



U.S. Global Investors

Searching for Opportunities, Managing Risk

Global Investing Outlook

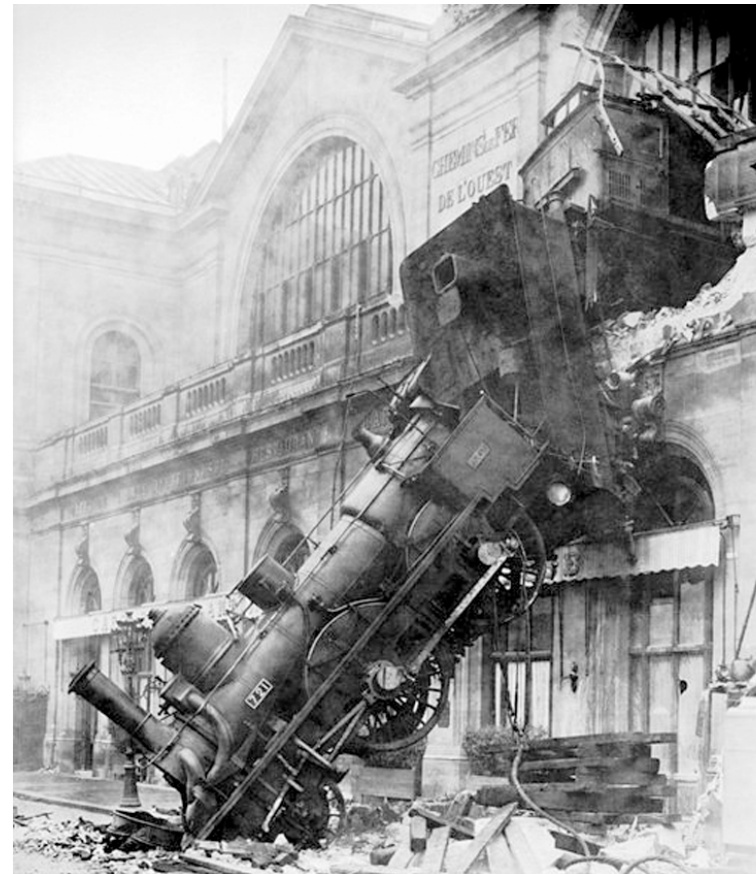
Frank Holmes,
CEO and Chief Investment Officer,
U.S. Global Investors

Dr. Marc Faber,
Editor and Publisher of "The Gloom,
Boom & Doom" Report



Topics for discussion

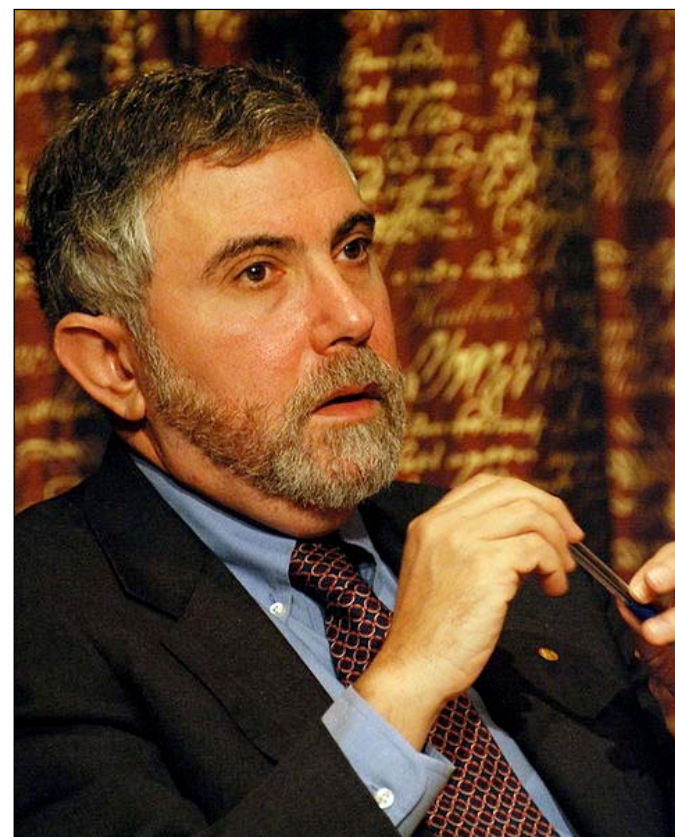
The world is in the midst of the worst economic slump since the Great Depression. Economic policy responses were unprecedented coordinated fiscal and monetary measures. **Will they help or aggravate and prolong the crisis? How long will it take for the world to return to peak economic activity of 2006/2007?**



Topics for discussion

Paul Krugman: “To be honest, a new bubble now would help us out a lot even if we paid for it later. This is a really good time for a bubble.”

But does the world really need another “new bubble?”



Topics for discussion

Between 2002 and 2007 all assets including real estate, equities, commodities, bond, and art prices increased in value while the U.S. dollar depreciated.

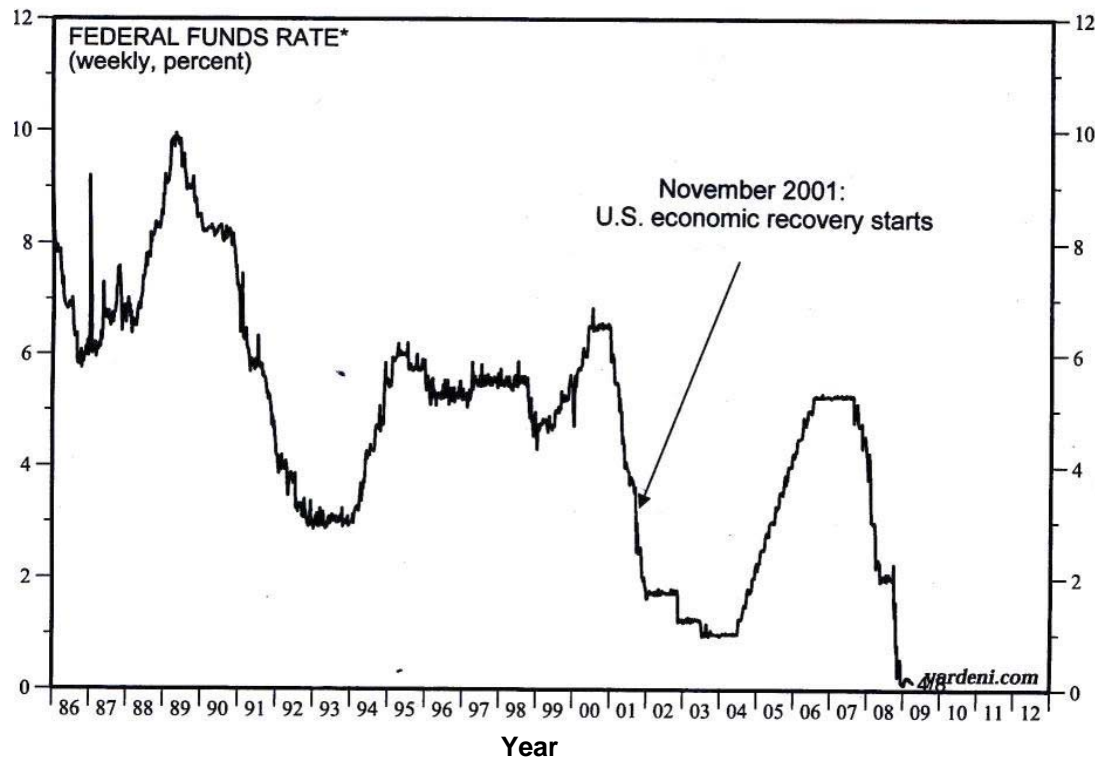
Assuming there was a “new bubble,” which asset would be the most likely candidate?

The inflation-deflation debate is intensifying.
Why prolonged deflation is most unlikely!



How Artificially Low Interest Rates Caused the Crisis!

Fed Funds Rate remained at 1% until June 2004



Alan Greenspan

Source: Ed Yardeni, www.yardeni.com



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Easy Money Exacerbates Volatility

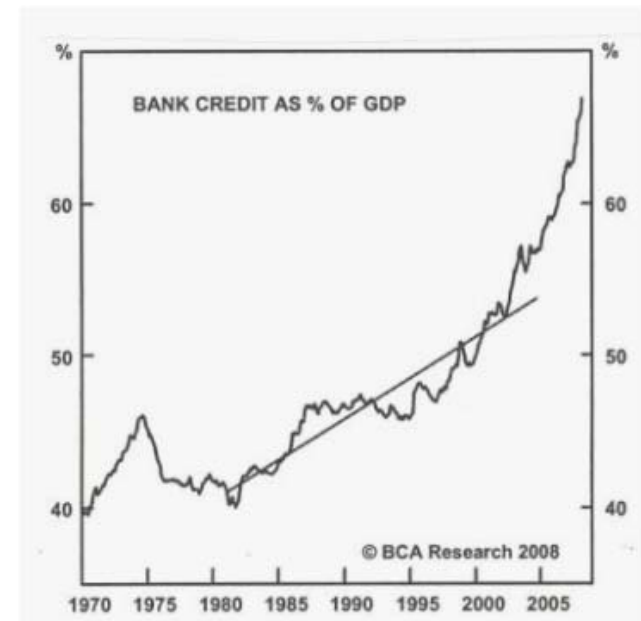
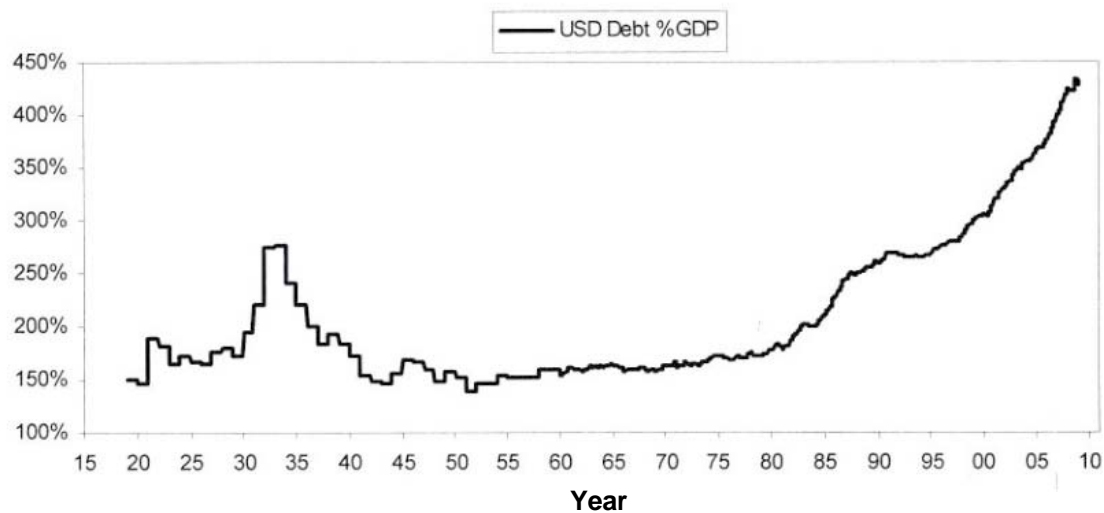


* Includes cattle, cocoa, coffee, copper, corn, cotton, crude oil, gold, heating oil, hogs, lumber, oats, orange juice, platinum, pork bellies, silver, soybeans, soybean meal, soybean oil, sugar, and wheat.

Source: Ed Yardeni, www.yardeni.com



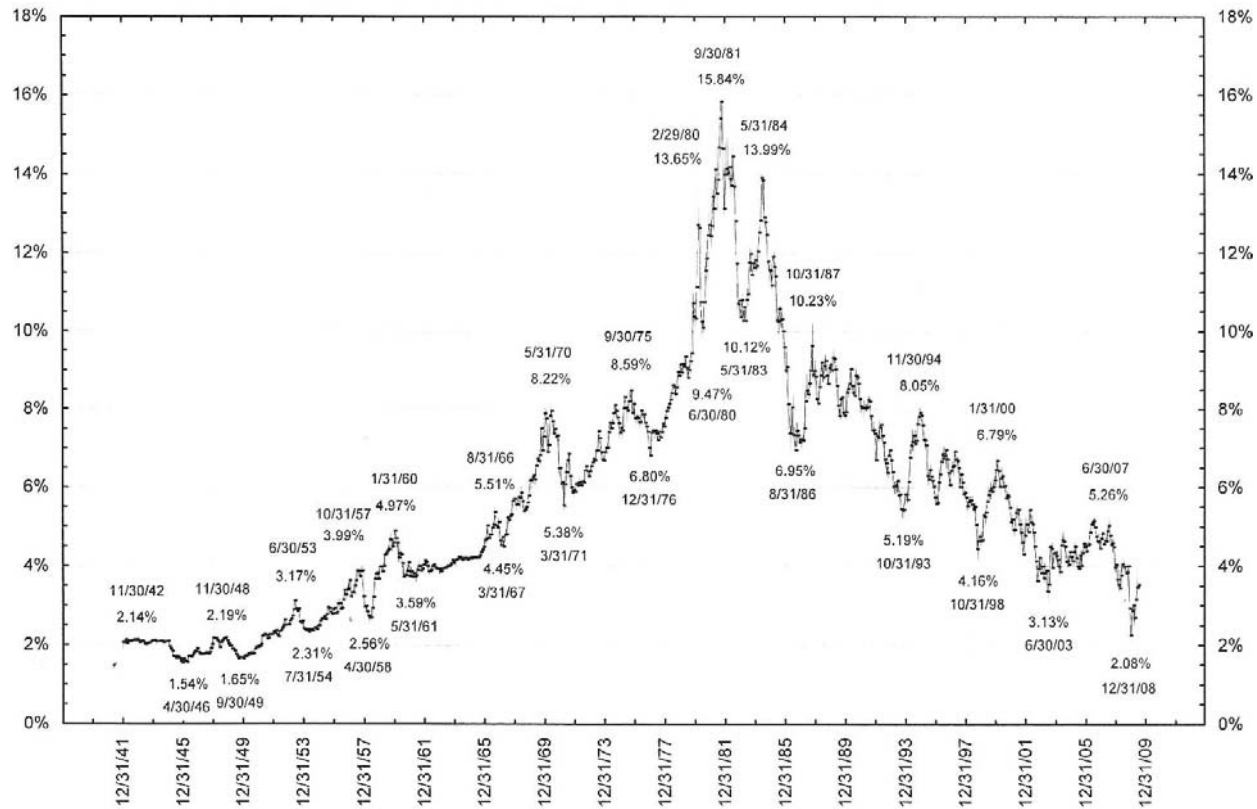
U.S. Debt Ratios Have Been Pushed Higher by Reflation



Source: Bridgewater Associates and The Bank Credit Analyst



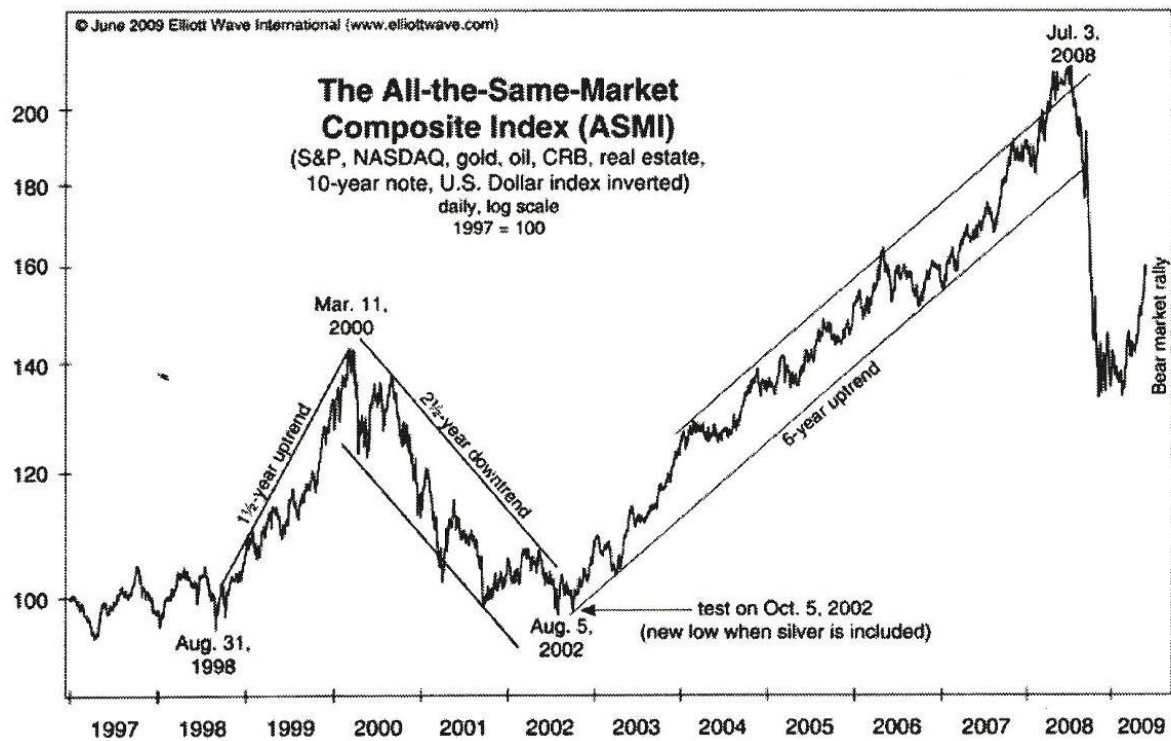
10-Year U.S. Treasury Constant Maturity (Monthly)



Source: Ron Griess, www.thechartstore.com



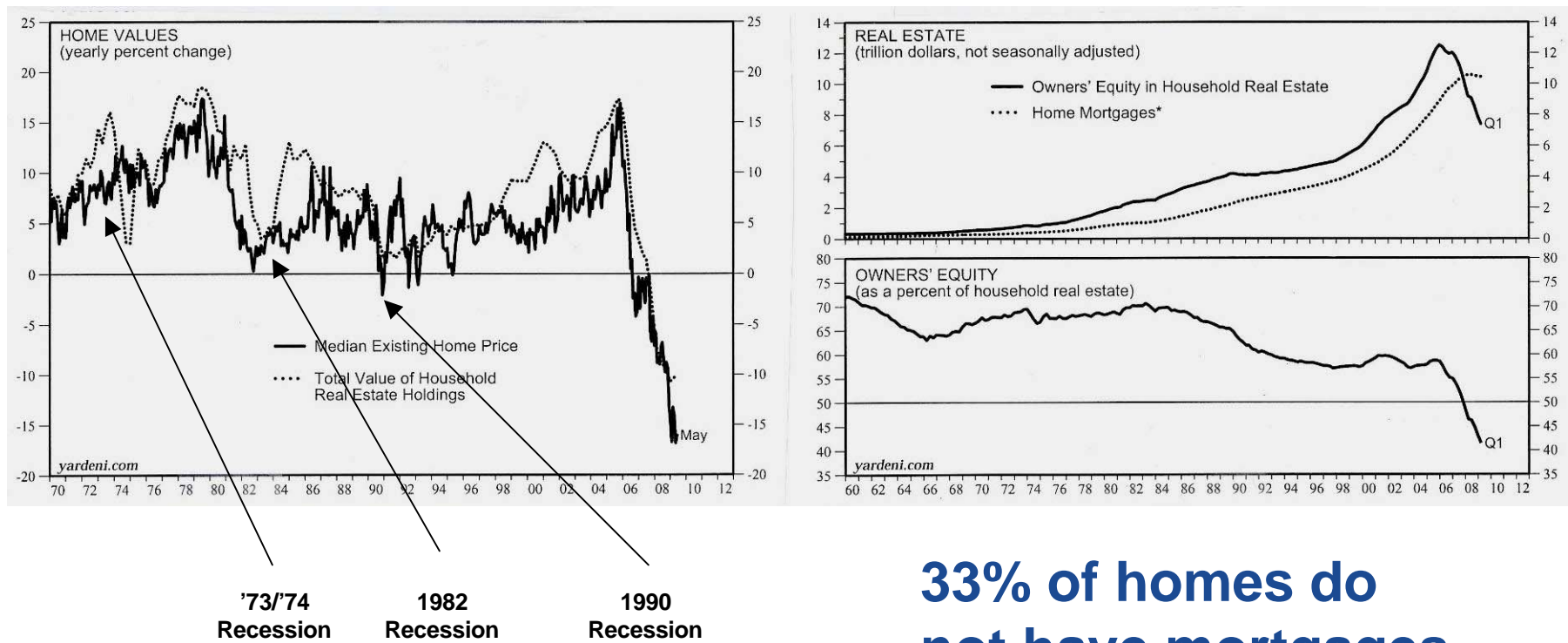
From The Illusion Of Wealth to Total Wealth Destruction



Source: Robert Prechter, www.elliottwave.com



Global Collapse in Home Prices – Next Shoe to Drop: Commercial Real Estate



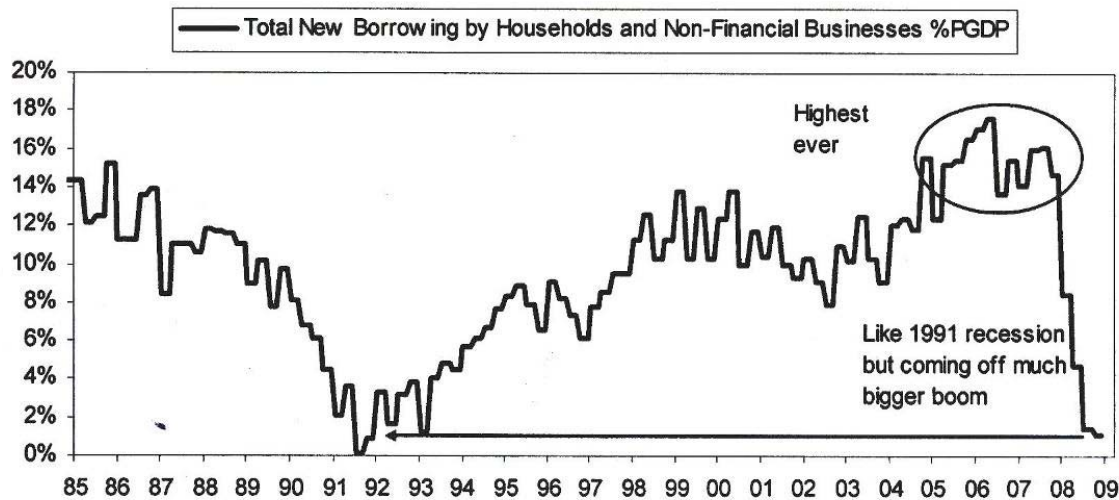
**33% of homes do
not have mortgages**

Source: Ed Yardeni, www.yardeni.com

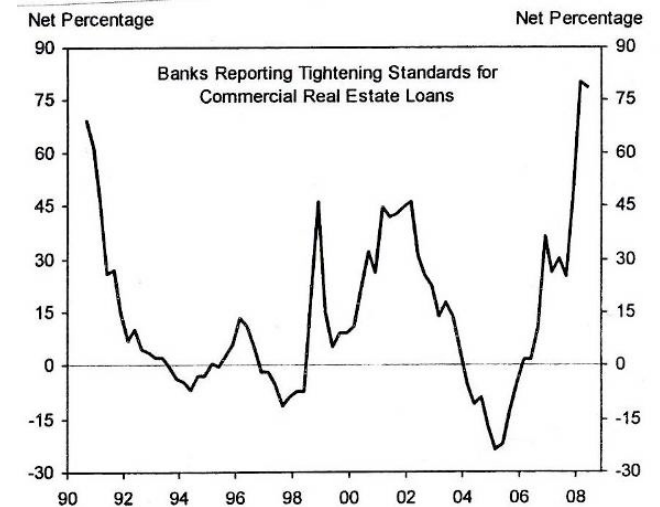


Credit Growth Collapses as Lending Standards Tighten

Total New Borrowing by Households and Non-Financial Business % PGDP



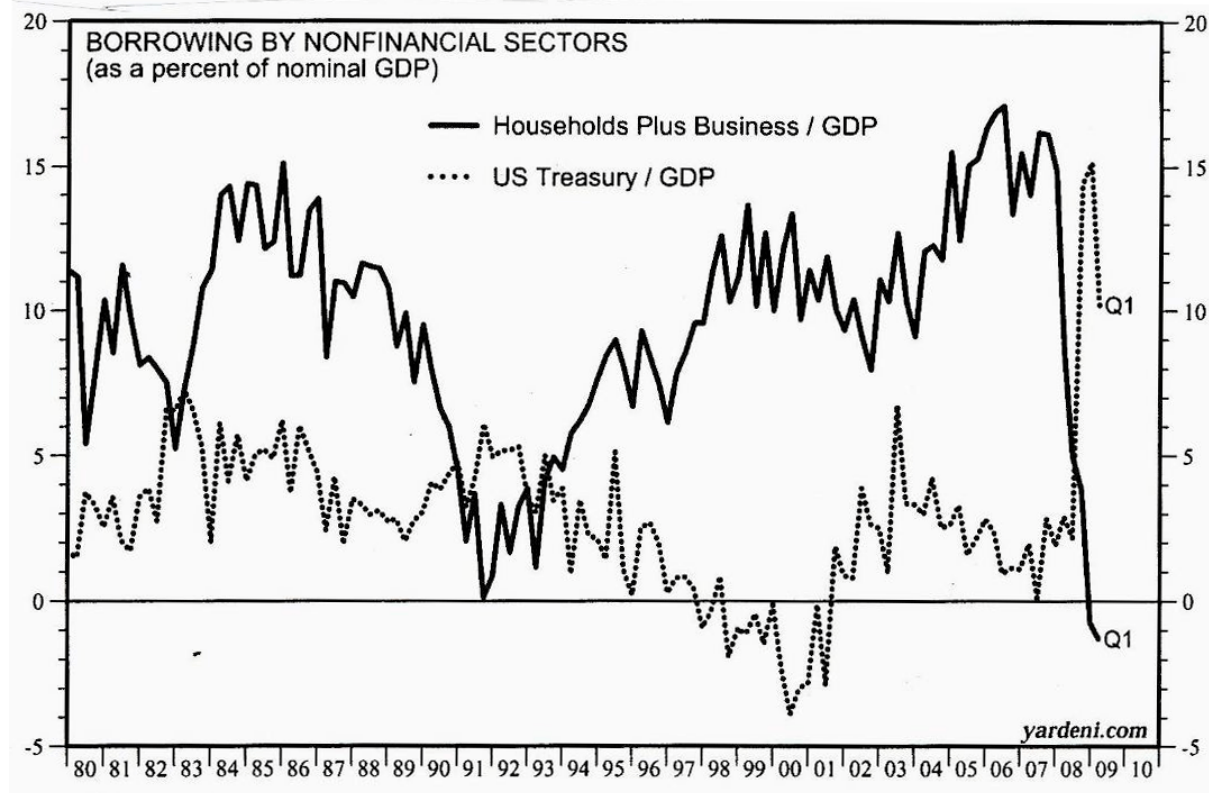
Lending Standards Tighten



Source: Bridgewater Associates, Goldman Sachs



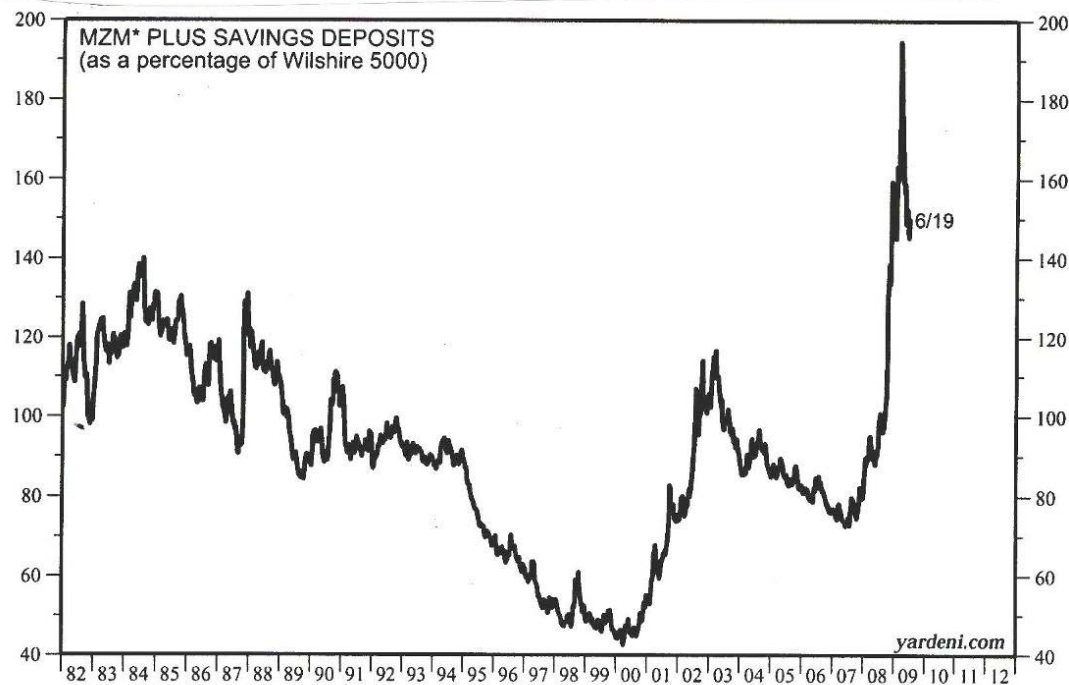
The U.S. Treasury's Attempt to Stimulate Credit Growth is Likely to Fail



Source: Ed Yardeni; www.yardeni.com



Easy Money May Boost Asset Prices

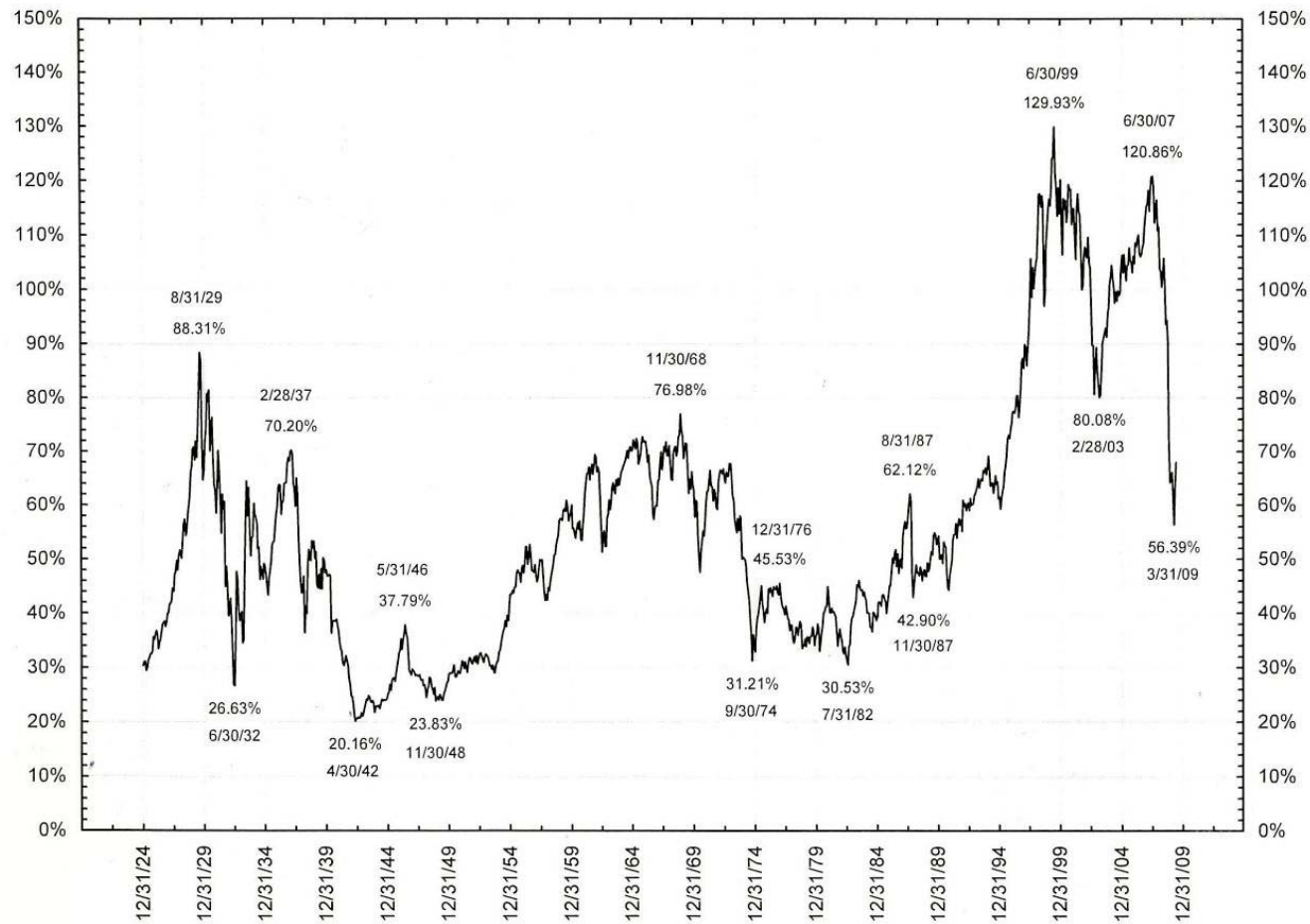


Source: Ed Yardeni; www.yardeni.com

*MZM: Money of zero maturity is a measure of the money supply. It is equal to M2 less time deposits, plus all money market funds. It measures the supply of financial assets redeemable at par on demand.



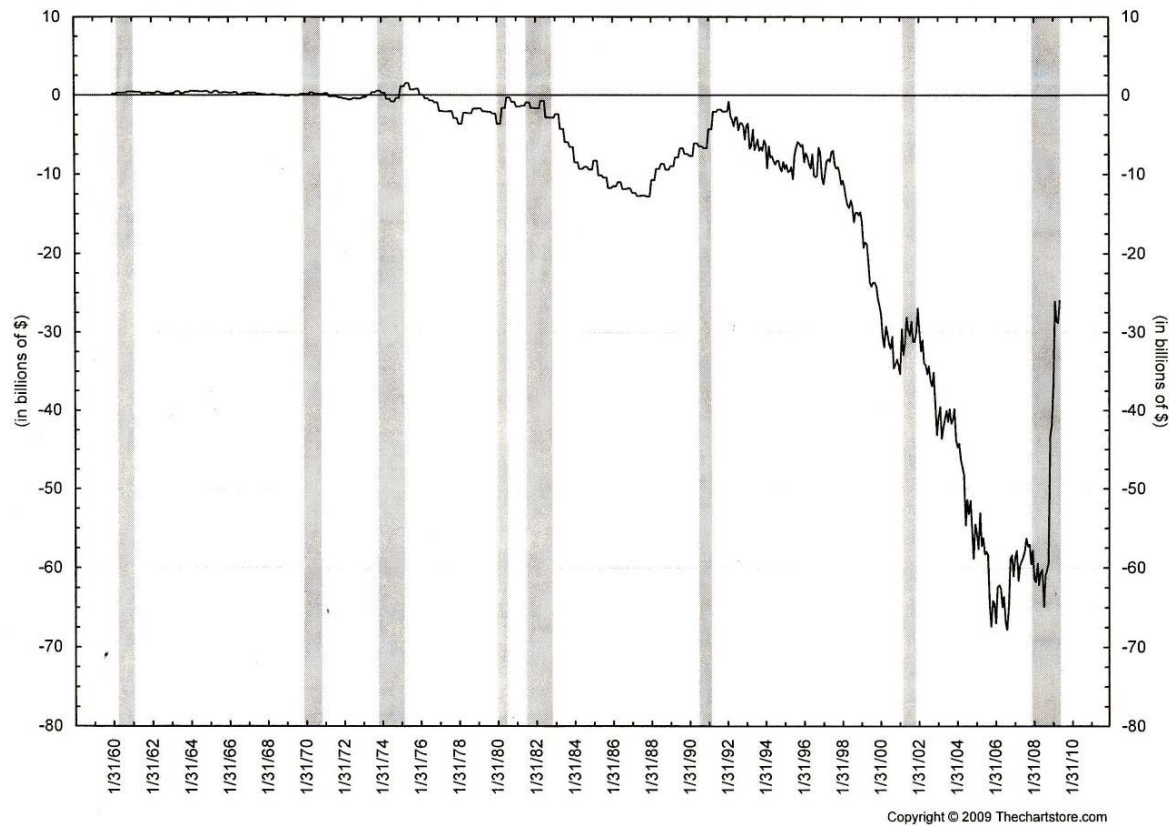
NYSE Market Capitalization as a Percentage of Nominal GDP



Source: Ron Griess,
www.thechartstore.com



U.S. Total Trade Balance, 1960-2009



Source: Ron Griess, www.thechartstore.com

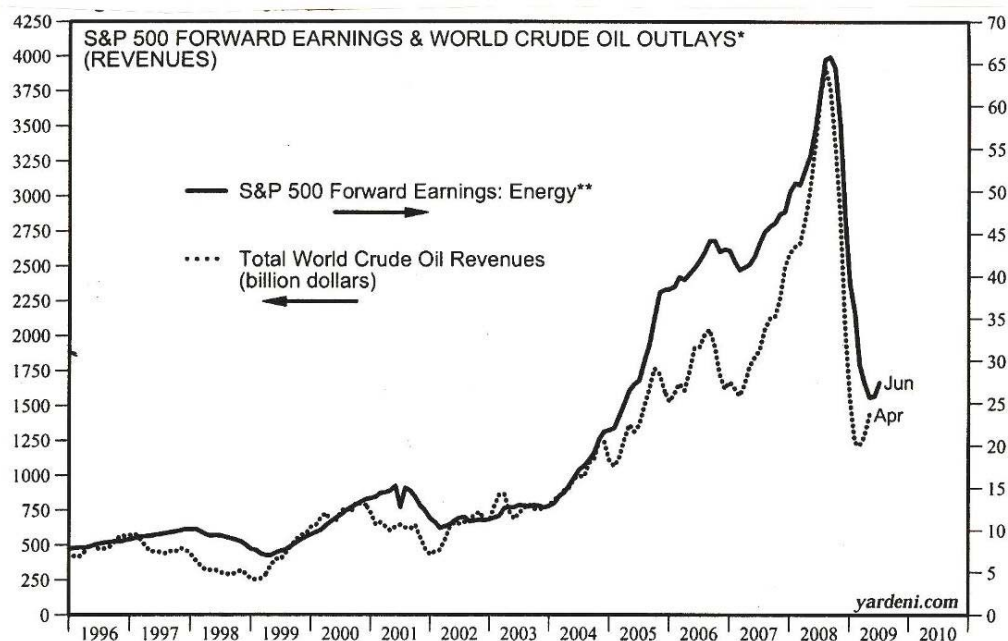


The balance of trade (or *net exports*, sometimes symbolized as *NX*) is the difference between the monetary value of exports and imports of output in an economy over a certain period. It is the relationship between a nation's imports and exports.



U.S. Overconsumption Stimulated the Chinese Economy, Lifted Commodity Prices, and Enriched Resource Producers

World Crude Oil Outlays, 1996-2009



* Total world daily crude oil demand multiplied by 365 days and by the U.S. average import crude oil price.

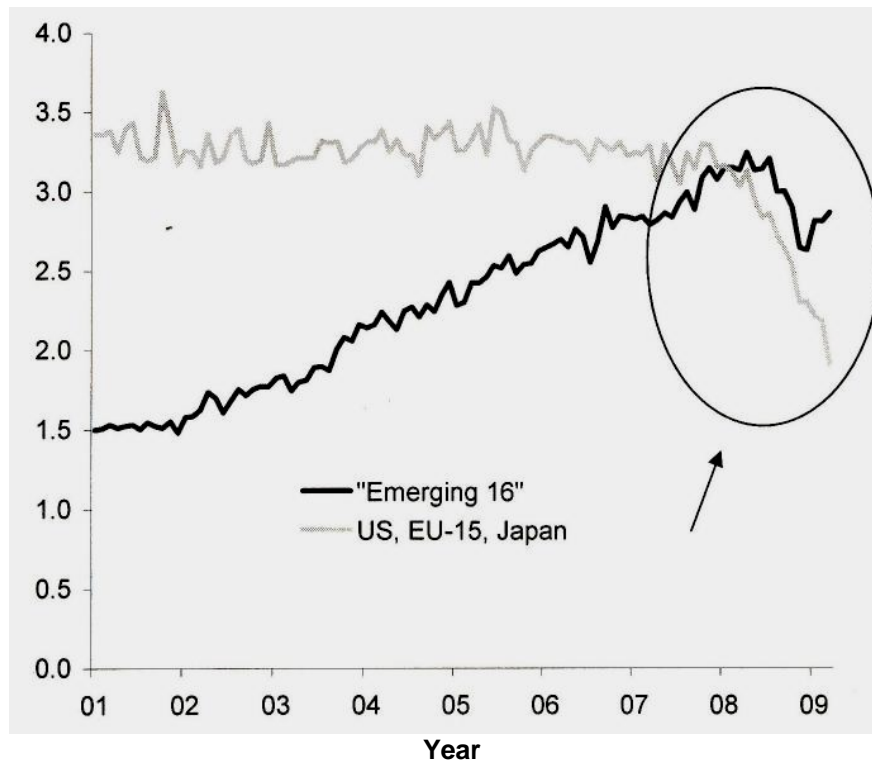
** 12-month forward consensus expected operating earnings per share. Time-weighted average of current and next year's consensus earnings estimates.

Source: Ed Yardeni; www.yardeni.com



... A New World has Emerged

Monthly Motor Vehicles Sold (million units)

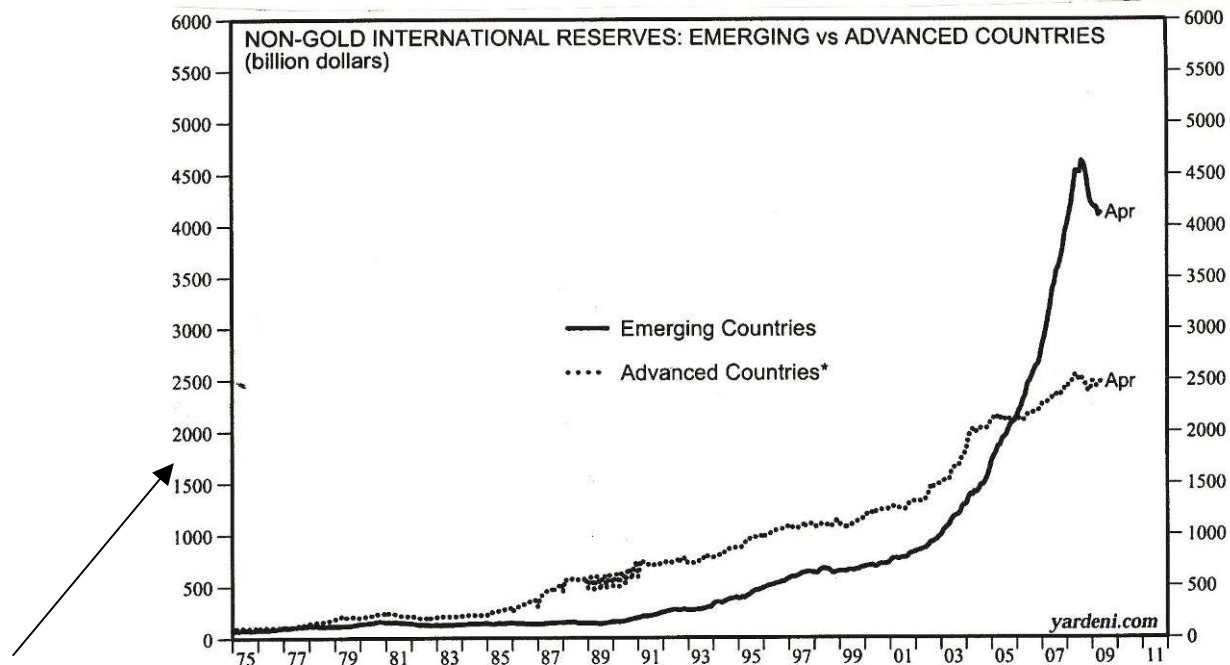


Source: Jonathan Anderson, UBS



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Growth in U.S. Trade And Current Account Deficit Led to Increasing International Reserves and a Weak U.S. Dollar

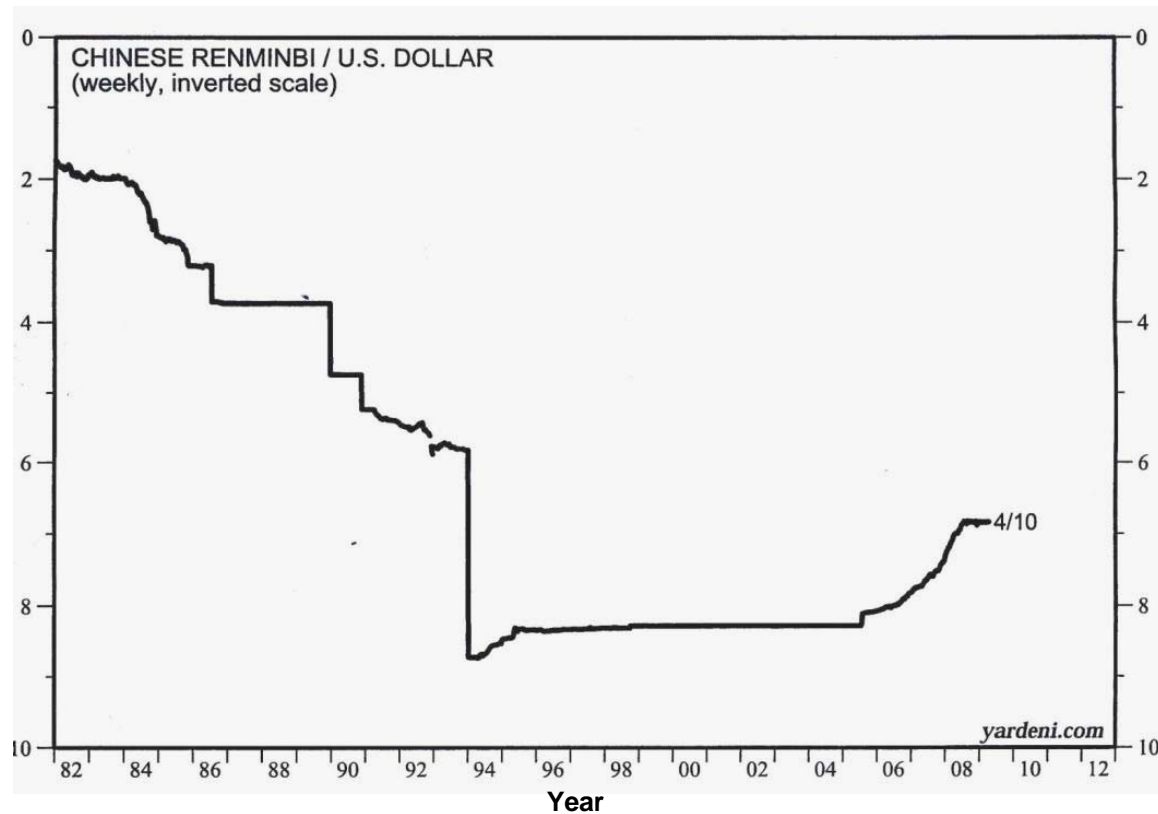


Strong inverse correlation between the growth rate in International Reserves and the U.S. dollar!

Source: Ed Yardeni, www.yardeni.com



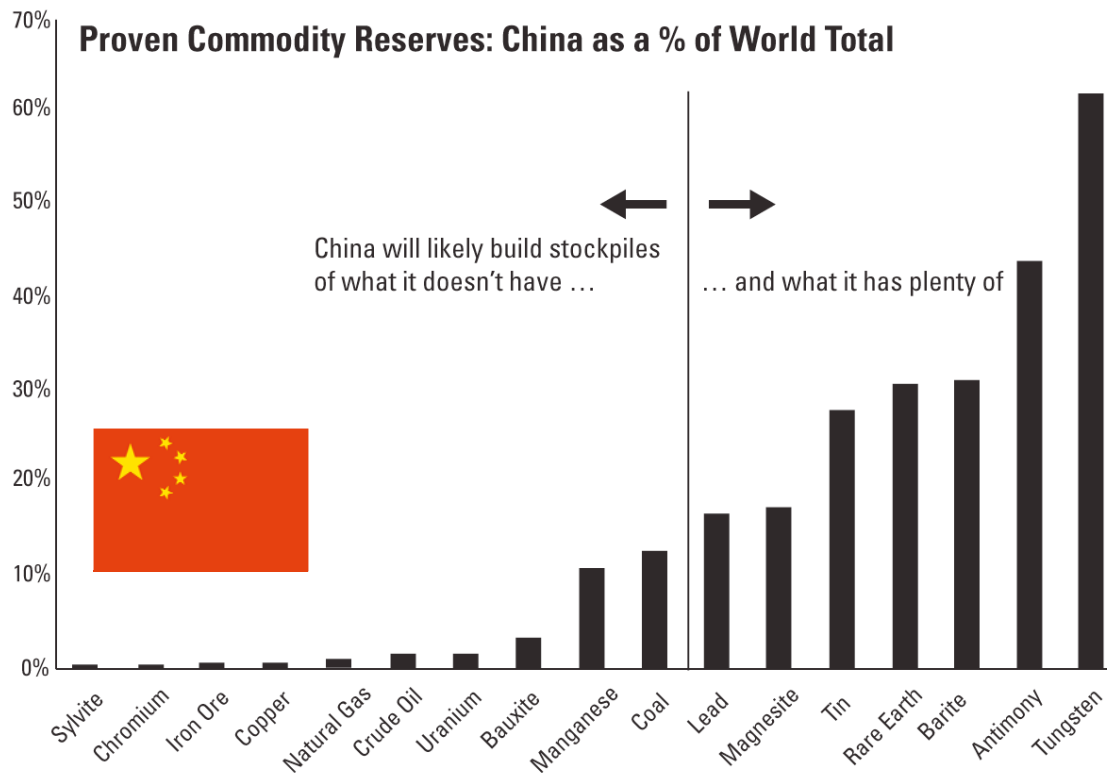
Value of Chinese Yuan vs. U.S. Dollar



Source: Ed Yardeni; www.yardeni.com



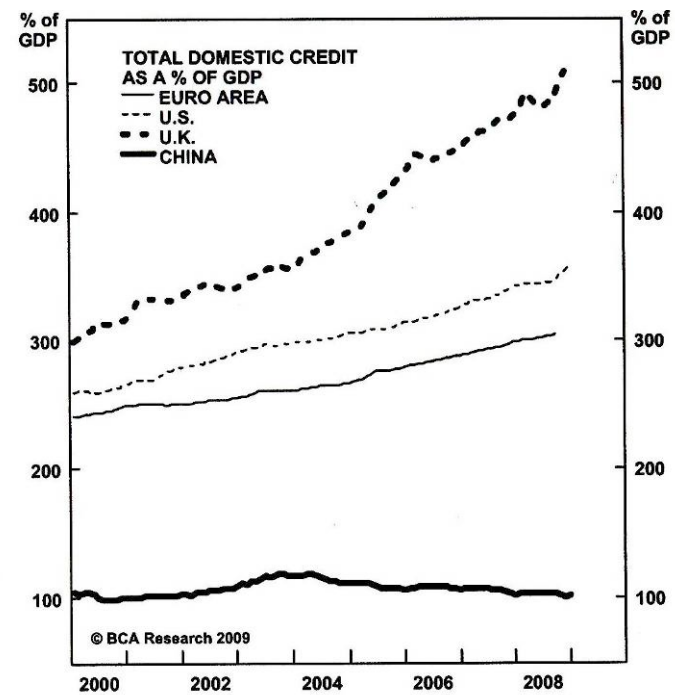
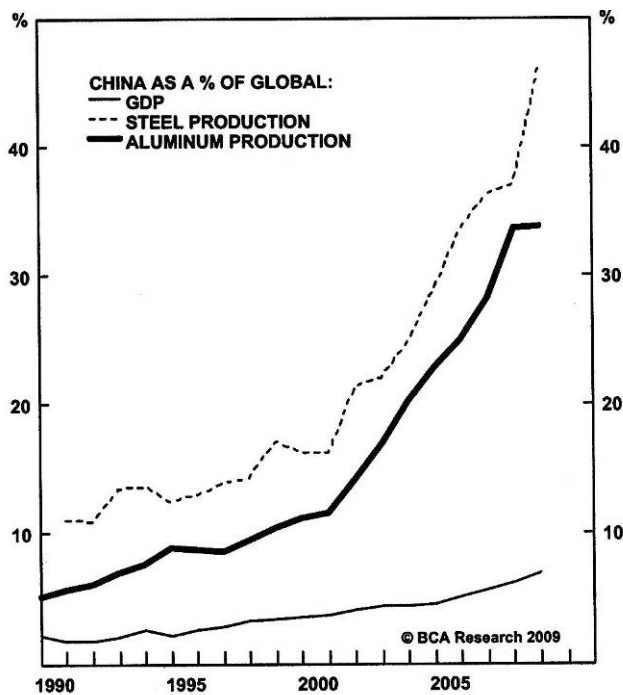
For Which Commodities Will Demand Not Collapse?



Source: The Bank Credit Analyst



A Massive Increase in Resource-Intensive Industries While the Economy is Under Leveraged

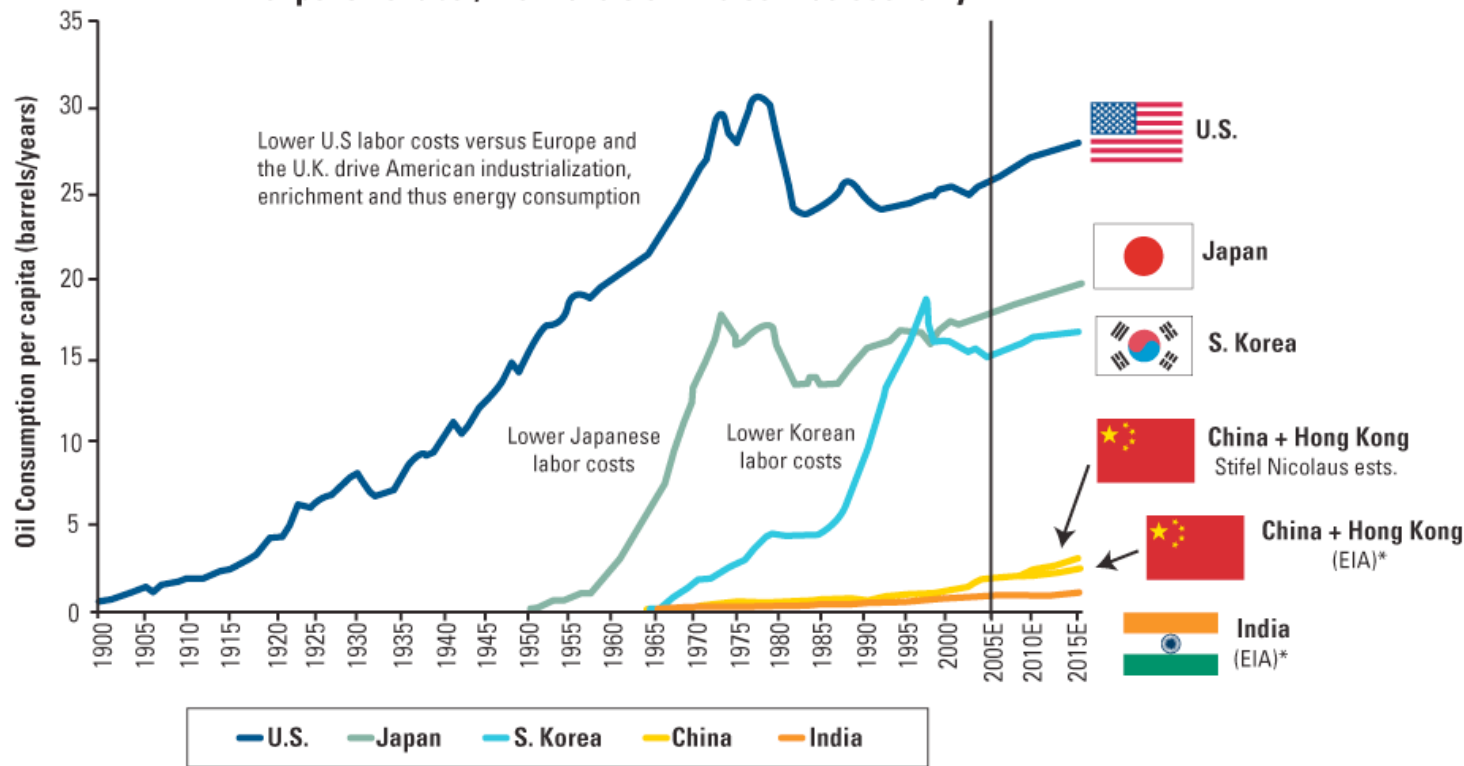


Source: The Bank Credit Analyst



Oil Consumption During Phases of Industrialization

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

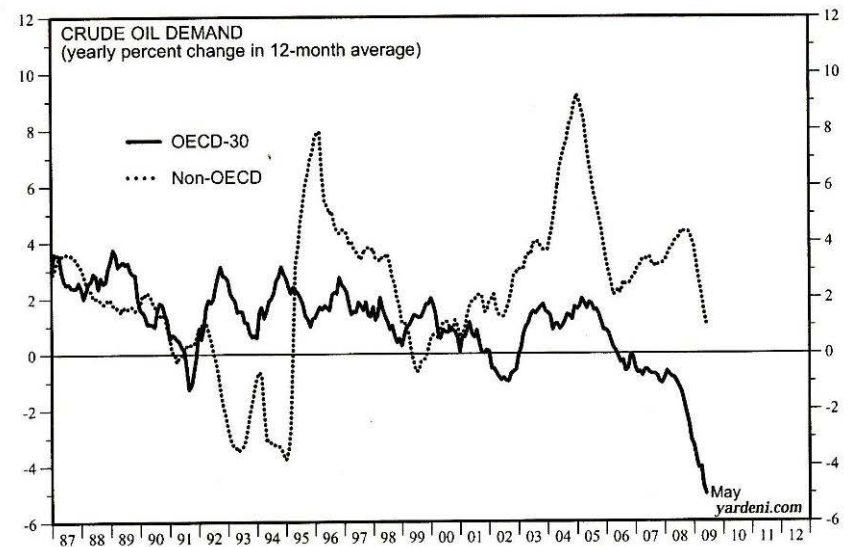
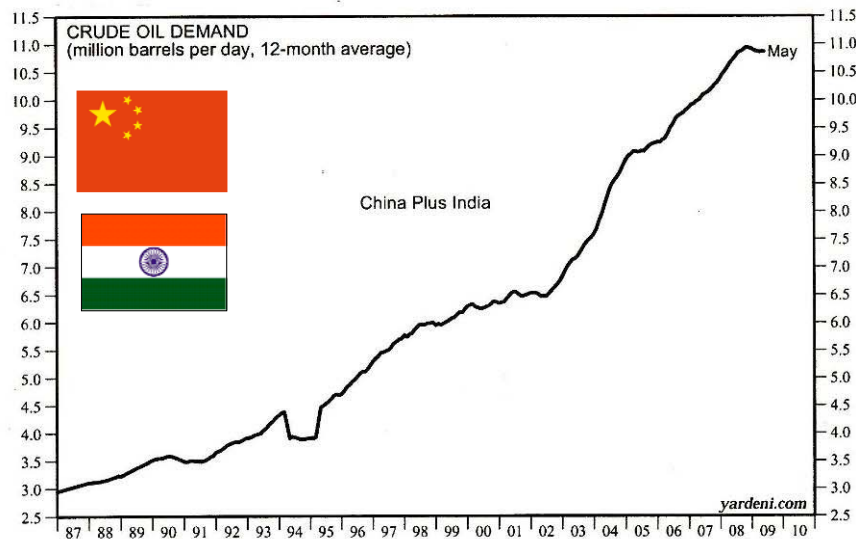


*The two lower lines are EIA's High Growth case for China + Hong Kong and India

Source: Barry Bannister, Stifel, Nicolaus & Company, Inc



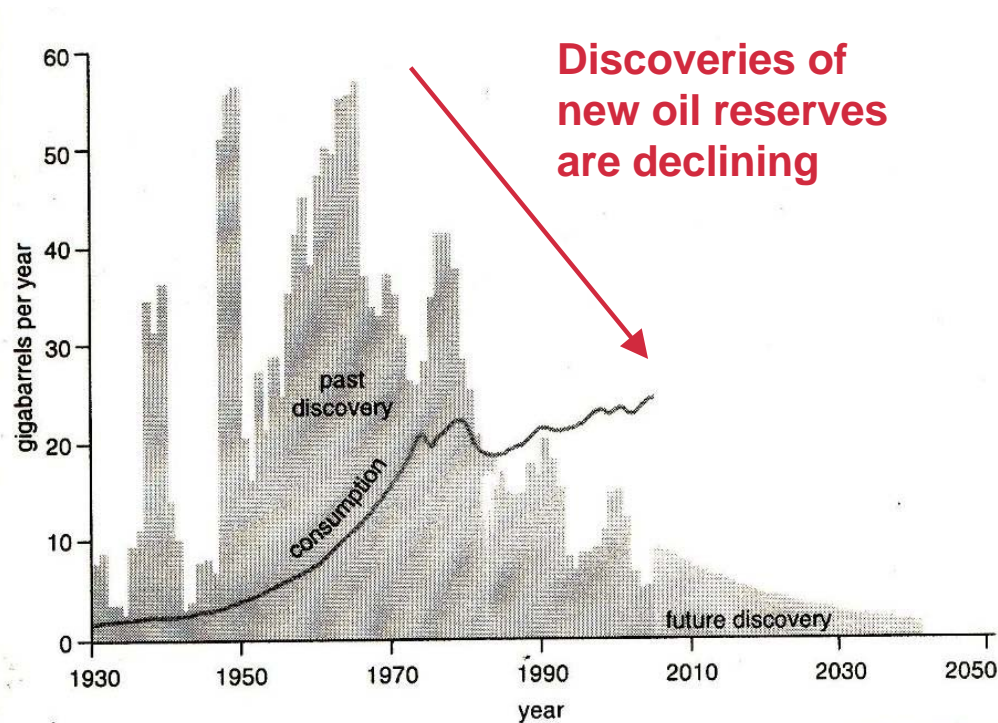
Crude Oil Demand in China and India and Annual Change, 1987-2009



Source: Ed Yardeni; www.yardeni.com



Past and Future Oil Discoveries (in Billions of Barrels Per Year)

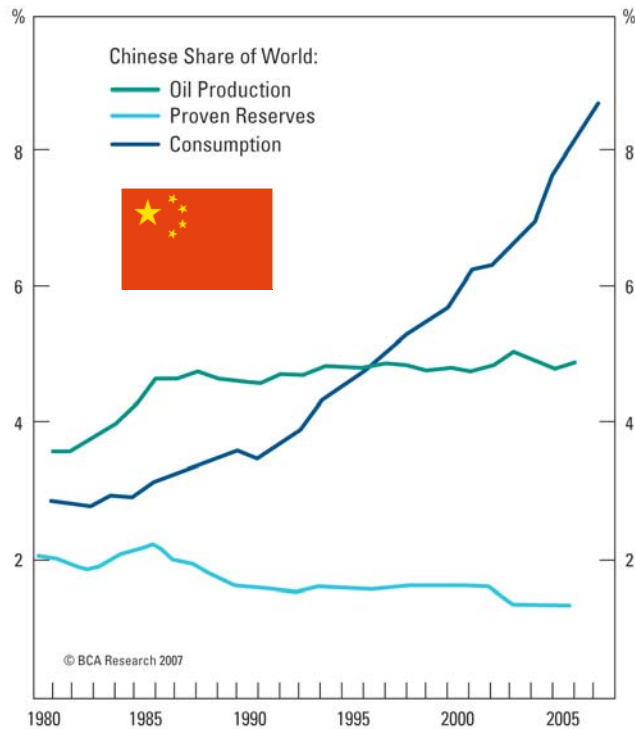


Source: American Scientist



The Geopolitics of Oil

Chinese Share of World Oil Demand and Production



Source: The Bank Credit Analyst

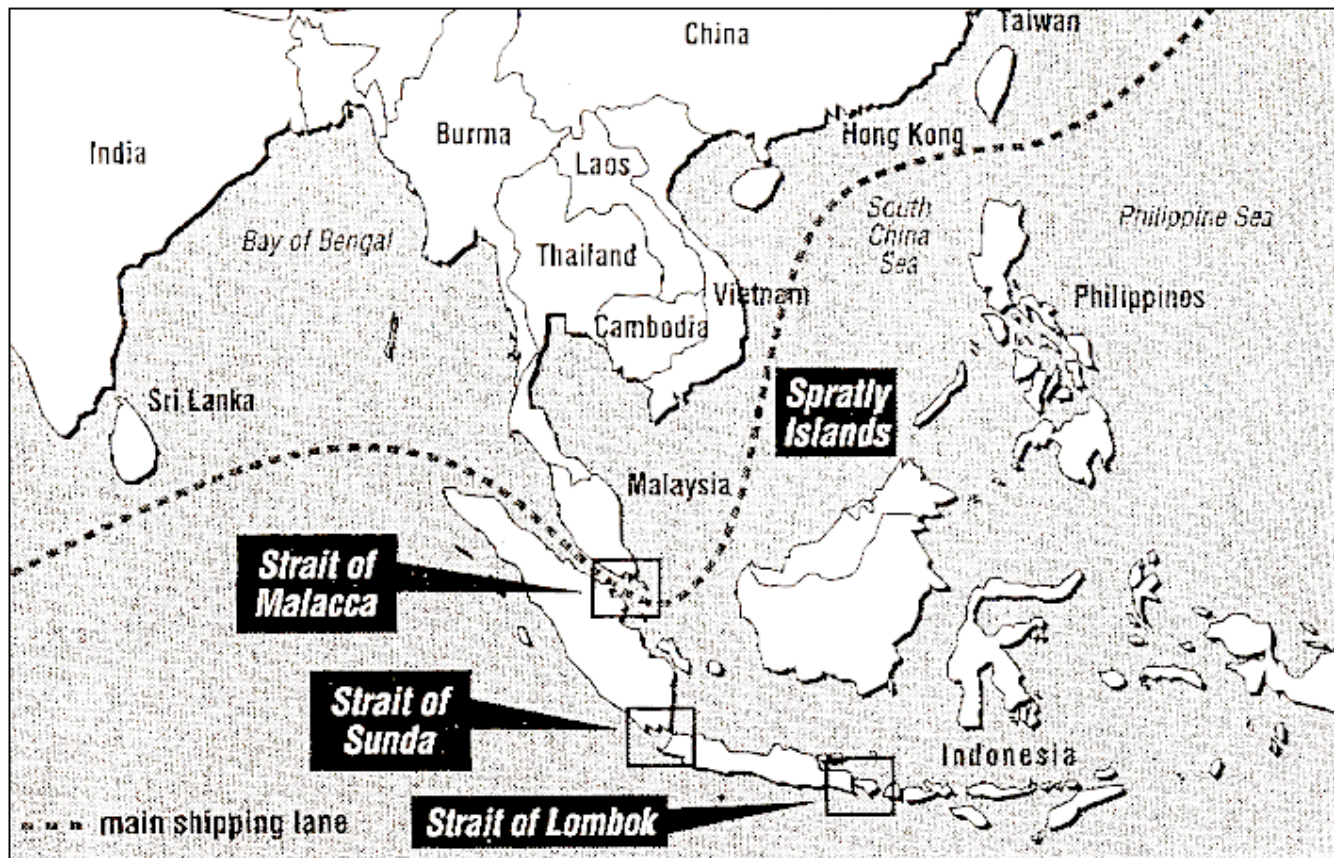
Reserves Lie in Unstable Region



Source: Perry-Castaneda Library Map Collection



The Geopolitics of Oil in Asia: The Control of Sea Lanes



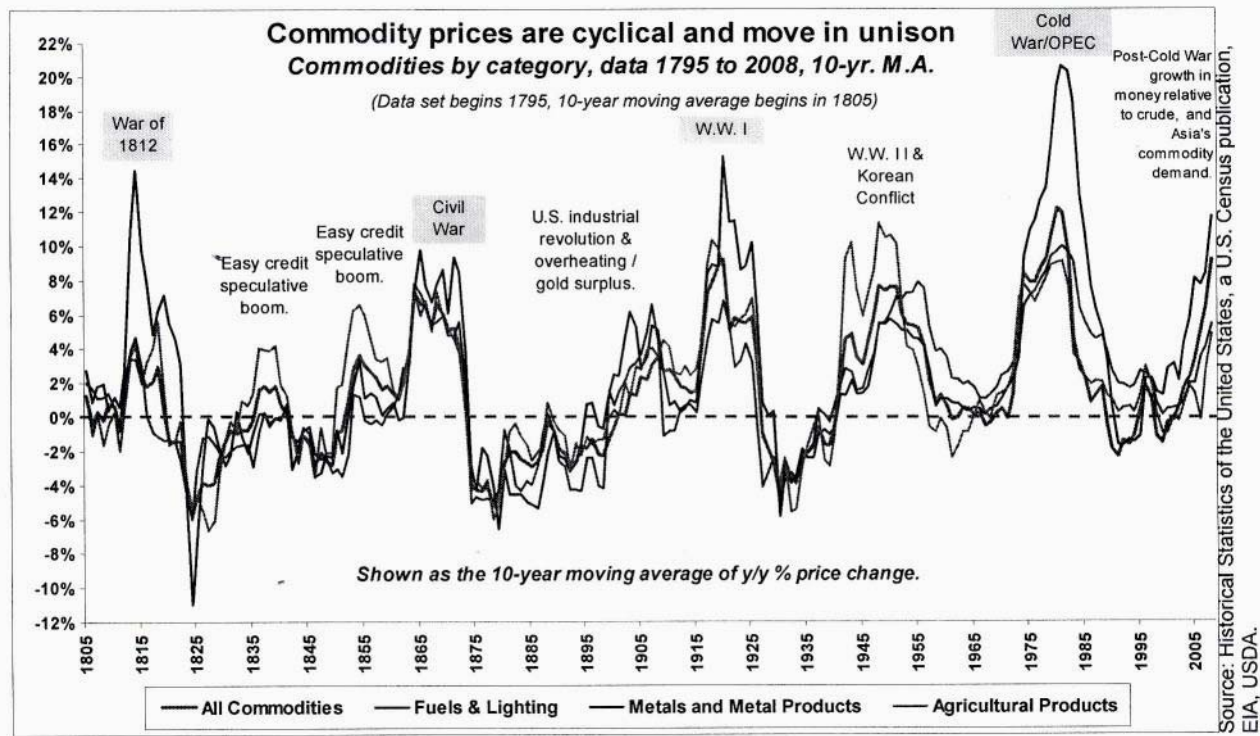
The Shanghai Cooperation Organization (SCO) includes China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan



Source: 1999 MAGELLAN GeographixSM, (805) 685-3100: www.maps.com



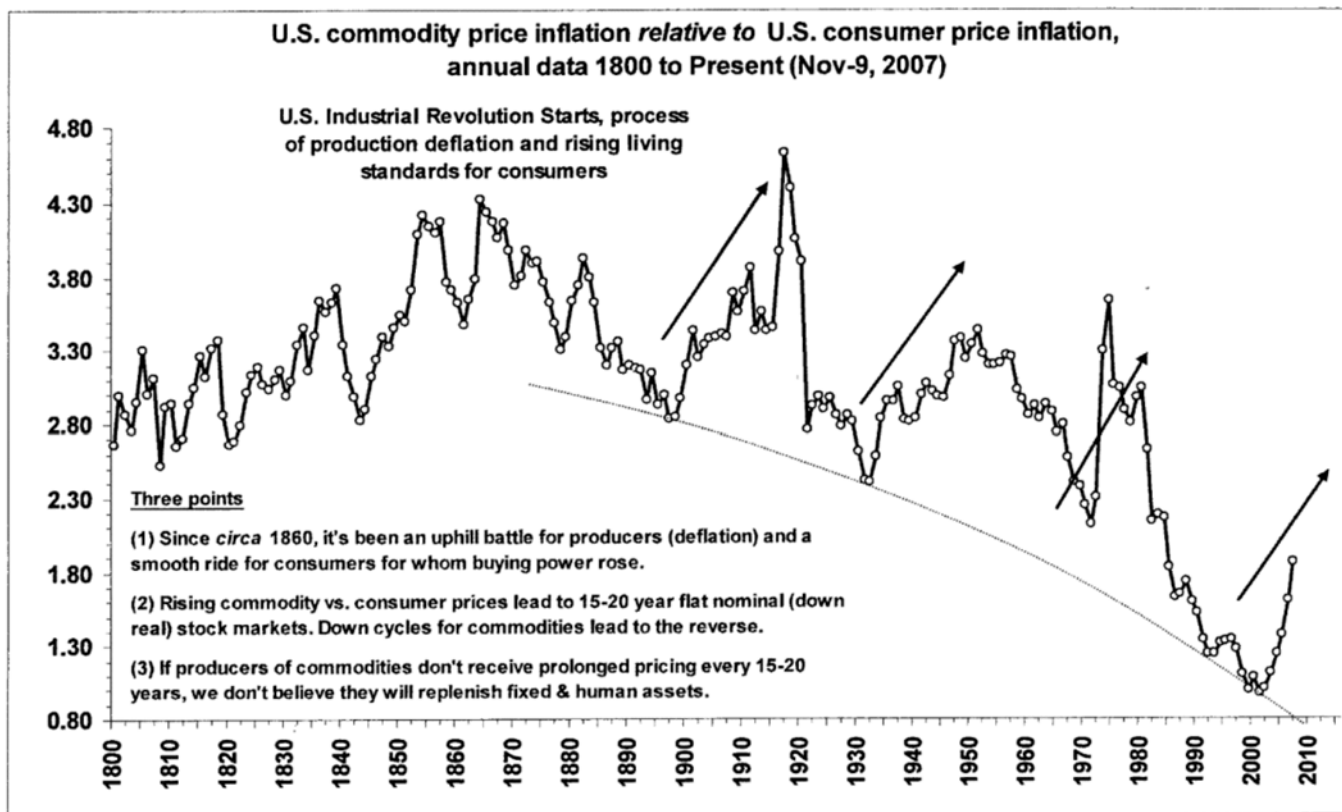
Rising Commodity Prices Lead to International Tensions – Wars Lead to Soaring Prices



Source: U.S. Bureau of the Census, Historical Statistics of the United States, Colonial Times to 1970, Legg Mason Format



Commodity Prices in Real Terms

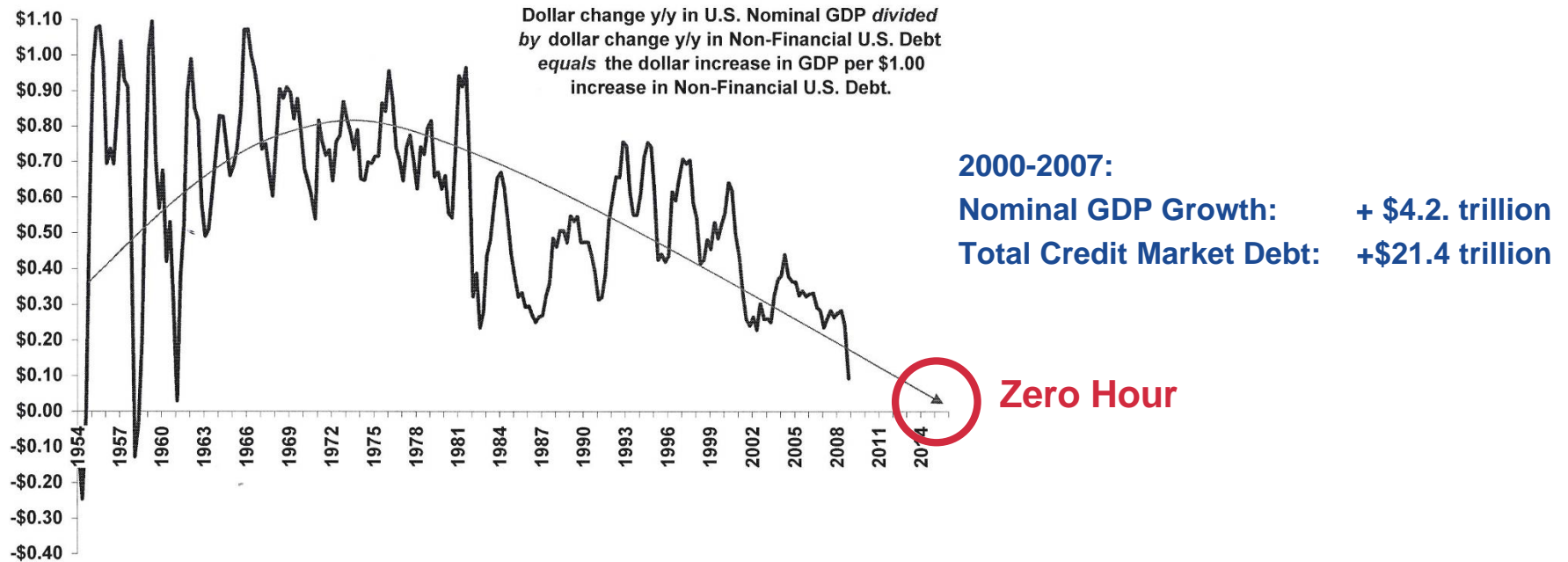


Source: Barry Bannister; Nicolaus & Co.



Countdown to Zero Hour!

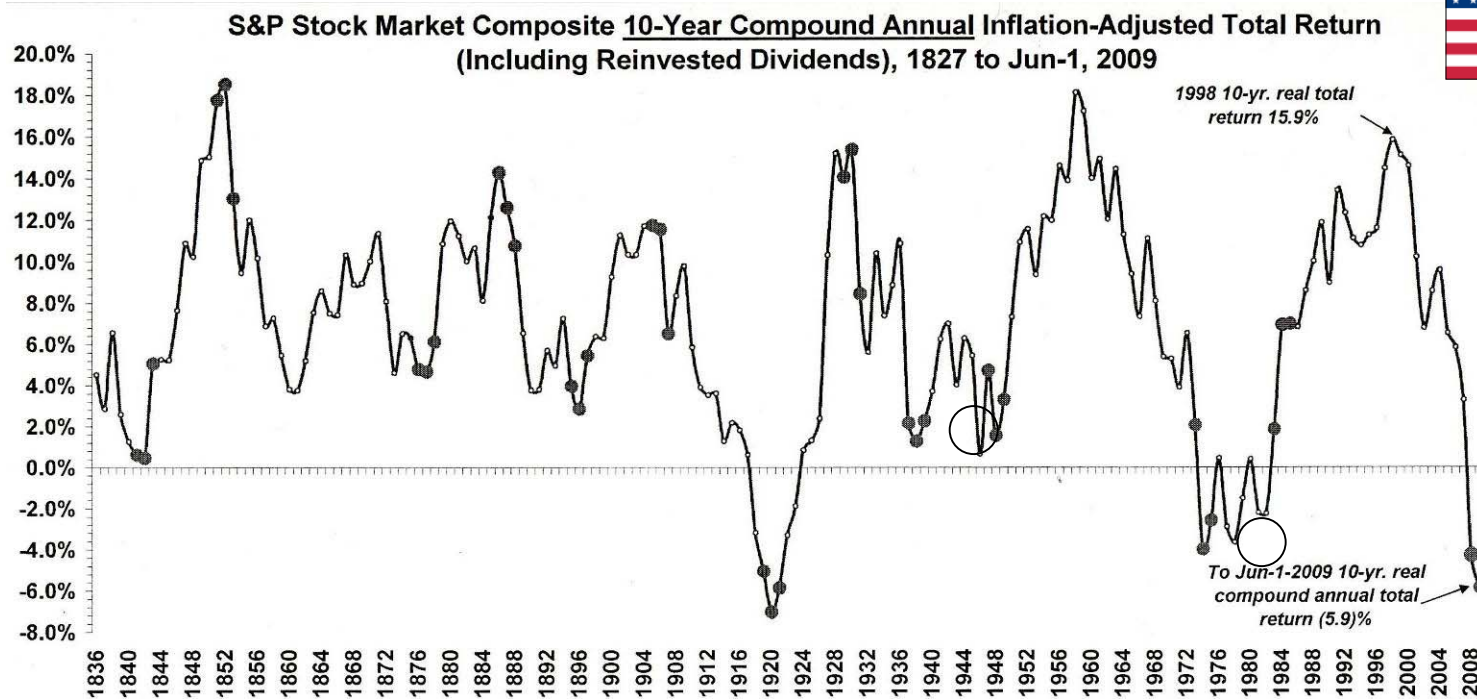
Zero-Hour 2015? Diminishing U.S. GDP Returns from Each \$1 of New Non-financial U.S. Debt, 1Q 1954 to 4Q 2008 (Not smoothed)



Source: Barry Bannister, Stifel Nicolaus



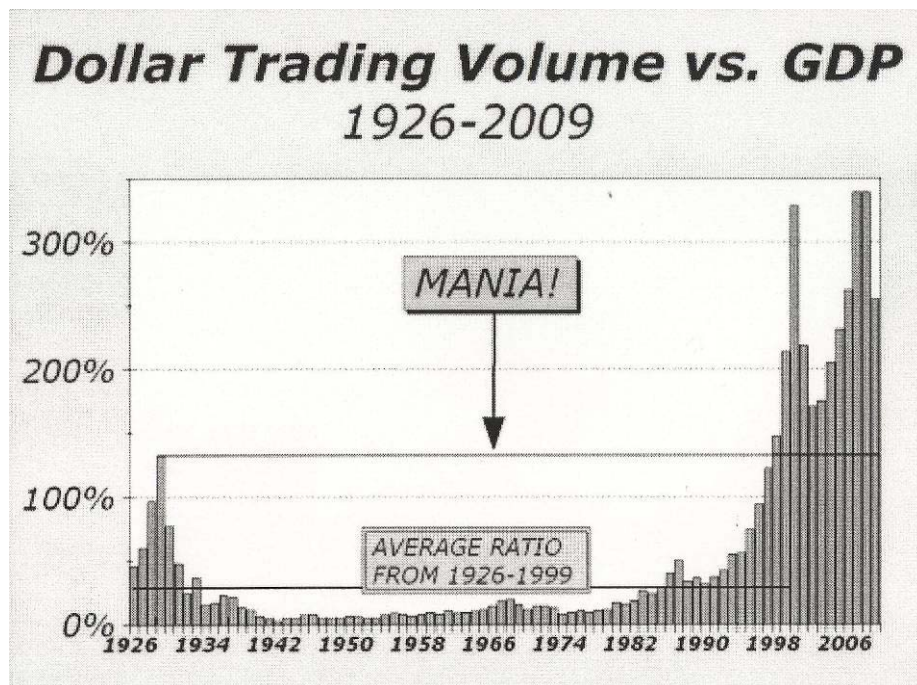
U.S. Stock Market 10-Year Compound Annual Total Return



Source: Barry Bannister, Stifel Nicolaus



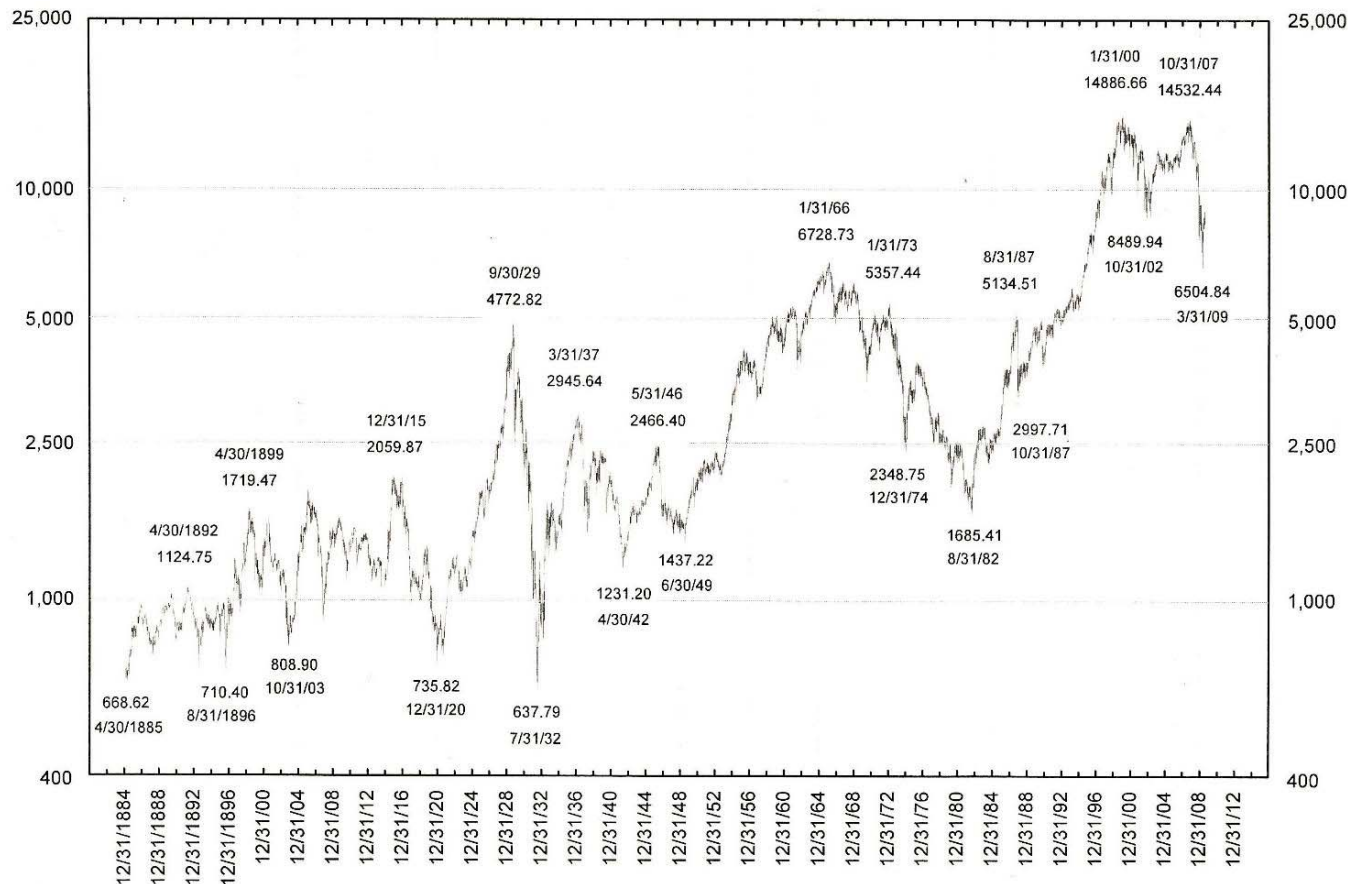
Still Too Much Speculation!



Source: Alan Newman, www.cross-current.net



History of the Dow Jones Industrial Average (Monthly – Adjusted for Inflation by the CPI – All Items)



Source: Ron Griess; www.thechartstore.com



Movement of Mexican Stocks in Peso and USD, 1979-1988

Table 1 High/Low of Mexican Stock Exchange Index (pesos), 1979-1988

	1979	1980	1981	1982	1983	1984	1985	1986	Peak 1987	1988
High	1,651	1,432	1,479	796	2,452	4,366	11,197	47,101	343,545	178,456 (Feb)
Low	1,066	1,107	862	496	837	2,885	3,710	12,802	60,281	139,620

Table 2 High/Low of Mexican Stock Exchange Index (US\$), 1979-1988

	1979	1980	1981	1982	1983	1984	1985	1986	Peak 1987	1988
High	70	62	63	29	15	24	25	51	220	77 (Feb)
Low	48	48	34	5	5	16	16	25	47	62

Table 3 Mexican Fund Net Asset Value (US\$), 1979-1988

	1979	1980	1981	1982	1983	1984	1985	1986	Peak 1987	1988
Net Asset Value	N.A.	10.00	3.30	1.72	2.88	2.95	3.53	9.84	15.70	7.10*

* As at March 4, 1988

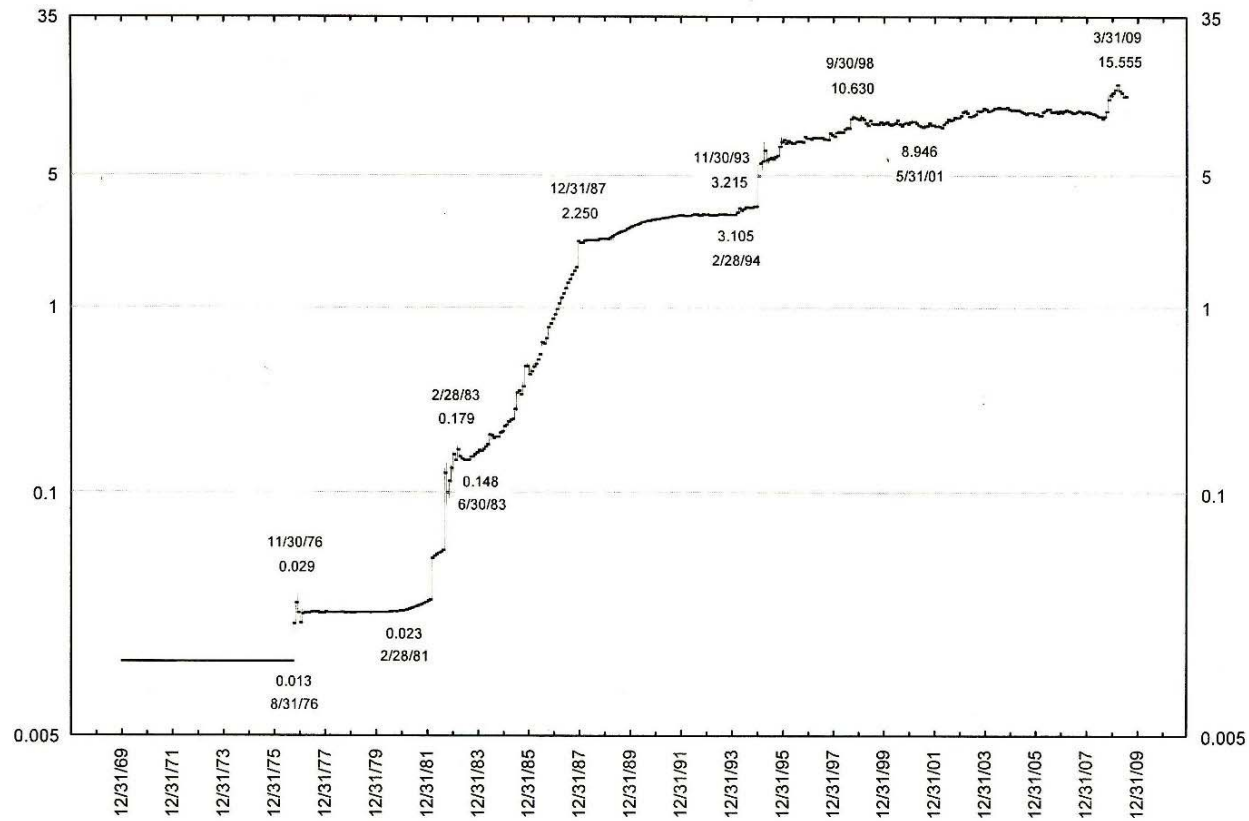
Sources: Acciones Y Valores De Mexico, SA; Marc Faber, *The Great Money Illusion* (Hong Kong, 1988)



Source: Acciones Y Valores De Mexico, SA;
Marc Faber, *The Great Money Illusion* (Hong Kong, 1988)



Mexican Peso Depreciating vs. U.S. Dollar (Monthly Spot – Pesos per USD)



Source: Ron Griess, www.thechartstore.com



Investment Themes Continued

Plantations & Farmland: Indonesia, Malaysia, Latin America, Ukraine

Japan: Very depressed, banks look interesting

New Regions: Cambodia, Laos, Myanmar, Mongolia

Gold and Silver: Long

U.S. Treasury Bonds: Short

Corporate Bonds: Long

Multinational Corporations: Highest quality companies will gain market share during next economic recovery



Conclusions

The current synchronized global economic boom and the universal asset bubble, which lasted between 2002 and 2007, has led to a colossal bust.

The wealth destruction arising from falling asset prices is unprecedented post Second World War.

Expansionary monetary policies, which caused the current credit crisis, are the wrong medicine to solve the current problems. But, what options does the Fed have with a total credit market debt to GDP of 375%?

Central bankers have become hostage to inflated asset markets! Will tight money whenever necessary—be implemented again?

A short-lived “crack-up” boom, driven by expansionary fiscal and monetary policies, is a possibility. How sustainable will it be?

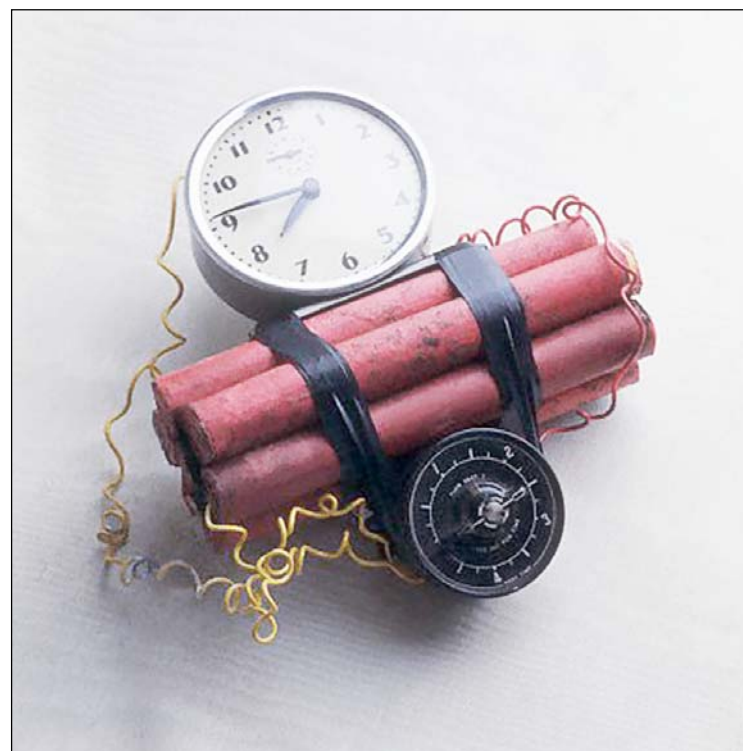


Conclusions Continued

The current crisis has failed to clean up the system, and policy responses are the same as those applied post 2001.

The final crisis has yet to come!

The economic, social and geopolitical clock will then be permanently reset.





There is no means of avoiding a final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as a result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved.

Ludwig von Mises
1881-1973



Disclosures

All opinions expressed and data provided are subject to change without notice. Some of these opinions may not be appropriate to every investor. The Reuters/Jefferies CRB Index is an unweighted geometric average of commodity price levels relative to the base year average price. The All the Same Markets Index, or ASMI, comprises the following eight markets: S&P 500, Nasdaq Composite Index, Gold, Crude oil (Bloomberg West Texas Intermediate (WTI) Cushing), CRB All Commodities Index, Real Estate (US Census Bureau median sales price for new, privately-owned, single-family residential structures), U.S. 10-year note (generic first future price) and US\$ Index, inverted. The components are equal-weighted as of the start date in January 1997. The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies. The Nasdaq Composite Index is a capitalization-weighted index of all Nasdaq National Market and SmallCap stocks. The Dow Jones Industrial Average is a price-weighted average of 30 blue chip stocks that are generally leaders in their industry. The Consumer Price Index (CPI) is one of the most widely recognized price measures for tracking the price of a market basket of goods and services purchased by individuals. The weights of components are based on consumer spending patterns. U.S. Global Investors does not endorse websites mentioned during this presentation (other than www.usfunds.com) and is not responsible for their content. The following securities mentioned in the presentation were held by one or more of U.S. Global Investors family of funds as of 6/30/09: Google, SPDR Gold Trust and Freeport-McMoRan.

