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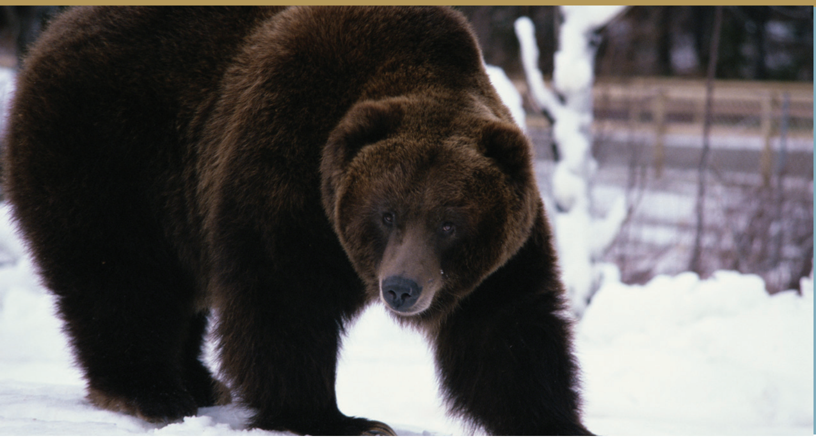
THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

WINTER WARNING



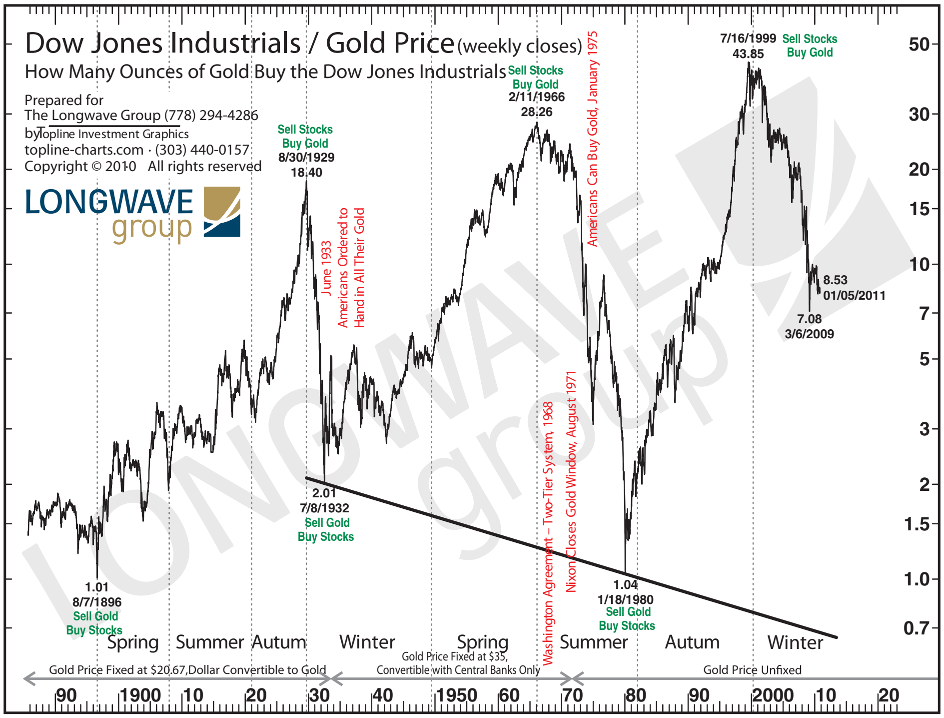
How I manage my investment portfolio

Since early in the year 2000, the holdings in both my wife's and my investment portfolios have consisted exclusively, of junior precious metals mining shares; principally, of gold companies.

At the age of 58, you might wonder why I chose to do such a risky thing with our money. Well, I didn't perceive it as being risky at all.

Through my understanding of the Kondratieff cycle I was convinced in 1999, that the great autumn stock bull market was coming to an end and that the Kondratieff winter would soon usher in the age of gold and gold shares, just as it had done after 1929.

I was also watching the Dow Jones/Gold ratio, which peaked in favour of the Dow in July 1999, when it took 43.85 ounces of gold to buy the value of the Dow Jones Industrial Average. That was the highest peak ever reached by this measure. It told me that the equity markets were going to reverse direction and that the general stock market was going to go down in the destructive winter stock bear market and the prices of gold and gold shares were going to rise as the deflationary/ depression got underway.



Since that time through careful management of my investment portfolio, I have managed to earn an average annual rate of return of about 70%, despite the setback experienced in 2008. So this is how I have done it and will continue to do it in this way. There still remains considerable upside for the price of gold and the price of gold shares, since most of the financial and economic chaos that is characteristic of the Kondratieff winter still lies ahead.

Rule 1. Believe that you will make money. Visualize the rising share prices of the companies you have selected for your portfolio. 'Thought creates reality.' Positive thoughts produce positive results. Conversely, negative thoughts evoke similar results to what you are thinking. When I was a stockbroker I would sometimes have prospective clients meet with me, who would offer this summation of his/her investment experience- "I have never made money in the stock market" to which I would reply "then I don't want you as a client, because you never will."

Rule 2. Finding the best companies in which to invest your money requires some research. One of the best ways to do this is to subscribe to the Northern Miner Newspaper, which is published on a weekly basis. My subscription allows me to review mining companies' news releases every day and I do this. If I am intrigued by a news release, such as interesting drill results, I go to the company's website and review management, properties and share ownership. You can also subscribe to newsletter writers who specialize in junior mining companies. I subscribe to three different writers, but remember for the most part, these writers are generally focused on all metals companies. Your interest in this Kondratieff winter cycle should be geared exclusively to the precious metals companies.

Rule 3. Don't invest until you have researched the company. Go to the company's website and read the presentation. Read some of the latest news releases. Then prepare some questions and phone the company and ask to speak to the president. You'd be surprised how easy it is to talk to the company's president. He or she wants you to become a shareholder in the company. Here are some examples of the questions that I might ask. "Ms. Craig, (President of Northern Freegold Resources NFR/V and one of the companies that 'I like.' I just read your latest drill results and they seemed quite low grade (less than 1 gram) so tell me what that means and why I should invest in your company?" "Mr. Sorbara, (President of Golden Goliath GNG/V and one of the company's that 'I like' I have just read that Agnico Eagle has struck a deal with Golden Goliath on the Las Bolas property in Mexico, "why is that good for the company and should I buy your stock?"
Rule 4. Don't invest in companies exploring or mining in politically risky countries. Sell an investment if, and as soon as, the political risk in a country turns negative, i.e. Ecuador. A few years ago, I assisted a company named Dynasty Metal and Mining DMM/T to raise money for its properties in Ecuador. There was already a considerable gold resource on at least two of its properties. This financing was very successful and made investors better than ten times their money on their original investment. Later, management in another company with highly prospective properties in Ecuador, Ecuadorian Minerals, contacted me and asked me to help raise money in their Initial Public Offering (IPO). I jumped at the chance because I could see another Dynasty. Unfortunately, some months after this financing the President of Ecuador shut down all foreign mining in the country. Initially, the share price of Ecuadorian Minerals dropped, but still gave investors a chance to liquidate their positions, I didn't sell and then the share price plummeted. The company has since changed its name to Andean Gold (AAU/V) and its share price was rolled back on a 1 for 10 basis. I then helped the company refinance because management was able to acquire for the company a new and excellent property in Peru. This financing was priced at $0.12 a share and was settled about a month ago. The share price in Andean gold is currently trading at $0.35.

Rule 4. Choose companies in good gold locations- Abitibi Greenstone belt, Alaska/Yukon, Chile, Ghana, Mexico-Sierra Madre, Nevada, Peru; maybe Tanzania, Argentina and Columbia.

Rule 5. Whenever possible, find companies with properties adjoining past producing mines, past workings or with artesenal miners working on the properties. This shows that gold has already been discovered on the property. It's a good indication that there probably is more gold, i.e. Detour Gold, Osisko and several of the current exploration and producing companies in Mexico.

Rule 6. Find companies with gold in the ground assets that may have been overlooked by the market. Cannacord Adams recently suggested $100 per ounce in the ground was a fair price for a sum of all categories – Inferred, Measured and Indicated and Proven and Probable. Remember, however, 'That All Gold In The Ground Is Not Created Equal.' Ursal Doran – location, access, power, water, grade, and deposit depth, etc.

Rule 7. Find companies with developing and prospective early stage geology-trenching and surface work geophysics in favourable locations.

Rule 8. Find companies with developing drill results expanding the initial resource.

Rule 9. Find companies that have joint venture partnerships with senior producers. Seniors don't waste time on small deposits. Millrock Resources has several different joint venture partnerships with senior mining companies.

Rule 10. Find companies in which seniors have a sizeable share interest – 5% or more. But you don't want the senior to have a controlling interest because this effectively quashes any potential bid from another interested company.

Rule 11. Find companies in which major investment funds have a significant interest; especially those investment funds which have a reputation for their gold investment savvy, i.e. Sprott, Pinetree Capital, RBC, Toqueville, Van Eck and others

When you have found all the companies that fit some of these criteria and you won't find very many, apply the next set of rules:

Rule 12. Avoid investing in companies where management is not focused. By that I mean the company is looking for too many different minerals in different locales. I am only interested in investing in junior precious metals companies and I don't want to put my money into companies that are exploring all over the map.

Rule 13. Look for the companies that have been, for the most part, overlooked by the market, which is generally indicated by a low stock price. Not all low stock prices are indicative of lack of recognition. On the contrary, a low stock price might be well deserved. What you want to find is a low price that is not deserved. In my experience there are just two reasons for this:

a) Poor public relations. The company hasn't promoted a good story into the public domain. I think Temex Resources (TME/V), Atlanta Gold, Currie Rose (CUI/V), PC Gold are a few companies that fit this criterion.

b) The investing public is bored with the company. It has taken too long for the company to produce good exploration results, i.e. Golden Goliath (GNG/V); see website, 'Companies that I like.'

Rule 14. Use market capitalization (Total number of shares issued times current share price; Temex Resources – 100 million shares outstanding times current share price of $0.40 = Market capitalization of $40 million) to determine relatively cheap companies.

Measure the value given to the gold in the ground (Temex Resources has 1.2 million ounces and thus at a $40 million market capitalization – its gold in the ground is being valued at about $33 per ounce; that's cheap).

Use market capitalization to make value comparisons between companies with similar assets.

Rule 15. This is my most important rule: Only invest in companies that you can see have the potential to double their share price within ten months. It doesn't mean that you'll get the double but you must see the potential. What kind of things offers such a potential? Of course, rising precious metals prices will assist in raising the share prices of most precious metals companies. However, you are seeking something spectacular, which may happen for one or more of the following reasons:

a) Market recognition
b) Great exploration results
c) Developing a resource
d) A new area play

Note, however, that once a stock price gets beyond $1.50 or so, I only need to see the potential of adding 50% to the share price, because in that case my portfolio value will increase in dollar terms as much or more than the increase that I get from a double from a lower priced stock.

Rule 17. When you get your double, ask yourself "can I see another double within ten months?" If you can, don't sell out of the position. You may even want to add to your position, because of another double price potential. This allows you to stay in the stock and achieve significant gains, i.e. Nevsun, Pelangio, IMA etc. In May 2002, I put 85% of the value of my portfolio, in just one stock, Nevsun Resources. (NSU/T). I was so confident that the share price would rise significantly, because the company had an attractive gold in the ground asset in Mali (You probably wouldn't be allowed to do this, but I was a stockbroker at the time and for us, there were no rules about concentration). Anyway, the purchase price was $0.60 and in about a year I was selling my position out at about $6.25. In other words, I rode the price up until I couldn't see another double or even a 50% increase in the share price. This allowed me to stay in the stock and make a very attractive gain in my portfolio. It rose by about ten times during 2003. Incidentally, Nevsun Resources topped at about $9.50, not long after I sold out my position. The company's share price has never been near that level since and the Mali property is no longer a part of the company's assets.

Rule 18. Look for potential 'ten baggers.' These come from undervalued situations not yet recognized in the market place. It's easier to get a ten bagger from a low priced stock i.e. $0.15 to $1.50 than it is from a higher priced stock – $1.50 to $15.00. There's no time frame target for a 'ten bagger.'

Rule 19. Accumulate relatively large positions in your portfolio, i.e. in a $100,000 portfolio, probably only 5 different stocks; $1 million perhaps an investment in no more than ten different companies. This means that a significant price increase from a small percentage of the stocks that you own can give the whole portfolio a major boost. See Nevsun above.

Rule 20. Sell if:

a) You can no longer see a potential double in the share price or a 50% gain for stocks priced above $1.75 within the next ten months

b) Management fails to deliver on its promises or plans.

c) Exploration plans fail.

d) The political risk changes from positive to negative, sell immediately, i.e. Ecuador

e) Sell some after a big price increase if you need to raise cash for another investment with better upside potential. This is even if there is a potential for a doubling in price of the stock which you are selling. I've had a significant position in Timmins Gold, since its inception as a public company and this investment has been very profitable. I have recently reduced my position; it is still my biggest holding by market value. This has allowed to make investments in some other companies that I am confident will produce great profits for me.

Never be afraid of taking a loss. I have taken many losses over the past ten years. Here's an example; I owned many shares of a company called New Guinea Gold (NGG/V), because I was convinced that its share price was a potential ten bagger. NGG's properties in Papua New Guinea were very prospective and it had a property that the company placed into production. However, the production never achieved what management had projected. Anyway, I eventually sold out my entire position at a considerable loss. But I used the money from the New Guinea sale to take a large position in Timmins Gold at $0.40 a share in July 2008. I turned that loss into a significant gain and Timmins' share price closed 2010 at $2.68.

Rule 21. Don't use stop losses. You've invested in a stock because at a minimum you are expecting a double in price within the following ten months. Sometimes, after I have bought a position in a company, the price has fallen by 20% or so, maybe on account of a correction in the gold price. From that decline, the price has risen beyond my purchase price and in some cases quite quickly to my double price target. Under the circumstances, I would have hated to have been stop-lossed out of my position. The only thing a stop loss does is shield your investment portfolio from the catastrophic crashes, like 2008. But that's the chance I'm willing to take, because I'm comfortable in knowing that the prices of gold and silver are going to continue to increase as the horrors of the Longwave winter continue to unfold.

Rule 22. Examine your portfolio at least once a week. (I look at my and my wife's portfolios almost every day) How has the portfolio performed? Which stocks have risen in price and why? Which stocks are down in price and why? Are there any stocks that I should be worried about? Have any doubled in price during the past week? If so, do I still see the potential for another price double?

Rule 23. At year end, print out the portfolio and set price goals for each stock for the coming year. I do this based upon how I think the prices of the precious metals are going to perform and the exploration upside. Every month, review those price goals and evaluate your performance.

Here's an example from a sample in my account at the end of 2009 –

Timmins Gold (TMM/V) Closing Price December 31, 2009 $1.28 – projected price December 31, 2010 – $3.00. Actual Closing price December 31, 2010 – $2.68. So we got a double in the share price, but I missed my projected target by $0.32 or about 10%. What made me pick $3.00 a share? Sometimes the number comes to mind and if it appears o.k. I go with it. You'll probably think that's very unscientific, but as I said it has to appear to be a realistic number. What made $3.00 a realistic number? Timmins was going into production in 2010 and I was confident that management would achieve the goals that they had set in this regard. By and large they did. Secondly, I believed that the company would add to resources through drilling during 2010 and this addition would increase the life of the mine. The company achieved this as well.

I still own shares in Timmins Gold. In fact, it is my largest share holding by value in my portfolio. So what's my projected price target for the company by December 31, 2011? It's a lot to expect the share price to double from $2.68 to $5.36 within ten months. So what's could make it happen? Firstly, a rising gold price; I am confident that the price of gold will continue to increase, since I expect that the international debt crisis will worsen during 2011. Secondly, if Timmins is successful in its bid to own Capital Gold that will make the merged companies a mid-tier producer. Thirdly, Timmins itself might become the target of a takeover. Fourthly, I believe that the company will be successful in adding additional ounces of reserves near the San Francisco mine. But, I am not looking for the Timmins share price double in 2011, I have invoked my 50% projected increase rule for Timmins. This gives me a target of $4.00 a share for Timmins in 2011. I am comfortable with that price projection.

Rule 24. Get informed. Read the news releases of your companies. Phone the President and ask how things are going. Read the Northern Miner. Google. Get an understanding of basic geology – Read 'Mining Explained,' published by the Northern Miner.

Rule 25. Do it alone or use a stockbroker? It's very difficult to find a stockbroker, who understands junior mining and / or can make recommendations in that sphere. There are stockbrokers in Vancouver who can do both, but most of them can't do that for U.S. investors.

I prefer to use a broker, because I can get very good trade execution through a broker and can sometimes get some stock recommendations that I might not have considered. My broker is Doug Wood. We worked on the same floor at Canaccord Capital. He is now at a small firm called Jordan Capital. I have known Doug more than ten years and I like and trust him. His forte is the junior mining sector. Doug places my buy and sell orders through a trader with whom he has worked for several years. A good trader can save you lots of money in the execution of both the buying and selling process and that more than makes up for the relatively small commission that the firm charges.

If you are just beginning to invest in junior precious metals companies, you're eleven years behind me. By following these rules, these past eleven years have been very rewarding for me. But I am confident that there are several years left in the great bull market in precious metals because our leaders have made such mess of things and as I see it there is no way out of the mess. So there's still time for you to protect and enhance your wealth by investing in precious metals companies.

Written By: Ian Gordon