

Dear David

In case you missed it, here is last quarter's GTI letter to shareholders. The point about the LT inflation chart at the end is that you have **NO** chance of beating 7% "middle class" inflation in real terms UNLESS you are 100% in shares, based upon history. Maybe it's different this time.

Thanks your comment on Ballarat etc....a reminder that a good trade is a comb of 2 actions, a good buy and good sell (I'd quite forgotten about your pa position) I thought you might like to see my private copy dated 12/5/10 sent to IPM re my 3 gold stocks and how to look at gold mines....see the 5 criteria....my buying levels were some 10% below the then prices and we got filled for the first third on the recent dip (the charts were spiky....pls note we always use Fullermoney charts in our work). Many of your subs will have MADE and LOST fortunes in non gold earning juniors, so might be int to read about mid cap / producing mine investing....you know the psych background...extreme pleasure in winning and extreme confusion in losing.....and never REALLY knowing why either happened in the first place.....

Have a nice, oil free day
Iain

I AM GOLD but I am not foolish

What GW stocks do we buy to play gold? What is GW's adviser network telling us? Should we buy today after the recent rise; many gold stocks are on "spikes". Spikes are a trend-ending characteristic.

GW has a slightly off-beat approach to gold stocks based upon a "basket" concept. I'll tell you why.

Investing in gold mining stocks means investing in a "low grade" investment area. A mine is a hole with a liar at the bottom and a fool at the top. Managements lie. Promoters "manipulate" expectations. Resources are rarely commercialized on time. Mine financing can literally evaporate when times are tough (remember 2008?). Finally, however excellent the management of a gold mine, there's absolutely nothing they can do about a lower gold price (beyond tactical hedging).

That's why GW recommends buying a "basket" of gold and silver stocks. I've been a professional private client money manager for 30 years and have seen fortunes made and lost in *exploration / junior* mining stocks (companies with neither top line, nor bottom line numbers). But on the whole, more "lost" than "made". So I generally only buy mining companies for my clients that share at least 4 of these 5 qualities:

1. Mines in production (thus, usually mid-tier or above) and "major" in size
2. Multiple assets, unhedged
3. In politically stable parts of the world
4. Management that has "done it all before"
5. Low cost mines and/or strong financial position

I therefore am adding 3 high quality mining stocks to our GW list.

1. IAMGOLD / IAG:US
2. Fresnillo (Silver in Mexico) / FNLPF:US
3. Eldorado Gold / EGO:US

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You can buy all 3 mid caps today, but *please, please do not buy an entire position* right now. Buy the first third of your allocated money amount today. I will advise you when to buy the second and final thirds. (This "dollar averaging" technique is one I have used to great effect over the years). The gold mining sector is pregnant with risk-averse hedge fund money at the moment after the Greek crisis and physical gold is trading at an all time high. A 20% correction is very possible. I will advise you when to "top up".

IAMGOLD (IAG:US)

IAM GOLD is a Canadian mid-tier gold producer, with 7 mines on 3 continents and a market capitalization of over USD 7bn. IAG now produces about 1mn oz of gold a year –always a level at which a mine is considered "top flight" - and is aiming for 1.8mn oz by 2012. IAG's properties are in Quebec / Canada, West Africa, and the Guiana Shield of South America.



IAG's costs are about USD 520 per oz of gold and it is currently generating about USD 250mn of operating cash flow each year and has built up a cash pile of over USD 400mn.

What I particularly like about IAG is that it's 2 months ahead of schedule on its Essakane mine in Burkina Faso (as I said, beating schedules is rare in the "low grade" mining world!). Essakane is a potential 5mn oz resource and is one of two that IAG is working on. IAG has "guided" an increase in Essakane production from earlier estimates of 480,000 oz to 500,000 by end 2011, so this is adding 320,000 ounces to IAG's annual production at a low cash cost of USD 425/oz.

Some management issues are being sorted out and Q1 earnings came out at USD 0.16/ share, well ahead of market estimates nearer USD 0.12/ share.

Fresnillo (FNLPF:US)

Fresnillo is a UK based company and the world's largest primary silver producer with a market capitalization of about USD 9bn and 4 producing mines, all in Mexico. Silver is arguably even more exciting than gold (it is

often called “high beta” or “extreme volatility” gold as it is much lighter in price and the market is very “squeezeable”.

Fresnillo produced 38mn oz of silver in 2009 and 0.28mn oz of gold. It wants to double its silver resource – now 1,290 mn oz- by 2018 and likewise to increase its annual silver production to 65mn oz. Its costs are in the “lower quartile”, meaning that Fresnillo is not only enormous in terms of resource but also a very low cost mine. Remarkably, it even managed to lower its cash costs in 2009.



Fresnillo’s story reads like a history of Mexico. The first silver workings took place in 1554 and the company started real production as a company in 1887. It used to be part of Penoles, the Mexican silver giant, but was spun off in an IPO in 2008.

Earnings grew +141% in 2009 and at the year end, it held USD 312mn in cash, with no debt.

Once again, I like the management. They completed the major Soledad-Dipolos project in 2009 well ahead of schedule and within budget, with another major, the Saucito development, coming on stream in 2011. Its resource base increased by +15% in 2009.

I’d rather it was not so dependent on Mexico. But our GW advisers maintain that Mexico is perceived as a comparatively “safe” political base, and it really is the centre of excellence of *silver* mining, worldwide.

My personal view is that before this bull market in metals is over, we will have a repeat of the attempt of Bunker Hunt to corner the silver market in the late ‘70s. If this is so, Fresnillo will be on the touch-line, cheering.

Eldorado Gold (EGO:US)

Eldorado Gold Corporation is a Vancouver company produces gold in Brazil, China, Greece and Turkey. I originally had a holding in “Sino Gold”, but Sino was taken over in December by Eldorado Gold, so it is a sizable position in my own portfolio.



It is the smallest of our 3 gold and silver basket members. EGO "only" produces 0.6mn oz of gold a year, but it's aiming for "over 1 mn" ounces of gold annually by 2013. It announced "proven and probable" gold reserves of 15mn oz, so it is potentially a sizeable miner. It has a "lowest quartile" cost structure –about USD 309/oz- and nearly USD 150mn in *net* cash as at 31/3/10. It has no hedge positions.

EGO has grown its gold resource by shrewd acquisition of other mines and carefully handled new financings.

I like the fact that EGO is well spread geographically and has not only some profitable existing projects, but also a large pipeline of resources to come.

Just to remind you, please don't buy the entire position in these 3 mines now. Buy a third now and then wait for my signal to complete, hopefully on a correction.

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