



**YieldSafe INVESTMENTS LLC**

## OUTLOOK

"A Volatile Ride in Precious Metals"

9/22/2008

The rally in the XAU Index fell short of our forecasted target of 160. The highest level reached by the XAU was 155.16 on 8/28/08. Over the last two months, the XAU Index has been extremely volatile, swinging over 40 points between its lowest and highest points. We believe a large part of this volatility was due to overly leveraged hedge funds who were forced to sell their precious metals positions to meet margin calls. This selling by hedge funds exacerbated the sell-off in precious metals stocks, making the XAU even more undervalued relative to Gold. As shown in the graph below, the Gold/XAU ratio reached over 7 in early September which ultimately marked a bottom and a rally in the XAU.



While hedge funds were selling in panic, we were calmly adding to our position at increasingly attractive prices. Since we were not overly leveraged and forced to liquidate like hedge funds, we had the luxury of holding on to our position and waiting for precious metals stocks to rally from their extremely undervalued levels. Rally they did. We sold our position for a profit, bringing our YTD Performance to 7.72% versus the S&P 500's YTD return of -17.79%. To see our verified results, click on the TimerTrac link on our Home Page.

Mark Yuan, CFA

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