Manager Commentary: On the Gold Market

Gold falls sharply in December, ended month at $1,563.70/ounce

By: Joe Foster, Portfolio Manager

Fund Review

The Fund's Class A shares declined 13.30% for the one-month period ending December 31, 2011 (excluding sales charge), while the NYSE Arca Gold Miners Index (GDM) declined 14.37% for the same period.

Average Annual Total Returns (%) as of December 31, 2011

	1 Mo[1]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-13.30	-21.52	11.90	24.24
Class A: Maximum 5.75% load	-18.27	-26.04	10.58	23.50
GDM Index	-14.37	-15.48	6.36	--

Average Annual Total Returns (%) as of September 30, 2011

	1 Mo[1]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-16.34	-4.16	17.12	25.27
Class A: Maximum 5.75% load	-21.16	-9.67	15.74	24.52
GDM Index	-12.12	-0.43	10.24	--

[1]Monthly returns are not annualized.

Expenses: Class A: Gross 1.25%; Net 1.25%. Expenses are capped contractually until 05/01/12 at 1.45% for Class A. Caps exclude certain expenses, such as interest.

Please note that precious metals prices may swing sharply in response to cyclical economic conditions, political events or the monetary policies of various countries. Investors should be aware that recent market conditions resulting in high performance for the gold sector may not continue. The tables present past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect applicable fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Investment returns and Fund share values will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost. Fund returns assume that dividends and capital gains distributions have been reinvested in the Fund at NAV. Index returns assume that dividends of the Index constituents in the Index have been reinvested.

Market Review

A confluence of factors caused gold to tumble in December, as the metal declined $182.68 to close the year at $1563.70 per ounce. U.S. dollar strength weighed on gold, as the U.S. Dollar Index (DXY) approached its highs for the year set back in January. The dollar and U.S. treasuries have been seen as safe havens amid the sovereign debt turmoil in Europe. Lately, gold has not served as a safe haven, but instead has traded more like a "risk asset" with greater correlation to equities and commodities. Another factor weighing on gold is weak demand from India due to high local prices. This is normally their strong season; however, the Indian rupee has declined 20% against the dollar since August. This weakness caused gold to post its all-time high in rupees on November 30.

While currency movements explain some of gold's December weakness, we believe additional transient factors created a bit of a selling frenzy. Light year-end trading volume has enabled short sellers to dominate the market. The recent bankruptcy of commodity trader MF Global has probably made markets less liquid than usual. For the year, gold has outpaced other commodities with a 10.1% gain. Because of this outperformance, large commodities index funds are expected to sell gold ahead of their early January rebalancing dates. Central banks have been heavy buyers of gold in 2011. As central bankers have closed their books for the December holidays, short sellers can be less concerned in the near-term about another large gold purchase. Finally, one-month gold lease rates reached a low of -0.57% on December 6. According to the Financial Times, since September, some European commercial banks have been exchanging gold for USD funding. Banks are so desperate they are willing to pay a negative interest rate to swap the gold they hold for dollars. Here, gold is serving its essential function as a source of emergency funding, even though it has the near-term effect of damping the price.

Market Outlook

We are experiencing a period of financial history that will be studied by our great grandchildren who we hope will be living in a more prosperous and peaceful world. These are unprecedented times in which we learn on the fly and often throw up our hands to say "you can't make this stuff up". Everyone should be deeply concerned when the President of Philadelphia's Federal Reserve Bank (the "Fed") says "Unfortunately, from my perspective, the Fed and other central banks have already embarked on a path that has blurred the distinction between monetary policy and fiscal policy". A politicized Central Bank is dangerous and historically inflationary.

Please note that the information herein represents the opinion of the portfolio manager and these opinions may change at any time and from time to time.

European leaders announced the fifth "comprehensive" package designed to alleviate the sovereign debt crisis. The pact sets out fiscal rules for the future that now must be ratified, which is far from certain. It did nothing to address the current lack of liquidity in the lending markets or insolvency among sovereigns. Ratings agencies didn't think much of the plan: S&P and Moody's placed European sovereigns on review for possible downgrade, while Moody's also downgraded two French banks. European Central Bank ("ECB") President Draghi poured cold water on hopes for large-scale direct purchase of sovereign bonds. In December, U.S. taxpayers became involved when the Fed began a program of U.S. dollar swaps to effectively replace dollar funding from U.S. banks and money-market institutions that see European banks as excessively risky counterparties. Then the ECB launched its "long-term refinancing operations" (LTRO), which offers three-year one percent loans as a lifeline to banks locked out of public funding markets. The ECB awarded €489 billion ($645 billion) in LTRO loans, well above expectations. It seems the Fed and ECB hope that this tidal wave of money will somehow provide relief to sovereign debt markets. Early results are mixed, as both Italy and Spain were able to issue six-month debt at half the rates of a month ago. However, a longer term Italian auction failed to reach its target.

Last month, we thought markets were about to force European policy makers to take measures that would set a painful path for a sustainable recovery through sovereign default, debt monetization, or dissolution of the Euro. In December, it is clear that the Fed and ECB are willing to act as lenders of last resort: to engage in some back-door form of quantitative easing; to perpetuate the status quo; to uphold the "too big to fail" doctrine. This is not "kicking the can down the road," as it is kicking a bomb down the road. A recent research paper by the Bank of England that was highlighted in Bloomberg and the Financial Times states that today's financial turbulence might be merely a precursor of something worse in the years ahead. Global imbalances that helped create the financial crisis have not declined; on the contrary, the paper argues, they are likely to get considerably bigger. The Financial Times also found that the global monetary and fiscal system has not maintained financial stability as well as the Bretton Woods system of fixed currencies and needs to be reformed.

We believe we are in the early stages of a sovereign debt contagion that could eventually engulf Japan and the United States. The knowledge and leadership needed to snuff it out and make needed reforms may not exist. It seems a Japanese-style economic malaise of low growth and high unemployment is settling over the advanced economies for the long term, while another 2008-style blow-up becomes an enduring possibility. Not much comfort as the New Year begins, but knowledge is power and investors should consider measures to protect their wealth. Elevated financial risks may remain in the foreseeable future, which is why we believe the gold bull market could continue for years to come. While precipitous falls in the gold price or the underperformance of gold shares tests the resolve of many gold advocates, we view these as short-term set-backs within a positive long-term trend.

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