

■ GOLD ACCOUNTS

Investors place some of their assets into gold mining stocks for various reasons:

- Gold can act as a hedge on other financial assets (particularly stocks and the dollar)
- Gold stocks can provide leverage to gold
- Junior stocks in particular provide opportunities for above-average shorter-term gains

All of this has a downside, of course. The leverage of gold stocks can work on the downside as well as the upside. The high potential of junior stocks also implies high risk.

In any event, gold stocks—even the most established and most conservative—tend to be volatile compared with other asset classes. Therefore, it is appropriate for investors to devote only a relatively small part of their overall assets to this sector.

Gold Looks Attractive Now

At this time, we believe gold is only part way into a long-term bull market, particularly in terms of price. There is increased investment demand, both from individuals and central banks around the world, fueled by concern about the dollar and other currencies. Central banks were net buyers last year, for the first time in decades, and we expect ongoing central bank buying in years to come, as emerging countries such as China, Russia, and India increase their gold reserves, in a bid to diversify out of the dollar.

Equally important, however, is the ongoing depreciation, not only of the U.S. dollar but of all paper currencies. As monetary authorities worldwide fight lethargic growth with unprecedented amounts of money creation and low interest rates, they devalue currencies, driving up gold as investors sell currencies and seek haven in a money that government can't readily create. Investors around the world are turning to gold for insurance and protection.

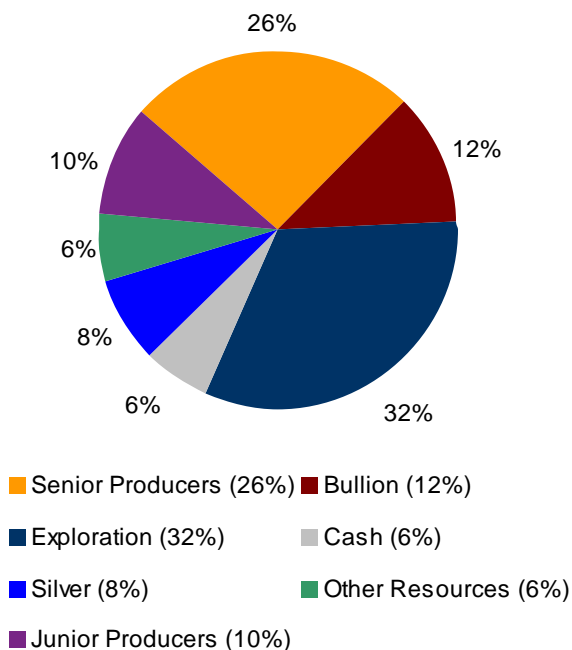
Despite the sextupling of price in the last decade, gold remains inexpensive relative to other financial assets (stocks and bonds) as well as to many other assets, including the total money supply. And the gold stocks are at valuations well below long-term averages on many metrics, including price to reserves, to production, and to cash flow.

Junior Companies Particularly Attractive

Though the major producing gold stocks are reasonable value relative to gold, there is more potential in many of the junior and exploration companies. As producers find it ever more difficult to replace the ounces they mine with new reserves, they are increasingly turning to acquiring deposits from junior exploration companies. Such companies, if they make a discovery, stand to see stock prices go up by a multiple, and we are constantly looking for attractive candidates. But it is all the more important to be

Account Allocation*

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selective in such companies, since a lack of success can see stock prices tumble. We focus on companies with cash to sustain their exploration efforts, strong management, and a business model that minimizes cash expenditures (particularly the so-called prospect generators and royalty companies).

Conservative or Aggressive?

Gold accounts vary depending on an individual client's wish to be more aggressive or conservative in this sector. In addition, other circumstances and objectives can come into play (whether we manage money in other sectors for the client, the client's age and circumstances, etc.).

In addition, larger accounts tend to have a higher percentage of juniors than smaller accounts--offering more opportunity for spectacular gains--since a larger account can tolerate the risk from any single investment more than can a smaller one. We also tend to trade more in larger accounts.

What Is in the Gold Account?

In our gold accounts, we are open to the entire horizon of gold and precious-metal investments. These include mining companies from, and active in, every part of the world, including North America, Australia and South Africa; exploration companies; diversified miners and silver companies; and even "gold substitutes"--companies that derive part of their income from gold-related activities but without direct involvement in mining (for example, refiners or mining contractors), as well as gold itself. Unless instructed otherwise, gold accounts may include silver and uranium, as well as exploration companies in a range of resources. To say we are open to these investments does not, of course, mean that every account will at all times have exposure to the entire spectrum. This will be determined by factors including the overall market climate as well as an individual client's circumstances.

Juniors and Seniors

Typically, we look for core positions of solid senior companies; a selection of better quality second-tier companies that may grow over the medium term; and some exploration or special situation companies, often owned for a shorter period of time. In addition, we aim to trade around our core holdings, adding to the best positions on any declines, and trimming on rallies. Given the volatility in this sector, we tend to be somewhat more active than in other account types. In a dedicated account (e.g., "gold" account) unless otherwise instructed, we tend to be more fully invested than in other accounts, raising significant amounts of cash only in exceptional circumstances. As the bull market has progressed, we have increasingly moved more money into junior situations, which tend to outperform later in a bull market.

Top Holdings

representative as of June 2011

Spider Gold Trust	Virginia Mines
Franco-Nevada	Allied Nevada
Royal Gold	Midland Exploration
Goldcorp	Silver Wheaton
Almaden Minerals	Altius Minerals

*Note: The composition of the portfolios will vary for individual clients and is subject to change at any time at the manager's full discretion.

For more information regarding managed accounts please contact us at:

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