in 2012 to 119 million ounces.

"The decline in total supply was driven by reduced mine production in market economies and lower exports from transitional economies," CPM Group said. "An increase in gold secondary recovery from old scrap curbed the decline in total gold supply during 2012."

The consultancy listed market economy mine supply at 71 million ounces in 2012, down from a record 71.9 million in 2011. This came after three straight years of increases.

The region with the strongest net increase was in Asia, with supply rising 570,099 ounces in 2012, CPM Group said. The greatest net decline was in Africa, where output fell by 615,265 ounces.

Major gold-mining nations where output was estimated to be down last year include South Africa, Burkina Faso, Mali, Tanzania, Indonesia, the U.S., Australia, Papua New Guinea, Argentina, Brazil and Peru. Key nations with rising output included China, Ghana, Turkey, Canada, Mexico and Chile.

Meanwhile, CPM Group said, the secondary supply of scrap gold hit a record 42.3 million ounces in 2012, up 1.7 million, or 4.2%, from 2011. Indian secondary supply rose to 8 million from 6 million the prior year.

"The increase in Indian gold secondary supply during 2012 is attributed to the decline in Indian gold imports and an increase in gold-jewelry demand during the year," CPM Group said. "Indian gold imports are the primary source of gold supply for India. Imports had declined in 2012, as a result of the increase in import tariffs and a weakening Indian rupee against the U.S. dollar. Meanwhile, there was an increase in Indian gold jewelry demand during 2012."

CPM Group said exports from "transitional economies" fell to 5.7 million ounces in 2012 from 7.2 million in 2011. These nations include the Commonwealth of Independent States, Vietnam, North Korea, Georgia and Cuba.

#### Gold Supply Forecast To Rise In 2013

CPM Group looks for the global supply of gold to rise this year by 4.6 million ounces to 123.6 million.

"The increase in 2013 is expected to result primarily from an increase in mine production, with some increase in secondary supply," CPM Group said. "Transitional economy exports are expected to continue declining, offsetting increases in other sources of supply."

Mine production is forecast to climb by 4.6 million ounces to 75.6 million in 2013.

"Barrick Gold's Pueblo Viejo project in the Dominican Republic and Ivanhoe Mines' Oyu Tolgoi project in Mongolia are the two largest projects coming on stream in 2013," the consultancy said. "These two mines are expected to add 958,000 ounces and 700,000 ounces to 2013 supply, respectively. Several new projects are also expected to begin production in Brazil, Russia, and Australia in 2013."

Secondary supply is forecast to rise 300,000 ounces to 42.6 million this year, while transitional economy exports are expected to fall by 300,000 to 5.4 million.

#### China Is World's Largest Gold Producer

China remained the world's largest gold-producing nation, accounting for 18% of global mine output in 2012, CPM Group said.

"The Chinese gold mining industry has seen a dramatic transformation in the last 50 years," CPM Group said. The consultancy estimated that the country's output rose by 1 million ounces, or 8.6%, last year to 12.6 million. By contrast, annual Chinese production was less than 250,000 ounces between 1950 and 1959.

Other top-producing nations in 2012 included Australia, 8.2 million ounces; the U.S., 7.3 million; South Africa, 5.5 million; Peru, 5.2 million; Canada, 3.2 million; Mexico, 3 million; and Ghana, 2.8 million.

**Editor's Note:** If you want to keep up with metals news and features, then follow Allen Sykora on Twitter @allensykora.

The Bull & Bear's Resource Investor

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Publisher: The Bull & Bear Financial Report
Editor: David J. Robinson

1 year, 12 issues, $198

TheResourceInvestor.com

## Resource Stocks: Gold, Silver & Oil & Gas Shares

THE PERSONAL CAPITALIST, 9524 East 81st Street Ste. B #1715, Tulsa, OK 74133. 1 year, 24 issues, $195.

### XOM is a good source for income with inflation protection.

Sean Christian: "**ExxonMobil** (XOM) is now the world's largest company in capitalization and the recognized global giant in the oil industry. Rex Tillerson, CEO, held an interesting interview with Charlie Rose in the latest edition of *Newsweek*. He was asked when will America become energy independent? He answered "we talked about it as North America, because Canada and the U.S., and even to a lesser extent Mexico, are very integrated. We forecast that in the year 2020, on a net imports basis, we'll be neutral." This is because of the advent of abundant natural gas and shale oil (XOM is number one in natural gas reserves in the U.S.).

He discussed the Keystone pipeline, a project that's been four years in the regulatory process, in over 100 public meetings. Now, a second environmental impact statement has been prepared (saying) there'll be no measurable harm to the environment. There's a segment of the environmental groups that's very concerned about the burning of fossil fuels. In sort of an obtuse way, they took a view that if they could prevent the transport of crude from Canada to the U.S., then that would throw an obstacle in the way of future developments. Tillerson thinks they probably misjudged Canada's resolve.

We have discussed in many *Personal Capitalist* issues the revolution going on in our country with expanding use of natural gas as a clean and efficient fuel. Also oil drilling in the U.S. has transformed from hit-or-miss exploration to sure-thing production. Today's energy companies armed with new technology can squeeze the stuff out of pulverized shale using hydraulic fracturing. U.S. oil production topped seven million barrels per day for the first time since 1993. Analysts expected it to hit 10 million by 2020. For comparison, Saudi Arabia puts out just over nine million barrels.

We like Exxon Mobil because of the stellar fundamentals. Also, the company's stock buybacks are huge, reducing the number of shares. Over the past decade, the oil major's stock repurchase have totaled $207 billion – bigger than the market capitalization of all but 11 members of the S&P 500. Free cash flow has averaged $26 billion a year over the past decade. XOM is one of seven Dow stocks that have sweetened payouts for at least 30 years. This present yield is around 2.6%. The company has raised payouts every year for three decades (last year by 21%). There's plenty of room for growth given the company's below-average payout ratio. XOM is a good source for income with inflation protection. Energy stocks should be a part of every portfolio and XOM should be considered as a core holding. XOM is our second largest holding in our portfolio.

Fascinating to us is that the Department of Energy expects net oil imports to account for just 32% of consumption next year, down from a peak of 60% of a larger amount in 2005. A decade ago, companies poured money into natural gas import terminals; there is now a hot debate on exports regarding merits, not feasibility. Cheap U.S. natural gas (with the wholesale price of about $3.70 per million BTUs) is about a third of European prices and a fifth of those paid in Asia and forms the basis for an increase in exports of manufactured goods such as petrochemicals. All of this could help our trade deficit greatly. We are participating in this by owning energy stocks (WMB, XOM, and CRT) – all with benefit from America's energy revolution and evolving energy independence."

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HACKETT MONEY FLOW COMMODITY REPORT 9259 Equus Cir., Boynton Beach, FL 33472. 1 year, 24 issues, $300. www.HackettAdvisors.com.

### Commodities continue to languish

Shawn Hackett: "Overall commodities continue to languish as deflationary forces continue to gain traction. Money supply growth year over year continues to decline globally and the velocity of money remains shackled in the basement near all time lows. On top of this, a rising U.S. Dollar in response to a capital flight out of Europe and Japan keeps inflationary expectations in the market very low at the moment.

It will take a renewed crisis in the U.S. to augur in a more aggressive monetary growth trajectory. This will likely be triggered by a crash in the stock market which by each passing day looks more likely the higher it defies economic reality and gravity.

This has kept and continues to keep speculators from buying commodities and in fact has continues to make them net sellers. Without speculative demand to prop up overall commodities, real micro supply/demand forces take the dominant role in price discovery. Many commodity markets have experienced historic net speculative shorting that has depressed prices in many instances below the cost of production.

Just because an asset is cheap does not mean it cannot stay cheap or even go lower on a short-term basis. I see long side opportunities in coffee, Class III Milk, rice and Orange Juice. I see short side opportunities in cotton and lumber.

Grains should rally into the summer months (current forecast are calling for a hot/dry June and July) but ultimately should make new lows into the late summer and fall. How low prices go and for how long they stay there will be largely based on China's stockpiling intentions and on yield prospects. If cotton is any example of China's stockpiling playbook, the lows in grain prices this fall may be higher and may last for a much shorter duration of time than current expectations.

The livestock sector is suffering from weakening demand and this supports the idea of lower prices heading into the fall despite constrained domestic supplies."

# U.S. Silver & Gold: Low Risk, Low Capital Needs, High Growth

## *Targeting 5 Million Ounces of Silver Production by 2015*

Silver production at U.S. Silver & Gold's flagship Galena Mine Complex is expected to increase by up to 15% in 2013, setting the stage for impressive revenue growth as average grades improve and cash costs drop by up to 15%.

U.S. Silver & Gold (TSX: USA; OTCQX: USGIF) had a strong fourth quarter in 2012, following a busy year, highlighted by a merger with RX Gold & Silver, defeat of a hostile takeover, a new name and a new, highly experienced management team.

The merger with RX Gold & Silver contributed a producing gold property in Montana and a new heavy-hitter president – Darren Blasutti, who formerly was Barrick Gold's senior VP of corporate development, leading Barrick's strategic development and executing more than 25 gold mining transactions, including Sutton Resources, Homestake Mining, Placer Dome and consolidation of the Cortez gold property.

Under his leadership this year, U.S. Silver & Gold expects to further increase production and reduce mining costs. The company is projecting producing between 2.7 and 3.0 million ounces of silver and up to 18,000 ounces of gold. Cash costs for silver are forecast to drop about 10%-15% to between $17 and $19 an ounce.

"Our goal is to increase production, reduce costs and raise the profitability of the ounces we mine. We expect to do better each quarter," says Blasutti. "U.S. Silver & Gold's internal dynamics are very impressive and will drive our production growth."

### Caladay Zone Discovery Points to Long-Term Growth in Silver Production

U.S. Silver & Gold's consolidated, 100%-owned property portfolio includes the Galena, Coeur, Caladay and Dayrock silver-lead-copper mines, part of a 14,000-acre land package in the heart of Idaho's Silver Valley/Coeur d'Alene Mining District. As well as the Drumlummon high grade gold and silver mine in Montana, which has produced historically over 1 million ounces of gold and 12 million ounces of silver. Ore from the mine will be processed at the Galena mill in 2013 and the recently acquired Belmont Mine is being reviewed for development late 2013. This year's production at Drumlummon is projected to reach up to 18,000 ounces of gold.

The operating Galena Mine complex has over 23 million ounces of silver reserves (proven and probable) and an additional 12-million-ounce measured and indicated resource. A new silver-copper vein system has been traced to within 150 feet of existing workings and offers the potential for near-term production opportunities.

The adjacent Coeur Mine began production in late 2012 and will be ramped up this year and is expected to produce about 300,000 ounces of silver in 2014, and 500,000 ounces in 2015. The Coeur currently contains a measured and indicated resource of 3.3 million ounces of silver. Drilling underway is expected to identify a 6.0 million ounce resource by the end of 2014.

But it is high grade mineralization recently discovered at Galena's Caladay silver-lead zone. In late 2012 and early 2013, the company began a review of historic data from the Caladay Zone. That, along with continued exploration, also identified an area of high grade silver-copper mineralization.

There are almost 1,200 drills into the Caladay Zone , but the data had never been put together digitally to show the block model," says Blasutti. "We have been fast-tracking it ever since. Caladay is going to be a great mine and the future of the company."

The semi-continuous mineral-

ized zone extends from the Galena Mine into the Caladay Mine at depth. The zone contains broad areas of both higher and lower grades of silver and lead, as well as areas of high grade silver-copper. The company is preparing a preliminary analysis of the Caladay lead-silver zone for future low-cost bulk mining development. The scoping study, expected to be completed by mid-year, will determine the timing and the most profitable approach to integrating the zone into existing mine plans.

"These new areas will enable us to take advantage of our additional hoisting and milling capacity to increase production in 2014 and beyond with modest capital outlays," says Blasutti. The complex has two operating mills that currently are operating at about half their 1,500-ton/day capacity.

Test mining in recently identified high grade areas is expected to begin in the third quarter 2013. The company has a global tonnage target of 60-70 million tons and potential silver resource of 150-200 million ounces at 3-4 oz/ton silver and 4% lead. Higher grades range to 40% with continuous widths of 15-30 feet ranging from 5-10 oz/ton silver and 5-11% lead.

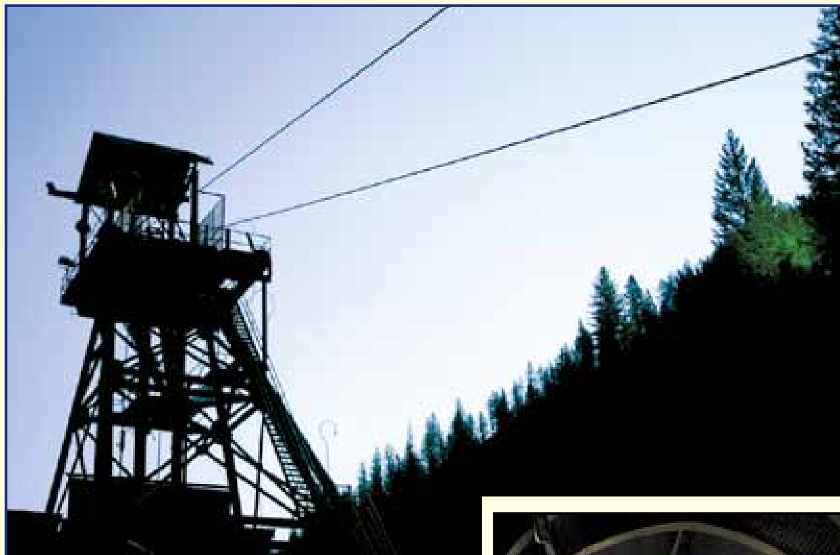
## New Management Policies Lead to Increased Efficiency, Lower Costs

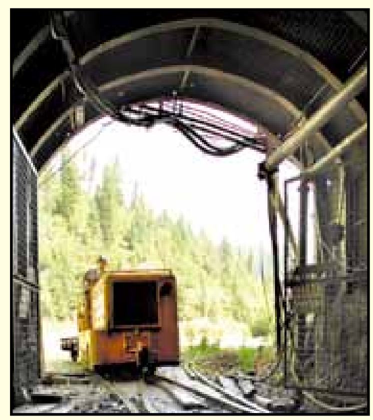
A new management team took over U.S. Silver & Gold operations in August 2012 and the results of their ideas and efforts are already amply evident. One important part of Blasutti's management strategy has been to engage all employees in strategic planning by educating its employees about the business rationale for operational improvements . By altering shift operations, instituting work-sharing policies, creating more flexible schedules, and increasing both the number of employees and time worked per shift, the company is transforming operations from 5-days-a-week to a 24-hours-a-day, 7-days-a-week in order to produce silver more efficiently and cost effectively.

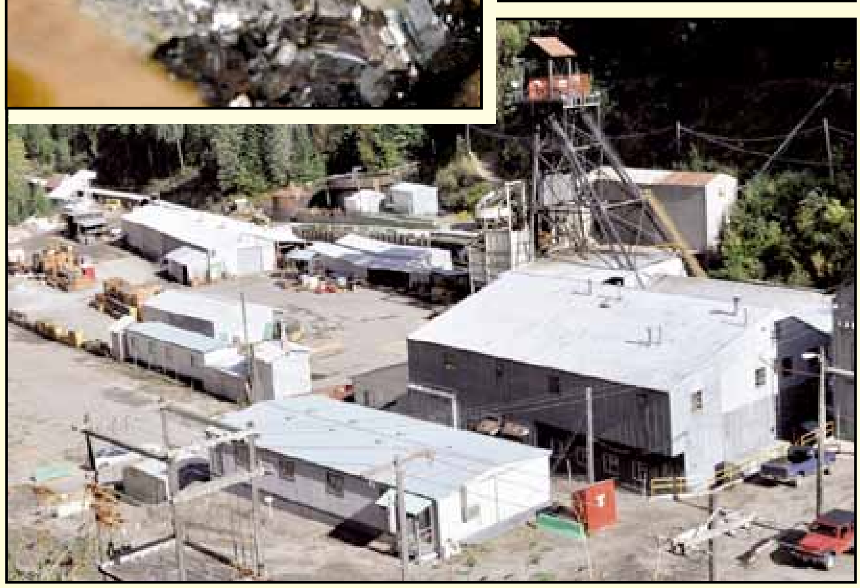
The company's two mills, which now run well below capacity, are now within sight of full 1500-tpd production. Planning is in place to

### The Galena Mine the Second Largest Silver Mine in the U.S.

The Galena mine is the second largest silver mine in U.S. history, with mining dating back to 1887. The Galena Mine, 100% owned by U.S. Silver, has historically produced 180 million ounces of silver and has reserves of 23.2 million ounces at average grades of 14.3 oz/t silver. The Galena mining complex includes two mills with a 1,400 tpd capacity, which produces a silver-rich concentrate, the Couer Mine, and the Caladay Zone, which drilling indicates has the potential for a broad mineable resource.

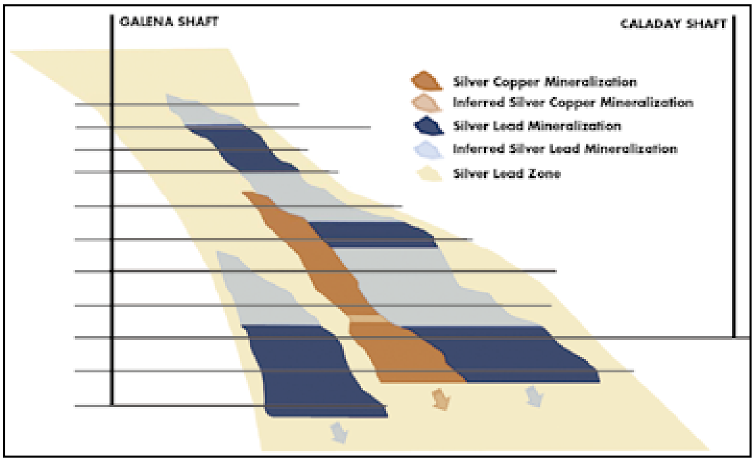






cut costs at the rate of 15%, year over year, while development of additional resources will replenish and increase the company's production pipeline.

"Producing 1500 tons a day doesn't happen overnight. We have highly skilled underground employees vital to accomplishing this goal," says Blasutti. "They are starting to act with a sense of urgency and like business owners. I am very proud and happy they are buying into what we are trying to create. Mining can be a boom and bust industry, but as long as we focus on the bottom line, we will be there to prosper in better equity markets.




New high grade discoveries at the Caladay Zone expected to significantly boost silver production.

## Pending Resource Updates To Affirm Extended Mine Life, Profitability

This year , U.S. Silver & Gold expects to announce a significant increase to its resource base, potentially doubling the number of measured and indicated and inferred ounces from the Caladay Zone alone – setting the stage for significant long-term production growth.

The company believes it will produce 5 million ounces of silver annually by the end of 2015. The new resource estimate will demonstrate this ambitious production level can be achieved completely organically from present holdings rather than from future acquisitions.

"We have to ramp up development to ramp up production, but we can do this without issuing any more shares," says Blasutti. "With the new discoveries at the Caladay Zone, we easily can produce 5 million ounces of silver from the Galena Complex.

## Investment Considerations

U.S. Silver & Gold has a long and impressive list of assets, both tangible and intangible – operating mines, significant brownfield expansion, a dominant land position in the prolific Silver Valley, a proven management team, highly trained and skilled mine workers, and a favorable environment for strategic accretive acquisitions.

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**TSX: USA • OTCQX: USGIF**

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*Drumlummon Mine:*
7215 Marysville Road
Canyon Creek, MT 59633
Tel: 406-204-4849

E-Mail: info@us-silver.com

Web Site: www.us-silver.com

Shares Outstanding: 59.9 million

52 Week Trading Range:
(as of Feb. 15, 2013)
Canada: Hi: C$2.74 • Low: C$1.10

The company also is in an enviable financial position with $19 million in cash, $7 million in receivables and a quickly diminishing $7.9 million in debt, and substantial revenues from ongoing silver production – in fact, more than enough to fund its expansion plans well into the future. Blasutti, however, is a fiscally conservative accountant at heart, and determined not to eat into U.S. Silver & Gold's cash balance to fund expansion. He is planning to put a three-year term line of credit in place that would provide guaranteed development capital even if silver prices fall.

As a result, U.S. Silver & Gold is solidifying its status as a reliable, mid-tier silver producer poised to significantly expand its resource base, and is well-endowed with development and exploration properties that will fuel its growing production profile.

Forecasters polled by the London Bullion Market Association predict an increase in the price of silver, gold, platinum and palladium in 2013 _ and are particularly bullish about silver prices, citing limited supply growth, increased industrial and investor demand, strong coin and silver bar purchases, and a bottoming out of jewelry demand. A Silver Institute Silver study estimates industrial demand will rise 6% to a record high in 2014. These factors, along with the U.S. Silver & Gold's future silver production potential, mining-friendly jurisdiction, solid valuation metrics, and proven management team make a compelling investment case for investors in what is the second most prolific silver mine in U.S. history.

"We believe we are attractively positioned amongst our mid-tier silver producer peers and with a 5 million ounce production level we could experience a significant re-rating," says Blasutti. "U.S. Silver & Gold is built for low risk, low capital growth."

## Resource Stocks: Gold, Silver & Oil & Gas Shares

THE ADEN FORECAST
P.O. Box 790260, St. Louis, MO 63179.
Monthly, 1 year, $250. Introductory Trial Offer, 3 Months, $65. Includes Weekly Updates.
www.adenforecast.com.

### Update: Metals Plunge A 1975-76 Repeat?

Mary Anne and Pamela Aden "Gold, silver and the shares plunged on Friday, April 12 and Monday, April 15. The decline was fast and sharp as panic selling set in, resulting in major technical damage. .

As we said in our Special Alert, we still recommend lowering your metals position to 15% of your total portfolio (from 30%). Primarily keep your physical gold and silver core positions. That is, the coins and bullion you plan to keep over the long haul, riding through periods of weakness. Lower your positions in the shares and ETFs like GLD, IAU and SLV. Keep the proceeds in U.S. dollars for the time being. If your 15% position includes physical and paper gold, then keep both.

Currently, gold is technically bearish and it could fall further. As of Monday, April 15, we've already seen a drop similar to 2008. And if gold can now hold above the $1335 level, it'll be a first positive sign. A break below $1300, however, would signal more downside.

Normally, a steep downward correction will often retrace 33% – 50% of the previous bull market rise. So if $1300 is broken, gold could fall to $1280 (33%) or to near $1000 (50%) in a worst case. That's why we're lightening up.

In other words, this downmove could be similar to the one in 1975-76. Note that gold fell 50% at that time in-between the two big bull markets of the 1970s.


On the other hand, you can see that, despite the recent drop, gold is still in a major uptrend. Plus, there has been no real reason for a decline of this magnitude. Gold's fundamentals remain bullish and nothing has changed.

Gold is still best hedge against currency debasement and inflationary monetary policies. This tells us this decline may likely end up being temporary and once the market settles down, the bull market will resume its upward path. That's why we advise keeping a core position. As for silver, it has solid support at $23. If it breaks below $23, it could test the $20 level. We'll be looking for good reentry levels."

## Steven Halpern's TheStockAdvisors.com

Steven Halpern's THESTOCKADVISORS.COM, a free website featuring daily stock picks and market commentary.

TheStockAdvisors.com provides a daily overview of the latest stock, mutual fund, resource industry and ETF recommendations, investment ideas and stock commentary of the nation's leading financial advisors. Edited by Steven Halpern, here are a few recent postings for the resource sector:

### Natural gas: Poised for a comeback?

Doug Fabian, editor *Making Money Alert*, www.fabian.com: "As energy demand continues to increase worldwide, natural gas usage should rise. An exchange-traded fund poised to capitalize on this increased usage is the **First Trust ISE-Revere Natural Gas Index** (FCG).

Used for power generation, heating homes and other domestic applications, as well as fuel for vehicles engineered to run on it, natural gas is generally regarded as a cleaner alternative to gasoline and other oil-based energy sources.

While FCG had a rough year in 2012, decreasing about 15%, it is slightly ahead for 2013. However, this modest performance suggests the natural gas market is poised to make a strong comeback, and FCG should ride that ascent towards increased profits.

Roughly 96% of FCG's holdings are in the energy sector, with the remainder invested in utilities. Its top 10 holdings comprise 39.11% of the fund's assets, and only the top four individual positions held make up more than 4% of FCG's total assets.

The top five companies held are: Goodrich Petroleum, SM Energy, Chesapeake Energy, Questar and Newfield Exploration.

With increased use of natural gas sure to factor into the solution for the growing global demand for energy, expect FCG to recover.

In light of its status as a cleaner fuel than gasoline, more stringent environmental regulations likely will be passed in the future, and that will almost certainly benefit natural gas. Indeed, it is best to look at FCG's current low numbers as an excellent opportunity to invest in a sector poised for long-term growth."

# Positive Global Outlook for Nuclear Energy

Nuclear power is going through some of its toughest ever years, but retains majority global policy support, delegates at the World Nuclear Fuel Cycle conference heard.

World Nuclear News (website: http://www.world-nuclear-news.org) reported the following from the conference held in Singapore.

Huge uncertainty for industry flowed from the Fukushima accident, as well as new programs to guard against external risk and improve accident mitigation. The extended shutdown of 48 reactors in Japan had instant effects on demand for reactor fuel and the raw material, uranium. Philippe Hatron of Areva told the conference that the company's current strategy for nuclear fuel production includes bringing on new facilities to replace old ones, but only to meet the needs of current reactors.

Despite this, global rates of new build are close to historic highs: two-thirds of new plants taking shape are in Asia, noted Alan McDonald of the International Atomic Energy Agency. His department is helping a range of countries develop the proper capability and policy to introduce nuclear power for the first time. He said the numbers of countries involved "were not greatly affected by the Fukushima accident." Around the world, "Countries representing more than 50% of the world's population are committed to building nuclear power plants," said head of the World Nuclear Association (WNA) Agneta Rising.

Thus the opening session of the conference was reminded of the expected growth in demand for electricity in Asia and across the world. By 2034 power demand in China, for example, will have grown by more than the current demand of Japan and the USA put together. To meet global needs will require about $10 trillion in generation investment as well as a further $7 trillion in grid expansion and improvement, said Scott Peterson of the US Nuclear Energy Institute (NEI). He said that nuclear power would play a significant role, reminding the audience that "the long-term fundamentals of nuclear are extremely robust and we need to remember this in times of stress.

## US Economics

The conference heard from James Asselstine, previously of Barclays Capital and a former commissioner with the US Nuclear Regulatory Commission (NRC). He explained that the shale gas boom in the USA has made many formerly promising nuclear projects uneconomic even though work to build four reactors is ongoing at Vogtle and Summer and the NRC continues to process license applications for 16 more.

US power companies can purchase a gas-fired power plant on a turnkey basis for as little as $1000 per kW of installed capacity, said Asselstine, with this built in three years on a turnkey basis. By contrast a nuclear reactor would cost $4500-5000 per kW and take 4.5-5 years to build, with far less certainty on cost. Clearly fossil fuels currently enjoy lower risk and capital costs, while lifetime generation is also lower at about $55 per MWh compared with about $80-120 for nuclear.

The major missing factor in the figures above, however, is the externality of carbon dioxide emissions. Asselstine said that American decisions on the future of coal generation and a possible commitment on climate change in the 2020s could see 30-35 new nuclear power reactors ordered in regulated states by 2030. This would be enough to maintain nuclear's share of generation just below 20%.

# Resource Stocks: Gold, Silver & Oil & Gas Shares

## Silver linings for Endeavour

Brien Lundin, editor *Gold Newsletter*, www.jeffersoncompanies.com: "As a primary silver producer – rather than an explorer – the numbers at **Endeavour Silver** (EXK) matter; they give us a scorecard on how good management is doing at growing production and running a tight operation.

Now in its eighth year of silver and gold production growth, Endeavour has done an admirable job in this respect. And its full-year financial numbers for 2012 reflect this fact.

Compared to the year prior, the company's net earnings increased 124% to $42.1 million in 2012. EBITDA increased 71% to $90.5 million and cash flow from operations (before working capital changes) increased to $82.9 million, a 30% improvement on the 2011 number for that metric.

Endeavour was able to increase its 2012 revenue by $208.1 million or 63% in 2012. It posted these impressive revenue and earnings numbers in the face of a 13% decrease in average silver price realized on metals sales in 2012.

Cash costs, net of gold credits, also increased to $7.33/ounce of silver or 44%. Much of the cash cost increase resulted from the ongoing refurbishment efforts on Endeavour's recently acquired El Cubo mine.

Absent those costs, the company's cash costs increased by a modest 4% to $5.28 per ounce, a level that would actually make Endeavour one of the lower-cost producers out there.

For the whole of 2012, silver-equivalent production from the company's mining operations was up 33% to 6.4 million. Silver production was up 20% to 4,485,476 ounces and gold production was up 77% to 38,687 ounces.

The El Cubo resuscitation is a long-term project. Begun last year, it's expected to take 18 months and cost the company around $67 million. Already Endeavour has spent $14.5 million on driving shafts, rebuilding and expanding the plant and conducting over 10,000 meters of underground drilling.

The forecast for this fiscal year is for silver production to increase by 12% to 18% to between 5.0 million and 5.3 million ounces. The guidance range for gold production is 46,000 to 49,000 ounces, a 14% to 22% improvement.

If the company's expansion plans for El Cubo go well, it could provide a real jolt to its production levels in 2014 and beyond. With a bit of luck, that increased production will coincide with some renewed energy in the precious metals markets. We rate the stock a buy/accumulate."

## Enterprise: In the 'sweet spot' for energy

Mark Skousen, editor *Forecasts & Strategies*, www.markskousen.com: "**Enterprise Products Partners** (EPD), based in Houston, it is the country's largest master limited partnership (MLP).

By creating a pipeline network for the transportation of domestic oil and gas – including Bakken oil – Enterprise Products is in the sweet spot of the new energy bull market.

Enterprise gathers natural gas from wellheads from the Rockies to the offshore Gulf of Mexico. Enterprise operates gas processing plants and provides storage and fractionation for natural gas liquids (NGLs) to the petrochemical industry.

Export capacity almost doubled from 4 million barrels per month to 7.5 million barrels per month at its propane export terminal in Texas. Capacity could grow to 10 million barrels per month by 2015.

Enterprise is in a privileged position to benefit from increasing demand for natural gas liquids over the next years. For example, it's developing a new 270-mile pipeline header system that will deliver ethane to petrochemical plants in the U.S. Gulf Coast region.

Financially, steadily increasing distributions and capital gains supported by strong earnings growth make a powerful case for Enterprise Products. Last year, the company achieved record net income, earnings per share and distributable cash flow.

Investors often complain about the complex tax aspects of master limited partnerships, but from Enterprise's viewpoint, MLPs are a positive.

Enterprise doesn't pay taxes at the corporate level, and this situation lowers its cost of capital in comparison to its incorporated peers.

Yielding 4.5%, Enterprise looks well positioned to deliver increasing revenues and distributions. It has outperformed its peers in the past five-, three- and one-year periods, with the highest earnings and dividend growth.

It is already ahead 20% this year, but usually moves higher before its earnings report (April 30). Keep buying."

## Canaries in the coal mine

Richard Rhodes, editor *The Rhodes Report*, www.rhodes-capital.com: "At this juncture, we are sellers of equities given the developing risk-reward profile. Quite simply, the US market remains elevated at this juncture.

Prices are now in day 62 of Raymond James strategist Jeff Saut "buying climax." He has kept this indicator for over 50-years, and this is the largest such buying spree in his notes.

The previous high was 53 days – set at the 1987 highs before the crash, and the 2007 highs before a material high was put in. Whether that is the case today or not is for history to decide, but the risk-reward for lower prices has a growing number canaries singing in the coal mine.

If we were to tic these off, we would note that Spain has broken down below its "head & shoulders" top neckline – implying a material decline lies ahead. Italy has broken below its 60-week moving average – implying a bear market back to the lows has begun. Spanish and Italian bond yields are rising from

## Resource Stocks: Gold, Silver & Oil & Gas Shares

insanely low levels.

Copper is breaking down below its "head & shoulders" top neckline – implying a material decline lies ahead. Germany's weekly chart is showing material negative divergences.

Our S&P 500 daily models are showing divergences; and our intermediate-term model is on the verge of flashing a "sell signal." Collectively, this is what we feel to be confirming evidence that the risk-reward is towards lower prices

For now, we are short via the **Russell 2000 UltraShort 2X ETF** (TWM), **Google** (GOOG) and **Amazon** (AMZN); we are long the **Junior Gold Miners** (GDXJ).

But in the event we are to be buyers, then we are growing warm to a long position in **TEVA Pharmaceuticals** (TEVA) given the developing bullish pattern, and the attendant 3.0% dividend yield currently offered. Further strength will offer a low risk entry point."

### Silver Wheaton: Back to buy

Jack Adamo, editor *Insiders Plus*, www.jackadamo.com: "**Silver Wheaton Corp.** (SLW) had its fourth consecutive year of record attributable silver equivalent production of 29.6 million ounces, an increase of 17%. Revenues rose 16% to $849.6 million, and record net EPS rose 7% to $1.66 per share.

Operating cash flows rose 15% to $719.4 million. EPS rose less than revenues due primarily to the lower average price of silver throughout the year. Cash operating margin of $26.79 per silver equivalent ounce, was 12% lower than last year's $30.56.

While full-year earnings were very good, given industry conditions, fourth quarter earnings were outstanding. Silver Wheaton's Q4 revenues soared 50% and EPS jumped 23% to $0.50 per share.

The company anticipates a 13% year-over-year increase in its full-year 2013 production to approximately 33.5 million silver equivalent ounces, which includes 145 thousand ounces of gold. If we get a bit of a lift in metals prices, it could be a very good year.

I put our Silver Wheaton positions on hold in October when the stock was too hot and we took a 55% profit in part of our holdings. Now that the shares have come back down to earth, I'm taking the hold off.

The shares seem to be consolidating, although a rebound is not yet in evidence. Nonetheless, I think they're a reasonable value here. Buy Silver Wheaton Corp. up to $33."

### United States Oil: Inflation buy

Doug Fabian, editor *Successful Investing*, www.fabian.com: "To take advantage of what I think will be a continued rise in inflation – and oil prices – I think now is the time to add a little black gold into our portfolio.

The latest headline inflation number tells me that despite what the Fed says, inflation in the things we all need everyday – food and energy – is beginning to rear its ugly head.

I want you to buy the **United States Oil Fund** (USO), an exchange-traded fund pegged to the spot price of West Texas Intermediate light, sweet crude oil.

The fund does this by investing in futures contracts for WTI light, sweet crude oil, heating oil, gasoline, natural gas and other petroleum based-fuels that are traded on exchanges. Basically, you are buying the price of oil without having to actually buy futures contracts.

Now, technically speaking, USO has been on a nice run higher over the past two weeks, gaining a little over 3% since its March 4 low.

That move now has sent the fund up through its 200-day moving average. I think that over the next several months, USO can get back to the high $30s area.

Of course, oil and other commodity funds can be volatile, and that means you'll want to make sure you have a stop-loss order in place along with your buy orders. I recommend placing a stop-loss order in at $31."

### Royal Dutch Shell: For growth & value

John Reese, editor *Validea*, www.validea.com: "**Royal Dutch Shell PLC** (RDS.A), the Netherlands-based energy giant, is one of the largest firms in the world, with a $213 billion market cap and close to half a trillion dollars in sales over the past 12 months.

Its shares are cheap – they trade for just 7.8 times trailing 12-month earnings – and come with a 5.2% dividend yield. Fundamentals like those help it earn strong interest from my James O'Shaughnessy-based growth & value investor model.

O'Shaughnessy's Cornerstone Value Strategy looks for large, well known companies whose market cap is greater than $1 billion. These companies exhibit solid and stable earnings. Its market cap of $213,967 million passes this test.

The second criterion requires that the company exhibit strong cash flows. Companies with strong cash flow are typically the value oriented investments that this strategy looks for.

The company's cash flow per share must be greater than the mean of the market cash flow per share ($1.40). RDS.A's cash flow per share of $12.90 passes this test.

This particular strategy looks for companies whose total number of outstanding shares are in excess of the market average (622 million shares). These are the more well known and highly traded companies. RDS.A, who has 3,145 million shares outstanding, passes this test.

A company's trailing 12 month sales ($467,153 million) are required to be 1.5 times greater than the mean of the market's trailing 12 month sales ($20,660 million). RDS.A passes this test.

## Resource Stocks: Gold, Silver & Oil & Gas Shares

The final step in the Cornerstone Value strategy is to select the 50 companies from the market leaders group (those that have passed the previous four criteria) that have the highest dividend yield. RDS.A, with a dividend yield of 5.17%, is one of the 50 companies that satisfy this last criterion."

### Newmont: Low multiple, high yield

John Buckingham, editor *The Prudent Speculator*, www.theprudentspeculator.com: "**Newmont Mining** (NEM), the giant gold miner, has been a victim of the sell-off in the price of the precious yellow, but we continue to believe that the shares are worth far more than their current market valuation.

Our reason for optimism about NEM's long-term prospects was bolstered when the company announced better-than-expected full-year 2012 results and raised its quarterly dividend.

Newmont reported 2012 revenue of $9.9 billion and net income from continuing operations of $3.80 per share.

Other highlights included: gold operating margin of $985 per ounce; operating cash flow of $2.4 billion; attributable gold and copper production of 5.0 million ounces and 143 million pounds, respectively and average realized gold and copper price of $1,662 per ounce and $3.43 per pound, respectively.

Also, in addition to paying $695 million, or $1.40 per share, in dividends, the company announced a first quarter increase in the payout to $0.425 per share, which pushes the yield to approximately 4%.

CEO Gary Goldberg commented, "We were pleased to return the highest dividends in the gold industry on a per share basis in 2012. We will maintain this competitive advantage by focusing on reducing our total cost of production and progressing only the most promising opportunities in our portfolio."

With the company also reporting an increase in gold reserves to 99.2 million ounces and the mines also providing 9.5 billion pounds of copper reserves, we like how Newmont is positioned for the long-term.

Keep in mind that for 2013, attributable gold production is expected to be approximately 4.8 million to 5.1 million ounces, with attributable copper production of 150 to 170 million pounds.

In addition to the very generous dividend yield, NEM now trades for a single-digit forward earnings multiple, while we like the fact that gold offers an inflation hedge."

### Grain gains: Best bets in agriculture

Jim Powell, editor *Global Changes & Opportunities Report*, www.powellreport.com: "In my opinion, the solid long term fundamentals for commodities mean that today's off-peak prices are creating an excellent buying opportunity.

The most promising commodities now are the major crops, nearly all of which have performed well for several years. In a hungry world with an expanding population, I think agricultural commodities will continue to outpace many investments – including precious metals.

In addition, there are other major factors that are pushing up agricultural prices:

Increasingly affluent people throughout the world are adding more animal protein to their diets. Because it takes 30 pounds of grain to make a pound of beef and 12 pounds of soybeans to make a pound of pork, it is easy to see the impact the expanding demand for protein will have on grain supplies.

The world is running out of phosphate and potash for fertilizer, neither of which can be manufactured. Rising fertilizer costs always push grain prices up.

Crop production is also highly dependent upon oil, another rising cost that will boost prices.

Many agricultural pests and pathogens are becoming resistant to antibiotics and poisons. Crop losses to diseases and bugs will have an increasing influence on prices.

Farm productivity growth is slowing dramatically and is close to what many experts believe to be its practical limits. That means the supply of food is unlikely to keep pace with increasing demand.

The amount of economically viable agricultural land is not increasing significantly. Water shortages are actually decreasing the amount of usable land in many of the world's bread baskets.

Climate change is causing severe disruptions to food production in many parts of the world. Australia, Russia, and the U.S. have been experiencing droughts and floods, sometimes going from one to the other from year to year.

The bottom line is, agricultural prices should rise significantly over the long term, and so should the profits of its most efficient producers.

Most investors overlook agricultural commodities because there has not been an easy or low-risk way to trade them. The traditional method has always been to take positions in the futures market, which for most investors can be like jumping into a pool of sharks.

However, futures are no longer the only way to invest in commodities. In recent years, several commodity exchange traded funds (ETFs) have been introduced that make it easier, and safer, for individual investors to trade them. Millions of shares in popular ETFs are traded each day.

To avoid big price swings due to a low daily trading volume I think you should avoid small, highly-specialized ETFs.

Unless you have a cookie jar full of antacids, I also think you should avoid "ultra" and "double short" funds that double the size of the price changes the ETFs track.

Your best bet is to invest conservatively in long range commodity trends. Although prices can swing widely near term, I believe long range investments in agriculture will be very profitable.

For the broadest position in agricultural commodities, I recommend the large and diversified

## Resource Stocks: Gold, Silver & Oil & Gas Shares

**PowerShares DB Agriculture Fund** (DBA).

This ETF tracks corn, wheat, soybeans, sugar, coffee, cocoa, cotton, cattle, and hogs – all of which are used in most regions of the world. If you want to own only one agricultural commodity fund, DBA should be your choice.

However, I think you will do better over the next few years if you focus just on the grains, for which demand is rapidly rising.

In my opinion, the most attractive ETF that tracks the price of corn, wheat, and soybeans is the **iPath Dow Jones Grains Total Return Index** (JJG). As its name suggests, the fund mirrors the performance of the popular Dow Jones Grains Index.

The iPath fund is currently correcting after the most recent of two large advances it made over the past four years. Perhaps the price will continue to weaken over the near term. Longer term, however, I expect to see the grains and the fund rebound.

For a diversified investment in companies (as opposed to the commodities themselves) that benefit from rising grain prices, I recommend the **Market Vectors Agribusiness ETF** (MOO).

In addition to following the leading grain producers and processors, this fund also tracks the two leading fertilizer companies: **Mosaic** (MOS) and **Potash** (POT).

The fund has done very well in recent years, and it continues to look strong. I expect to see excellent long-term profits from what many investors call "The Moo Fund."

### StealthGas: Shipping gains

Elliott Gue, editor *Energy & Income Advisor*, www.energyandincomeadvisor.com: "Greece-based shipowner **StealthGas** (GASS) boasts the world's largest fleet of handy-sized liquid petroleum gas (LPG) tankers, a class of vessel that can transport cargos of between 3,000 and 8,000 billion cubic meters, usually for local distribution in areas that lack pipeline capacity.

About two-thirds of the company's ships operate in Asia, where demand for seaborne LPG volumes increased by 12 percent in 2012, driven by emerging markets such as China.

The remaining one-third operates in Europe. Although the Continent's economic slowdown has constrained consumption in the residential-commercial segment, robust demand among petrochemical users has ensured that day-rates have remained relatively stable.

Overall, StealthGas enjoyed a 10 percent to 20 percent in day-rates, depending on the duration of the contract and the age of the vessel.

The time charters on nine of StealthGas' ships expire in 2013, providing ample exposure to improving day-rates. Fixtures in this niche market tend to last three to four years. At present, the company's contracts represent about USD75 million worth of revenue in 2013 and USD48 million in 2014.

Management also has its eyes on picking up business in North America, though the opportunity set for handy-size vessels differs from the longer routes sailed by midsize and very large size gas carriers. Its fully pressurized units would be well-equipped to deliver smaller LPG cargos to Caribbean ports.

In recent years, StealthGas has replaced a number of the older vessels in its fleet with new deliveries, reducing the average age of its fleet to about 10 years – well below the industry average of 16 years.

The company has four new vessels slated for delivery in 2014 and 2015, while management has indicated that additional orders or acquisitions in the secondary market could be in the cards. Improving day-rates in the niche handy-size market and fleet growth should continue to lift StealthGas' earnings in the next few years.

More important, management has indicated that the company will likely initiate a dividend once the company firms up its expansion plans. A regular dividend would be a major upside catalyst for the stock.

Shares of StealthGas rate a buy up to $12 per share for aggressive investors who can stomach the volatility that comes with a small-capitalization name which lacks research coverage from the major investment banks."

### Fund expert's bear case for gold

Jack Bowers, editor *Fidelity Monitor & Insight*, www.fmandi.com: "The excessive popularity of precious metals has set the stage for a long period where the asset class will be anything but golden. I'd like to dispel a few myths on this topic.

The Fed is not massively diluting the dollar as many believe. The central bank's balance sheet has grown by $3 trillion on a base of $90 trillion in private dollar-based assets. It seems big, but currency dilution of 3% over four years is hardly the stuff of hyperinflation.

Rising prices aren't even a threat. Boomers are aggressively paying down debt due to the housing bust. We're in the second or third inning of a deleveraging cycle that imposes a deflationary bias on the economy. And with the shale boom erasing our trade deficit and also holding down energy costs, inflation may not be a problem for decades.

The market for scarce metals is volatile and fragile, and paper currencies are far more robust than they appear. The US dollar is backed by an economy that produces huge amounts of food and energy – two things that other countries would be scrambling to buy with their gold in any global money system collapse.

Precious metals are hardly timeless. Advancing technology makes scarce things abundant as decades pass. Improved mining techniques grew the amount of gold in circulation by a factor of four over the last century.

## Resource Stocks: Gold, Silver & Oil & Gas Shares

Bottom line: We rate **Fidelity Select Gold** (FSAGX) a Sell as the precious metals asset class is little more than a hedge against disaster, and an expensive one at that.

If it accounts for more than 5-10% of your portfolio, consider using some of the excess to increase your portfolio's US stock exposure."

### Eldorado: Global gold from Brazil to China

Benjamin Shepherd, editor *Global Investment Strategist*, www.globalinvestmentstrategist.com: "With the gold market in the doldrums over the past year, even the highest-quality mining operations have seen their share prices plummet; a mid-tier gold miner, **Eldorado Gold Corp.** (EGO) is arguably one of the best miners in the business.

Eldorado operates one mine in Brazil, three in China, two in Greece and two in Turkey. It also happens to be the only Western gold miner with a secure foothold in China, the world's largest gold producing country.

One of Eldorado's most attractive attributes is its extremely low cost of production, which averaged $489 per ounce of gold last year on production of about 660,000 ounces last year. Compared to an industry average of about $600 per ounce, Eldorado is one of the most efficient gold miners in operation.

In addition, Eldorado currently has no net debt on its books and has grown revenue by an average 56 percent over the past three years, while earnings have grown by 8 percent versus an average loss for the rest of the industry over that period. The miner also enjoys a net margin of 25.4 percent, more than twice the industry average.

Despite it's stronger than average fundamentals, Eldorado hasn't been getting much respect from the market and its shares are off by nearly 25 percent so far this year.

Higher than expected cash cost of production last year is one contributing factor to that decline, with $489/oz coming in slighter higher than anticipated.

Lower-than-expected 2013 guidance also had an impact; management has forecast production of between 705,000 to 760,000 ounces this year at a cost of about $487/oz.

But even at management's lower-than-expected figures, Eldorado will still outgrow its competitors at a below-average cost if it meets its goals for this year.

The company also has a history of beating both its own and analysts' estimates on an extremely consistent basis, so its current guidance is more about managing market expectations in a weak market environment than any developing weakness in its business.

While it's a strong operator now, the company's terrific growth potential is an even better reason to buy the stock.

Based on Eldorado's proven and probable reserves at both its operating mines and its properties under development, it is on track to produce around 1.5 million ounces of gold by 2016, helped along by its Eastern Dragon property in China, which should begin production in the next few months.

By that time management expects to reach its peak production target, it aims to have its production costs down to between $300 and $350/oz, which will provide a nice boost to both operating and net profit margins even if the spot price of gold were to continue pulling back from here.

But if gold prices improve over the course of 2013 as I expect, Eldorado should really take off over the next two years. Eldorado Gold Corp, the newest addition to our Metals & Mining Portfolio, rates a buy under $12."

# Show Investors the Gold

*Excerpted from a research report by analyst John Ing, Maison Placements Canada.*

At one time hedging once boosted the industry's profitability at the expense of balance sheets and earnings. Barrick was forced to take in excess of a $5 billion hit to reverse those hedges. Thankfully, hedging has become socially incorrect. The industry misses the point. It's not the manipulation of earnings or profitability (after all many of them high-grade during the hard times and low grade during the good times, skewing costs) but that investors want exposure to gold. While gold miners were on this path of growth by acquiring each other and more ounces in faraway places, the gold industry created a depository for their gold by introducing gold bullion-backed Exchange Traded Funds, (ETF). From nothing, the ETFs currently hold more than 2500 tonnes, or more than most of the world's central banks. Simply, ETFs provided investors exposure to gold without the operating risk.

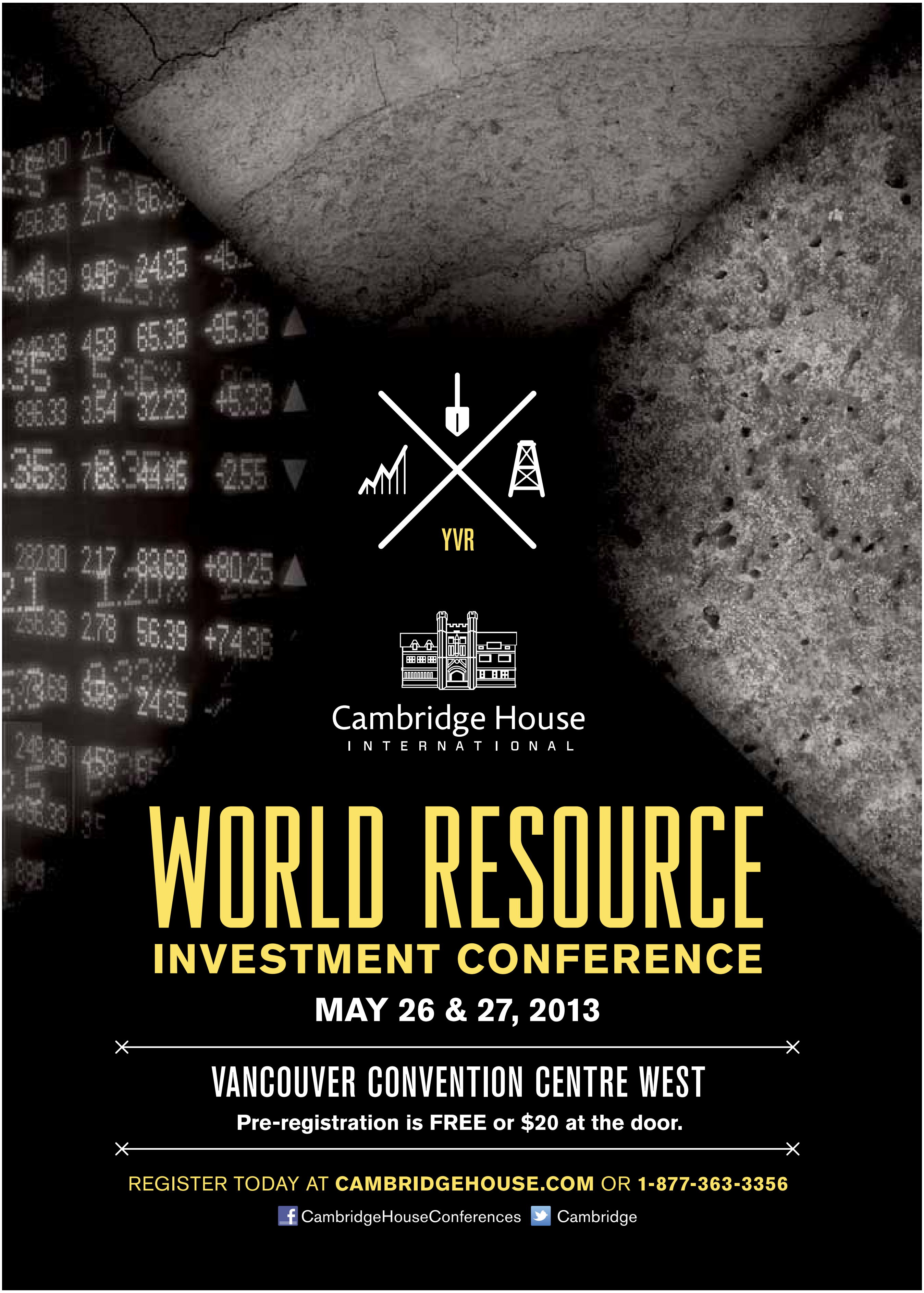
An equally bigger problem is that with the industry's new emphasis on profitability, there is the likelihood that the industry will harvest ounces and for some, not be able to replace reserves. Cash strapped juniors no longer have the financial wherewithal to fund exploration and at the recent Prospectors & Developers Association Convention (PDAC), the common theme was the lack of funding. It has been calculated that over half of the companies on the TSX Venture (TSXV) today are trading under $0.10 a share and their treasuries only have enough to cover their G&A expenses for the next few months. Too be sure, the exploration industry is in a bear market. Currently, the TSX Venture index is closer to the lows of the crash of 2008 and 2002 lows. Total equity capital raised in the first two months of this year was a paltry $558 million versus $1.36 billion last year and $2.46 billion in 2011. To be sure, in the long run there are some great values since the lack of funding and exploration

will ensure less gold will be found supporting even higher prices in a peak gold scenario.

We also believe the gold industry should look for ways to return capital to their investors whilst providing exposure to gold. Dividend increases are a no-brainer, particularly since most Canadian miners pay less than 20 percent of the earnings in dividends. We believe that the industry could increase their payouts closer to the 30 percent payout paid by BHP, one of the world's largest miners. And, those CEOs in the corner offices should advise shareholders that the focus on dividend commitments are a priority. This would be a first step towards regaining investor trust. The industry is in need of structural change.

Investment dollars that once were used to support acquisitions or even exploration programs, have rushed to ETFs, gold bullion and other areas. The new religion is that growth is out, and that returns to shareholders are in.

Dividends are one way, or how about dividends linked to the price of gold. Newmont has already done that. Perhaps the gold industry should extend that further, and think of introducing a royalty tied to the price of gold with quarterly distribution to their shareholders. Or why not a structured product based on a company's production but the return goes not to the company but to their shareholders. This way, investors can make an investment and knowingly participate in gold's bull run. Indeed one questions the logic as to why the gold industry continues to dig gold from the ground, processes the ore and in turn receives paper, a depreciating asset in exchange for their monetary asset. In some cases it is better for the gold producer to keep the gold in the ground since gold has appreciated for more than 10 years. Perhaps the industry would be better off keeping the gold they mine on their balance sheet, something that Rob McEwen did with Goldcorp. In other words there is the need for a new approach, a new paradigm – show investors the gold.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## Teryl Resources Intent on Replicating Strategy of $15 Million Sale of the Gil Venture to Kinross Gold

Teryl Resources Corp. is an accomplished explorer with a track record of exploration, development and marketing their properties profitably to majors. Most recently, Teryl concluded the sale of its remaining 20% interest in its Gil property in Alaska to its joint venture partner, Kinross, for $15 million from 1% of the NSR then ½ of 1% NSR for the life of the Mine. The company continues to hold interests in gold and silver properties in Alaska and Northern British Columbia, Canada. Teryl controls its road-accessible Westridge gold property in the Fairbanks Mining District, its Silverknife Property in British Columbia, a prospective target for precious and base metals mineralization. The Westridge Property is situated due south of Kinross' True North gold deposit. A re-sampling program at Silverknife in 2012 confirmed the presence of high grade silver, lead and zinc. Teryl intends to model and define the extent of the Silverknife mineralization in order to target 2013 drill holes.

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## DTS8 Coffee Co. Ltd. Licensed to Roast and Sell "Don Manuel" Brand Premium Colombian Coffee in China Market

The DTS8 Coffee Company, Ltd. The DTS8 Coffee Company is a diversified, horizontally-integrated coffee roaster and marketer. This growing horizontally-integrated gourmet coffee roaster and wholesaler targeting to capturing a portion of the world's fastest growing coffee market: China. DTS8's business plan focuses on developing a solid market share in the fast growing and wide open Chinese coffee drinking market which is gradually shifting from instant coffee towards gourmet whole bean and ground coffee products. DTS8's focus is on China where coffee is quickly becoming the fashionable drink for younger generations of China's 1.3 billion population. Barclay's Capital analysts predict China's coffee consumption could grow by an average rate of almost 40% a year by 2015. The bottom line for DTS8 and its Chinese subsidiary DTS8 Coffee is a wide-open market with huge potential.

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## Maderas Futuro Plants New Fast Growing Hardwood For Direct Ownership in 2013

Maderas Futuro, S.A., a privately owned Central American company headquartered in Southern Nicaragua, specializes in the managed growth of precious tropical hardwoods for local and worldwide export markets. With a significant sawn lumber purchase contract in hand, the company is perfectly positioned to become one of Central Americas leading hardwood growers. The next seven years will see timber outperform all other asset classes, forecasts Jeremy Grantham, chief investment strategist for Grantham Mayo Van Otterloo, which currently has $106-billion under management. Timber has produced annual returns that have often matched or outpaced the S&P 500 over the long term, but with notably less risk. Between 1971 and 2010, timber boasted average annual returns above 14%. In 2008, while the S&P fell 38%, the value of timberland rose 9.5%. When timber is compared to gold over the past dozen years (1991 thru 2010), timber wins by a wide margin of 11.6% annual gains, to gold's 7%, according to a Bank of America report. Maderas Futuro follows strict reforestation practices that not only save and protect endangered flora and fauna, but also wildlife habitat.

**MADERAS FUTURO, S.A.**

**To learn more about direct timber ownership contact Alex Wilson at (949) 204–3404 ext: 101, awilson@maderasfuturosa.com and be sure to visit Maderas Futuro's website: www.MaderasFuturosa.com**

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