

## Gold for Growth

*Through its 5,000-year history of being money gold hasn't lost its purchasing power. That is why the OCM Gold Fund is predominately looking for un-hedged gold producers in order to give its investors exposure to rising gold prices in a rising gold price environment. Using an active tiered approach, the fund manager Gregory M. Orrell is looking for companies that are growing production and making discoveries in order to be able to replace reserves.*

**Q: What is your investment philosophy?**

**A:** The main thing that we are trying to provide for investors is a gold-related asset portfolio by predominately looking for un-hedged gold producers that are successful in growing and replacing reserves. We are also managing political country risk because gold operations are not always in the most hospitable places in the world, so we are trying to provide maximum gold exposure with balanced political risk. We want to give investors exposure to rising gold prices in a rising gold price environment while managing the risks that are associated with gold and gold mining.

**Q: Do you go beyond gold?**

**A:** There are a number of precious metals funds that invest broadly in diversified miners or maintain high exposure to platinum group metals, whereas we think of ourselves as a gold fund. We are going to have more correlation as to how gold is performing and what the sentiment is towards gold than we are if there is a big move in other metal stocks.

Gold is our main focus and we come at it from the monetary perspective. Our belief is that gold is money and it has a 5,000-year history of being the ultimate form of money, whereas, the history of all paper currencies is that they have ultimately be-

come worthless, so that's the hedge aspect that we are trying to provide. Right now we are about 90% invested in gold and about 6% – 7% in silver. When companies change focus away from gold, typically junior exploration and development companies, we tend to sell the holding and reposition in a gold/silver related asset.

**Q: How do you translate your philosophy into an investment strategy?**

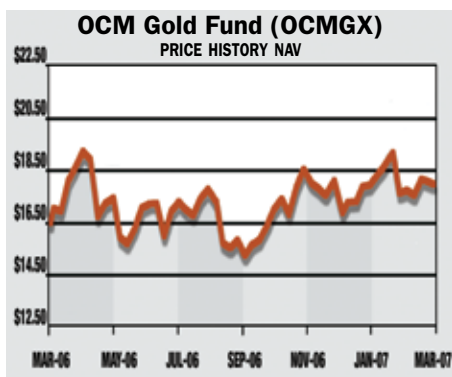
**A:** The reason that you have gold in a portfolio is that it is going to counteract financial assets depreciating or going down so when you have periods of economic euphoria, the value of financial assets balloons up and the gold price tends to decline. You could say gold is the reciprocal of financial assets.

For example, the Dow Jones - gold ratio is the Dow Jones divided by the gold price. This is one of the main tools we employ to determine where valuations are in terms of gold versus financial assets. At the top of the financial asset cycle between the years 2000 and 2001 it took over 40 ounces to buy one unit of the Dow Jones. Following previous peaks in '66 and '29, the ratio ultimately bottomed at one ounce to buy one unit of the Dow Jones. The last time was in 1980 when gold and the Dow crossed at 800. The average over the last 100 years is about 10 ounces to buy one unit



**GREGORY M. ORRELL** is President and Portfolio Manager of the OCM Gold Fund. Mr. Orrell has over 20 years experience in the gold sector as a retail and institutional broker, investment banker and portfolio manager. He has been the portfolio manager of the OCM Gold Fund since 1996. Mr. Orrell received his BS in economics and business administration from Saint Mary's College of California.

**“We believe that money moves through the various sectors of the gold industry at different times. While going through a bull market cycle in gold we are looking to capture participation in all the sectors.”**



of the Dow Jones but it's spent about half the time around 5. Currently the ratio sits at 18.75. So, today financial assets are still overvalued versus gold in our opinion which means gold will continue to outperform financial assets as it has for the past five years until this ratio has reverted back toward the mean and below.

**Q: How would you describe your approach to money management?**

**A:** We are buying companies and adjusting the portfolio depending on where we believe we are in the cycle. We have an active tiered approach to the gold industry with the bulk of the portfolio invested in major producers which are the larger-cap companies in the industry that produce over one million ounces annually. These companies currently comprise about 35% of the portfolio.

We believe that money moves through the sectors at different times. While going through a bull market cycle in gold we are looking to capture participation in all the sectors. We have a progressively smaller position and percentage of the intermediate producers which are companies that are producing less than a million ounces. Then we have positions in junior producers which are producing a couple of hundreds thousand ounces or less a year and then, finally, we are into the exploration and development companies, where there is tremendous risk and reward.

**Q: What kind of companies are you looking for?**

**A:** We are looking for companies that are growing production and we are also looking

for companies that are making discoveries because the gold industry is having a difficult time replacing reserves. Whereas they do mining and it is a depleting business by nature, gold miners are chewing up a lot of their reserves and in some cases might not necessarily be replacing or growing their reserve base but we can go out and find companies in our portfolio that are.

For example, whereas Newmont Mining will have leverage on an earnings basis to higher gold prices, the companies that are making discoveries are creating shareholder value. So there is a big lift in a company's share price when they make that discovery or develop a deposit further.

We are trying to capture for the individual investor something they can't do by just buying one or two stocks and wanting to have exposure into the gold sector. For example, Newmont Mining was down 15% last year and our fund was up 36%. So if you owned just one stock and you found that gold is up and Newmont is down, you would ask yourself how come you are not participating. But companies will have individual issues, such as rising costs or other issues such as not replacing reserves. There is a lot that goes into this mining industry that takes time and experience to understand. And management plays a key part of any company in any industry and this is especially true in the mining business.

At this stage of the cycle in gold, the market is looking for companies that are growing reserves, growing production or making discoveries consequently those sectors are the ones that are performing, so we are seeing rotation out of the larger-cap names and into the smaller names and our fund is designed to participate in that rotation. We are trying to provide our shareholders wider participation in the industry, rather than just all-large cap major producer names.

**Q: How is your research process organized?**

**A:** When we see an idea, we first go out and talk to our contacts within the industry. Then we'll talk with the management of every company. If necessary, we'll go and see the property and we'll make a value decision on what we believe the assets are worth. At that point we'll make a decision to buy the security. The process is very similar for both producing companies and exploration companies.

**Q: What screening methods do you use?**

**A:** We have a database of most companies that are in the industry and we have a value screen of where their ounces of reserves are trading and what their production ounces are trading at on a per market cap basis. From a producing standpoint, we'll look at the life and the quality of the reserves and we match those up with where they are trading at on a per market cap ounce of reserves.

If it's not in production, then we look at what they are trading at on a per market cap of reserves for resources and what the expansion potential is. We try to estimate if the cost needed to put that mine into production meets our value screen and then we'll make a decision to pursue from there.

**Q: Do you invest in global companies?**

**A:** Yes, we do. The Canadians have a long history in the resource business along with the Australians so you'll see predominately more Canadian companies in our portfolio. Those are the most active companies as one of the biggest resource markets is up out of Canada, especially in terms of financing companies.

For example, MAG Silver was a company that was exploring a property down in Mexico. We spoke with the management and we saw the property. They have a joint venture with a Mexican company called Peñoles in Mexico which is a big silver producer. We liked the geology and believed this could be a significant discovery that looked right. It's turned out that way and

over the last year the stock has been a 700% mover for us but we only put 30 basis points into the position because of the risk profile. If it were to go down and go in half, it's really not going to show up on the radar screen. But if it worked, you'd have a little percentage bump in performance. And we are trying to find those assets that have the added performance of creating shareholder value and turn these companies into a real asset.

**Q: How many stocks do you have in the portfolio?**

**A:** The construction of the portfolio is based on our tiered approach of not trying to be overweighted in any one sector of the industry but from time to time, depending on where we think the values are we will underweight or overweight a particular segment.

Currently we have about 80 positions in the portfolio and this is standard for us. We'll typically go between 25% and 40% in the large-cap names.

Then we go down to the intermediates and we are always battling mergers too. We still have significant concentration in one company, our largest holding, which is Goldcorp (GG), and that has to do with the merger of Glamis Gold (GLG) and Goldcorp. last year. We typically like to be in the 35% range for the majors and then work our way down to intermediates as a progressively smaller position in each group. Intermediates right now are about 25% whereas junior producers are about 11% or 12% and it is the same with exploration development companies.

We also have a little bit in the bullion ETFs. Sometimes the bullion can outperform the stocks so we have a little holding there of a little under 5%.

**Q: Do you measure against any particular benchmark?**


**A:** We have historically measured ourselves against the Philadelphia Gold & Silver Index (XAU) which is more of a large-cap

weighted index. Some of the companies that are in that index are hedged producers and we tend to have predominately unhedged producers in our portfolio because we're still looking to get as much upside exposure to gold prices as possible. We shy away from having the large hedged producers in the portfolio so they tend to be a very small percentage.

**Q: What kinds of risks do you monitor and how do you control them?**

**A:** We deal with the risks that are inherent of the sector and we are trying to limit the downside as much as possible while participating on the upside. For example, if we are in an overvalued stage where we believe gold shares are overvalued versus bullion, we can take a more conservative approach by either being more active and having a larger cash position or having more exposure in terms of bullion versus the stocks which tend to go down faster than the bullion does.

We also have to constantly be aware of whether or not the individual companies in our portfolio are continuing to replace the reserves they are mining and if not, we are going to re-rate that security. Additionally, there are environmental risks that need to be monitored for each company along with the geologic risk ore bodies fail to contain the level or quality of reserves outlined by drilling.

In the mining industry there is a high level of political risk that must be taken into consideration with operations located in every corner of the world. A number of countries with resources tend to have changing political regimes that make it difficult to gauge if a country is in a state of wanting mining for the economic benefits and foreign exchange or despising mining depleting the country's national asset with not enough social benefit. So the kinds of risks that we have to manage are basically reserve replacement, country risk, company specific issues and the sector risk. 

## OCM Gold Fund

Symbol	<b>OCMGX</b>
Website	<a href="http://www.ocmgoldfund.com">www.ocmgoldfund.com</a>
Address	OCM Gold Fund 1536 Holmes Street Livermore, Ca 94550
Tel. No.	800-779-4681
Inception	02/05/88

### PORTFOLIO

Total Net Assets*	\$115.1
Avg Mkt Cap (\$ Weighted)*	\$5,600
Average Price/Earnings Ratio	17.29
Average Price/Book Ratio	4.12
Turnover Ratio	20%

### INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$1,000
Min Subsequent Investment	\$50
Min Initial IRA Investment	\$100

### RISK (AGAINST FTSE GOLD MINES P IX)

Alpha	0.43
Beta	0.95
R-Squared	0.93
Ann. Std Deviation	30.19
Sharpe Ratio	0.49

### RETURNS VS. MSCI EAFE ND IX INDEX

	OCMGX	Index
1 Year (Cum.)	10.05%	20.20%
3 Year (Ann.)	14.83%	19.83%
5 Year (Ann.)	24.82%	15.68%

### RETURNS VS. FTSE GOLD MINES P IX INDEX

	OCMGX	Index
1 Year (Cum.)	10.05%	1.83%
3 Year (Ann.)	14.83%	9.33%
5 Year (Ann.)	24.82%	14.70%

### FEES AND EXPENSES

Max Sales Charge - Front	5.75%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee**	1.50%
Total Expense Ratio	2.07%

### PORTFOLIO MANAGER

Greg Orrell	12/13/96
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\*millions \*\*within 3 months of purchase

Data through: 03/31/07

Source: Company Documents; Lipper

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