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Wall Street Journal Europe Fund Ranking and our short-term Outlook for Precious Metals Equities

Wall Street Journal Europe Fund Ranking

The Precious Capital Global Mining and Metals Fund ranked among the 10 leading Sector Equity Precious Metals Funds for the year 2010 according to the Wall Street Journal Europe, weekend issue 31 December 2010:

FUND SCORECARD							
Sector Equity Precious Metals							
Funds that invest primarily in the equities of mining companies, though some may own gold or other metals outright. Most concentrate on gold-mining equities. Ranked on % total return (dividends reinvested) in U.S. dollars for one year ending December 30, 2010							
Leading 10 Performers							
FUND RATING*	FUND NAME	FUND MGMT CO.	CURR. BASE	LEGAL	YTD	% Return in \$US** 1-YR 2-YR 5-YR	
NS	SF tips Smaller Companies Gold A	The Share Centre Ltd	GBPGBR		126.72	127.94	NS NS
NS	Dynamic Precious Metals I	DundeeWealth S.A.	EURLUX		93.23	94.11 91.23	NS
4	Craton Capital Precious Metal A	LLB Fund Services AG	USDLIE		91.32	90.29 86.60	21.14
1	STABILITAS Gold+Resourcen Spec Sit I	IPConcept Fund Management S.A.	EURLUX		79.86	83.56 79.46	NS
2	STABILITAS Pacific Gold+Metals I	IPConcept Fund Management S.A.	EURLUX		78.66	81.52 110.64	NS
1	ZKB Gold Aktienfonds A	Balfidor Fondsleitung AG	CHFCHF		78.80	79.83 92.04	NS
3	Precious Cap Global Mining Metals CHF	LB(Swiss) Investment AG	CHFCHF		76.36	79.56 73.15	NS
5	AMG Gold Minen Metalle A	LB(Swiss) Investment AG	CHFCHF		79.23	79.10 66.66	NS
NS	PAM Gold </td> Silver Mining Metals	LB(Swiss) Investment AG	CHFCHF		79.38	78.56 81.57	NS
3	SICAV Placeuro Gold Mines Dist	Cofibol	EURLUX		78.21	77.22 85.07	20.49

NOTE: Changes in currency rates will affect performance and rankings.
KEY: ** 2YR and 5YR performance is annualized
NA: not available due to incomplete data
NS: fund not in existence for entire period

Source: Morningstar, Ltd
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Short-term Outlook for Precious Metals Equities

Technical observations

As we noted earlier in our December report the rally in silver which started in September has been outstanding. Technically, the metal became overbought in November. A useful indicator to measure the exuberance in price is the relative strength index (RSI) of the silver/gold ratio which had a reading of 86 as of November. Considering past price excesses which resulted in similar patterns a 20-25% setback in the silver price is possible. Consequently, we keep our exposure to silver miners tight but will add new positions once the correction phase has been completed.

Similar strong price movements have been registered in virtually all commodity markets. In November the CRB reached the highest RSI since 2008 before the crash. Of course, the recent action in the CRB was possible only on the back of the collapsing Dollar-Index (DX). The DX stood at 83.2 on 30 August 2010 and bottomed out on 4 November 2010 at a level of 75.8. As of 7 January the index made it back to 81.0. Our view is that the DX will continue to move up which could end the move in the CRB.

With the action in the silver market the silver community became excited and some forecasts assumed price targets of the gold/silver ratio of 15-17. Currently the ratio is at 47.6. In our opinion, this scenario is unlikely in the near term as we expect the DX to move higher. On the contrary, a further strengthening of the DX coupled with widening TED spreads which bottomed in October (13.8) could send the gold/silver ratio to higher levels.

The correction in the senior gold shares (XAU) and the junior gold shares (GDXJ) started in November with the GDXJ having underperformed the XAU. Silver blew out in December and since then it is underperforming gold; consequently silver miners continue to underperform gold miners.

Conclusion

Since August the action in precious metals markets has been outstanding. The rising DX put precious metals equities into a temporary consolidation mode which may last for some more weeks. We will use our cash position to build up positions on weakness.

The key consideration for gold miners is the development of the real gold price or the purchasing power of gold versus other commodities. Only an increase in the real gold price enhances the profitability of gold miners' margins.

The real gold price remains in a secular bull market which started in May 2007 with the failure of Bear Stearns. This caused the unwinding in credit markets and the blow out in commodities. We use the historical cycles of rising real gold prices which have typically lasted for 15-20 years.

Over the long term we remain bullish on the whole precious metals sector and expect that it will record outstanding gains but short-term volatility should be expected.

Florian Siegfried
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