



Dear Investor,

On behalf of **Permanent Portfolio Family of Funds, Inc.**, I am pleased to provide you with a reprint of an article on our **Permanent Portfolio** that appeared in the January 10, 2011 edition of *The Wall Street Transcript*. In accordance with the accompanying reprint, please read the following:

CURRENT PERFORMANCE TABLE

| PERMANENT PORTFOLIO | Average Annual Total Returns | | | |
|---|---|---------------------|---------------------|----------------------|
| | <i>(for the periods ended March 31, 2012)</i> | | | |
| | <u>Past 1 Year</u> | <u>Past 3 Years</u> | <u>Past 5 Years</u> | <u>Past 10 Years</u> |
| Return Before Taxes..... | 4.05% | 16.73% | 9.04% | 11.08% |
| Return After Taxes on Distributions..... | 3.78% | 16.48% | 8.79% | 10.76% |
| Return After Taxes on Distributions and Sale of Fund Shares..... | 2.89% | 14.42% | 7.75% | 9.75% |
| Citigroup 3-Month U.S. Treasury Bill Index..... | 0.05% | 0.11% | 1.12% | 1.81% |
| Standard & Poor's 500 Composite Stock Index | 8.54% | 23.42% | 2.01% | 4.12% |
| <i>(reflects no deduction for fees, expenses or taxes).</i> | | | | |

Expense Ratio: Gross .78%, Net .77%, as stated in our most recent prospectus, dated May 31, 2011. The Net Expense Ratio reflects a contractual waiver of investment advisory fees in effect for the year then ended. The Portfolio's investment adviser has agreed to continue the waiver at least through June 1, 2012.

Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Investment performance, current to the most recent month-end, may be lower or higher than the performance quoted, and can be obtained by calling the Shareholder Services Office at (800) 531-5142, or by visiting www.permanentportfoliofunds.com.

Returns assume reinvestment of all dividends and distributions, deduction of all fees and expenses except the \$35 one-time account start-up fee, and complete redemption of the investment at the end of the period. After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. In particular, after-tax returns are not relevant to investors who hold their shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. While the funds are no-load, management fees and other expenses still apply. Please refer to the prospectus for further details.

The Permanent Portfolio will be effected by changes in the prices of gold, silver and U.S. and foreign real estate and natural resource company stocks. The Fund also invests in foreign securities which will involve greater volatility and political, economic and currency risks and differences in accounting methods. The Permanent Portfolio may invest in small- and mid-capitalization companies which tend to have limited liquidity and greater

over, please

price volatility than large-capitalization companies. Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Mutual fund investing involves risk; loss of principal is possible.

The Citigroup 3-Month U.S. Treasury Bill Index tracks the performance of U.S. Treasury bills with a remaining maturity of three months. The Standard & Poor's 500 Composite Stock Index is a market-capitalization weighted index of five hundred unmanaged common stocks and is widely recognized as representative of the equity market in general. Returns shown for the Standard & Poor's 500 Composite Stock Index reflect reinvested dividends as applicable, but do not reflect a deduction for fees, expenses or taxes. You cannot invest directly in an index.

A basis point equals 0.01%.

Opinions expressed and views on the securities mentioned are those of the author, fund managers and Michael J. Cuggino and are subject to change at any time, are not guaranteed and are not a recommendation to buy or sell any security.

Any forward-looking statements speak only as of the date they are made. Forward-looking statements are subject to numerous risks and uncertainties, which change over time. Actual results could differ materially from those anticipated in forward-looking statements.

Diversification does not assure a profit or protect against a loss in a declining market.

The Permanent Portfolio's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling (800) 531-5142, or visiting www.permanentportfoliofunds.com. Read it carefully before investing.

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THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

A Strategic View of Asset Allocation



MICHAEL J. CUGGINO has served as the President and Portfolio Manager of Permanent Portfolio Family of Funds, Inc., a San Francisco-based family of no-load, open-end mutual funds specializing in asset allocation and tax-efficient investment strategies, since his investment advisory firm, Pacific Heights Asset Management, LLC, began managing the Fund in 2003. Mr. Cuggino has served as a Director of the Fund since 1998, its Chairman of the Board and President since 2003 and its Secretary since 2006. From 1993 through 2007, Mr. Cuggino served as the Fund's Treasurer. Mr. Cuggino is a Certified Public Accountant, and he holds a B.S. degree from Bentley University in Waltham, Mass.

SECTOR — GENERAL INVESTING

TWST: How would you characterize Permanent Portfolio's investment strategy and what is the Fund's asset allocation?

Mr. Cuggino: The Permanent Portfolio is an asset allocation fund whose investment objective is to preserve the purchasing power value of its shares over the long term, while seeking to achieve growth at low risk. It seeks to provide investors downside protection in a variety of market conditions, while also positioning investors for the possibility of profits in multiple market outcomes. The philosophy behind the Fund is that every investor has a core portfolio, a "nest egg" or "rainy day" money if you will, that they don't want to expose to undue risk or speculation. This is relevant because most investment strategies out there rely on forecasting, predicting, frequently moving in and out of asset classes or different markets or whatever. And the problem with that, for a core investment holding, is that human beings are not very good at predicting the future. Human nature being what it is, we all are accurate once in awhile in our predictions, but in general, our forecasts are wrong. And even if we get the broad ideas right, in most cases we get the timing wrong, which is as good as being wrong. This is true in all facets of our lives, not just in our investing behavior — we're just not that good at it. And so the Fund was created as a way to get around this weakness in the human condition as it pertains to someone's core investment holding. How do you preserve somebody's capital base, seek downside protection and to at least keep pace with inflation over the long term while not being real good at predicting the future? The way that the Permanent Portfolio answers this question is through the use of a comprehensive asset allocation strategy, using a variety of different asset classes that respond differently to various factors — economic, market-

based, political or geopolitical — which mitigates risk and thus largely eliminates the need to rely on predicting the future for the portfolio as a whole.

TWST: And what is your asset allocation?

Mr. Cuggino: The Fund has target weightings in six asset classes: 20% in gold; 5% in silver; 10% in Swiss franc-denominated assets, typically Swiss currency and Swiss government bonds; 15% in U.S. and foreign real estate and natural resource company stocks; 15% in U.S. aggressive growth stocks and 35% in U.S. Treasuries and high-grade corporate bonds. And if my math adds up right, using my CPA background, that's 100%.

Before we get deeper into the Fund's asset allocations, I do want to provide a little bit more background on the Fund's history. The Fund was created in 1982, and it came out of the economic environment of the 1970s and early 1980s. I don't know if you're familiar with Terry Coxon, Harry Browne or Doug Casey, but they were economists and financial writers back then — Terry and Doug are still writing today and Harry passed away several years ago — and some of the first people in the 1970s, Harry particularly, to recognize that the value of gold would likely increase substantially when the U.S. dollar came off the gold standard in the early 1970s, and to further recognize not only the value of investing in assets beyond stocks, bonds and cash, but the value of combining all of these different asset classes together to mitigate risk in a portfolio. Terry eventually crystallized many of these philosophies into what became the Permanent Portfolio. If you look back at that time period — \$800-plus gold prices, double-digit, short-term interest rates, rising inflation, stagflation, equity prices in a prolonged bear market, high marginal tax rates, gas lines and windfall profit taxes — there was a sense that regardless of what an investor was doing, it wasn't working and

that they were losing money. And so the Fund was borne out of that period of time as a potential solution.

We're experiencing at some level some of those factors today, the recent recession, volatility among assets classes, political and policy uncertainties, etc., but it's not a comparable period by any means. As a result, I think the Fund is very timely as a core investment for people now just like it was back when it was created. My view would also be that it's timely for an investor at some level in most environments or in any portfolio given its investment objective, the only relevant question being how much of a weighting the Fund might have in somebody's overall portfolio given individual risk tolerances, liquidity needs and other considerations.

TWST: How did the Fund perform during 2010?

Mr. Cuggino: The Fund had a return of 19.31% during the year ended December 31, 2010. For the three years then ended, on an annualized basis, it was up 9.20%; for the five years then ended, it was up 10.75%; for the 10 years then ended, it was up 11.12%; and since its inception in 1982, it's been up 6.97%. So if you measure those returns against an annualized inflation rate, a three-month U.S. Treasury bill rate or some other preservation of capital metric over similar periods, the Fund has met its investment objective of preserving purchasing power over the long-term and has added considerable growth as well.

TWST: Let's talk a bit more about the Fund's gold position and what you believe is the top reason to be invested in gold particularly right now.

Mr. Cuggino: In a way that the economic environment was tailor-made for an aggressive improvement in stock prices from the post-1982 recession through the end of the 1990s, the economic environment over the last decade, and in my view the foreseeable future, is conducive to further gains in gold going forward. Throughout most of the 1980s and 1990s, the control of inflationary pressures, the stronger U.S. dollar, the reduction of market interest rates, stable monetary policy, favorable business climate and declining tax rates all conspired to create a very favorable climate for the undertaking of business in general, and profits and revenue growth in a variety of industries. And obviously that translated to stock market gains for the owners of the businesses that took advantage of this climate. So it's not surprising that stocks had a roughly 20-year bull market during

reason, the monetary spigots were turned on, the currency further devalued to offset the potential pain such slowdowns would produce, thereby, in the short-term, sparing us the pain of such slowdowns. But in the longer term, delaying the inevitability of normal business cycle downturns, while cumulatively building up liquidity and severity of an eventual downturn; the higher they go the harder the fall so to speak, which then happened, violently, in 2008. Given this monetary backdrop, because interest rates were so low, the availability of credit so high and stock prices declining, returns still somewhat reverting back to their historical mean, investors began searching for return wherever, whenever and as quickly as they could find it, resulting in increased shorter-term indecision, volatility among asset classes and longer-term bubbles in certain asset classes like real estate. It's not at all surprising that a lot of this money found its way into harder assets like gold, commodities and real estate, which were structurally undervalued given the previous generation's focus on equities, resulting in the moves we've seen in some of those markets in recent years.

Economic growth slowed considerably, which I believe is due to the fact that there's been a lot of new regulation passed in the last 10 years, starting with the USA Patriot Act and its anti-money laundering procedures and the Sarbanes-Oxley Act, and continuing into the present with last year's passage of the new health care reform and the Frank-Dodd financial reform bill, both of which present more uncertainty than the problems they've purported to solve. So the overall regulatory environment has gotten a lot more complicated for businesses in many industries just to plan and operate, nevermind trying to earn a profit and grow, and nevermind trying to figure out what's coming next. And finally, consider that the world has become a more dangerous place over the last decade and, after a promising start in the early Bush II years, pro-growth tax policy initiatives have stagnated. So how do investors continue to deal with all of this? If you look at the last decade, different asset classes were the top performers in different years. One year it's bonds, the next year it's stocks, the next year it's commodities or real estate, and this reflects investors jumping around, trading on the news of the day, trying to find the best place for profits going forward and trying to read the tea leaves on where we're going.

Unlike the 1980s and 1990s, there is no underlying discernible economic trend for an investor to follow, and I think

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that period. In the same way, the environment that we have had in the last decade, and which seems to be continuing in the new decade here, is very different and favorable for an increase in harder assets such as gold.

Let's review the last decade. The volatility among asset classes that we've seen in my view can be traced primarily to an overly accommodative monetary policy, a resultant weakened U.S. dollar and artificially low interest rates for much longer than would have been necessary to deal with any of the economic underperformance we would have experienced during that time. Whenever there was a hint of trouble economically for whatever

that is why we're seeing some of the behavior in different asset classes that we have seen. Given this increased volatility and uncertainty, any investment portfolio that is utilizing different asset classes and utilizing diversification, whether it's a more strategic model like our Permanent Portfolio or whether it's a more tactical model, are going to do well in these times because such strategies do help to mitigate risk against all the uncertainty and volatility out there. Gold fits into this uncertain picture perfectly, which was your original question. For the reasons that I just laid out, the environment is favorable for a continued rise in gold.

Specifically, you have zero to negative real interest rates

after inflation. The degree to which depends on how you define inflation. You have political and economic uncertainty around the world. You have increasing competitive currency devaluation as countries seek to protect their own interests by cheapening their currencies to achieve employment and export growth. You have increasing consumer demand around the world, especially among the emerging market countries who now have more disposable income to spend on gold, which is valued the world over. You're also seeing increased demand on the investment side from, say, mutual funds like ours or other types of funds — hedge funds, institutional investors, pensions, endowments, as well as governments and sovereign wealth funds who are seeking to diversify credit balances and achieve currency diversification.

And so you have gold continuing to operate as an alternative currency to some of these devalued paper assets in a role that it's used to playing, and it's holding its value versus the

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cheapening paper money that's being printed the world over. And finally, there isn't a huge amount of new supply coming on board around the world. So you have basically a supply-demand issue that's more than exaggerated by overall worldwide monetary policy. That's the climate that we're in right now, and that climate is conducive for a continued rise in gold, although I would also say that gold is a volatile asset, its runs can be choppy and it can go down as quickly as it can go up. But I think in this environment, you would expect to see higher highs and higher lows with gold as this environment continues to unfold.

TWST: Given the recent increase in investor interest in gold, from a big picture perspective, what has been the impact on the gold market?

Mr. Cuggino: The impact has been rising prices. You're seeing that in the daily closing price of gold and the demand for it. Prices go up when people are buying more than they are selling and so for all the reasons I've given, there are a lot of people interested in gold and buying it. That's driving the market, and it's driving the market up.

TWST: So you mentioned it's a volatile asset. What other risks should investors be aware of when it comes to investing in gold?

Mr. Cuggino: There are ongoing costs associated with owning gold. You've got storage and insurance costs, making sure it's properly warehoused, safe and protected, the sorts of considerations that you don't necessarily have in holding assets like stocks or bonds or cash. There is potential economies of scale in sharing these costs for institutional investors or investors in mutual funds who own gold like our Permanent Portfolio. There is risk of government intervention or expropriation in the gold markets, either by central banks, governments or arms of governments, like sovereign wealth funds. There has been some precedent for that historically, and we can look no further than the United States in the 1930s. Gold doesn't produce any income unless you're using your gold holdings to lend for interest or other income-producing activities. Gold only has the potential for

capital appreciation. You can get exposure to gold by investing in gold mining stocks, but that's a different investment, as stocks are stocks first and their prices don't necessarily correlate to the price of gold itself. However, mining companies generally pay dividends, which, depending on your investment objective, may be an advantage. Also, long-term capital gain rates on sales of gold and other commodities are generally higher than they are on the sale of stocks and bonds, so investing in gold may not be as tax efficient as investing in other asset classes.

TWST: So you're not in any gold mining stocks, you're just in gold bullion and coins?

Mr. Cuggino: Because the Permanent Portfolio is diversified and looking for the pure performance of all of its different asset classes, we want the Fund's gold exposure to be to the gold market itself. Thus, we invest in the metal directly. So having said that, we don't own any mining stocks whose primary

business is gold mining. If there is a company that has gold mining as an ancillary business, then potentially, it could be included in our Fund as part of its harder asset stocks, its U.S. and foreign real estate and natural resource stocks sector. If a company is primarily a gold or silver miner, the Fund doesn't invest in it because the Fund is already investing in those metals directly, and that would be doubling up on the asset and convoluting the Fund's strategy. In our view, and as I mentioned before, investing in the metal directly verses the stock of a mining company is preferable in our strategy, because the stock is a derivative investment in the metal and will behave like a stock first as companies have investors to satisfy, business plans to operate, salaries and dividends to pay, facilities' costs and capital expenditures to incur and stock market variables to be affected by, all of which impact the price of a stock at any given time, in addition to the value of the company's metal holdings itself.

A great example of this is that a lot of mining companies will hedge the value of future production and lock in certain prices or revenues that may work from a business standpoint, but if the prices of the metal exceed those hedged contract prices, the company has basically given up any further upside. This is especially true if the company believes the price of gold may decline. Lately though, you've seen a lot of mining companies unwinding some of these hedging positions, which we consider bullish for the future direction of the price of gold. This is a factor that investors should sometimes look at in terms of — in the same way one might look at insider transactions of a stock. As the thinking goes, how are the people that are closest to that business feeling about its prospects and you could assume that if companies are unwinding hedging positions, at some level, they may think that there is more appreciation to be gained.

In the current climate, we do believe it to be another positive indicator on future price of gold, but investors need to remember that many times insiders are sometimes as wrong as outsiders with respect to their investment decisions. So while such a factor might be an insight, it should not be solely relied upon, a

consideration among many when you're analyzing the gold market. Because the Fund's strategy is to use gold as an alternative currency, an inflation hedge, an anecdote to paper currency, investing in the mining companies would not be the best use of our assets.

TWST: Please tell us a bit about your silver position.

Mr. Cuggino: Very similar in the way that we approach investing in silver, it's just that the Fund's target weighting is smaller. If you look at metals on a spectrum, on the far left, you have an alternative currency, which is gold. If you look to the far right, you've got iron ore, nickel, copper, platinum, palladium, rare earths and hard core industrial metals. Silver is somewhere in the middle. It has some of the alternative currency properties of gold but that's not its best use. And it is an industrial metal with many

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industrial applications. It's kind of a middle child in a sense. It's both and it's neither on its own and it trades like that. There are times where silver trades based on cyclical economic conditions, and I would point to 2008 as an example where it correlated very highly with the move in most industrial metals, or this past year, where its performance far outpaced the move in gold. Silver's performance in 2010 appears to have been driven both by monetary factors and supply and demand factors, driven by increased worldwide economic activity. In our Permanent Portfolio, since silver is a hybrid between gold and other industrial metals, we believe it to be appropriate to have both in the Fund.

TWST: You provided us with a good introduction to Permanent Portfolio. How do you characterize a client that makes an ideal match for this Fund?

Mr. Cuggino: There are different ways that we've seen investors use the Fund. Obviously, a core investment in just about any portfolio makes sense at some level depending on the risk profile and liquidity needs of the investor. We've also seen it used by conservative investors as their primary investment, for example, a person working to preserve wealth and earn something on it but not looking to aggressively grow an asset base, someone who's already made it and is looking to keep it. We've seen it used in "alternative asset" or "absolute return" portfolios where it's part of an asset class in a portfolio consisting of assets other than traditional stocks and bonds. We've seen it used as a core holding in both fixed income and growth portfolios, in fixed income portfolios as a core holding because the Fund does throw off income and it does have a lower volatility to maybe some other types of investments. In addition, investors using it in a fixed income portfolio have combined it with other higher-yielding investments such as longer term bond funds, distressed debt, junk bonds or other high-yield products in an overall portfolio. Similarly, the Fund does have a growth component and as such, we've seen it used as a core holding in growth and equity portfolios where people are combining it with individual stock selection, option strategies, exchange-traded funds and sector funds, again to produce an even bigger overall return.

We've also seen it used by people that want to have some limited exposure to commodities but want to have other assets mixed in as well, not jumping into commodities with both feet, which obviously I think is a smart move, but to have some diversification and also have a variety of different assets in one product. Such investors get a tremendous amount of diversification in one mutual fund wrapper at a very reasonable cost, 82 basis points and declining as of our most recent annual report, and do not have to worry about maintaining multiple accounts or worry about continued rebalancing in multiple markets. Then probably the final way, and this gets back to the alternative asset category, but as a hedge fund-like mutual fund. I'm a CPA by training and I worked for six years at Ernst & Young LLP. Our Fund is like a hedge fund

in the classic definition of the term hedge, which is risk mitigation, not the high-return, high-risk, big leverag- type thing, as the term is commonly used in the investment media. If you compare Permanent Portfolio to a hedge fund whose primary strategy is risk mitigation, our Fund compares favorably, both in performance and cost, as compared with a 2% and 20% fee structure, and you don't have the capital tie-ups in a mutual fund that you do in an unregistered product like a hedge fund. Mutual funds like our Fund are open for business every day, and that's an advantage to investors as well over, say, hedge fund products.

TWST: Thank you. (MES)

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