The Investor’s Guide To Gold And Silver

Your objective, common-sense guide to protecting and building wealth through precious metals investments.

By Brien Lundin and the Gold Newsletter Research Team
I’m constantly fielding questions from investors and media asking why I’ve been recommending gold so emphatically over the last few years.

I tell them there are three simple and compelling reasons: Debt…debt…and debt.

Let me put this into context. Just a couple of years or so ago, when Federal Debt was just poking over $20 trillion, I calculated the historic, effective interest rate on the federal debt over decades.

Now, this is a number that you’ll never get anyone to provide, and I’d searched vainly for it over the years. It’s always regarded as a moving target, as there are so many different durations and yields on Treasurys. Finally, I’d had enough, and simply took the Treasury’s quarterly interest cost data and divided it by the quarterly federal debt totals and, voila!, I had the effective interest rate on the debt.

And the data yielded quite a surprise: The effective interest rate is usually about 3% to 4% above the fed funds rate.

The implications from this were astounding…and frightening. Simply put, the costs of servicing the federal debt would grow to unmanageable levels if either interest rates or the federal debt rose significantly.

And what we’ve seen since is that the federal debt has indeed risen since I first made these calculations. In fact, it’s soared to nearly $28 trillion so far, and is progressing at a dizzying rate of climb.

What this means is that we could reach a crisis as the federal debt rises, even if interest rates remain near zero. At this rate of debt creation, the costs of servicing the debt would eventually crush the federal budget, regardless of where interest rates head.

And here’s the important part: If rates rise much at all from current near-zero levels, the crisis happens quickly and decisively. For example, if the Fed were able to get the fed funds rate near their previous goal of 3.0%, annual debt service costs would project to about $1 trillion a year.

That’s a multiple of what the U.S. government pays for any other line item, including national defense or any entitlement program.

In the modern political environment, paying that much in interest, every year — to “fat cat” investors and even the Chinese government — would lead to calls to simply stop paying. In other words, a default.

And just the serious mention of that in a political context would send the dollar crashing…and gold soaring.

Regardless, the size of the debt essentially creates a permanent cap on interest rates. And that cap is very low — requiring that interest rates must remain near zero. In fact, inflation-adjusted rates, or so-called real rates, must remain negative going forward.

To understand why, we need to look backward, as nothing we’re seeing today is new.

What’s Old Is New Again

Throughout human history, governments have always overspent their means, creating unmanageable debts. Whether it be military campaigns, lavish lifestyles for rulers or bread and circuses for the masses, excessive
debts have been a natural outgrowth of human nature and a consistent characteristic of governments from time immemorial.

From ancient Greece and Rome to today, the solution to these debts has always been the same: to depreciate the currency.

As you can see from the chart above, the Roman denarius was devalued consistently as the empire ran up its debts. In fact, the drop in the value of the currency closely traced the decline and ultimate collapse of the Roman empire.

Ancient gold and silver coins had their edges clipped and/or their alloys debased to create cheaper currency with which to pay off those debts. Later, in fiat money systems, currencies were simply printed up to ever-greater levels and the parties went on.

It will be the same today. Debt loads are so large around the world that dollars, and every other fiat currency, must be significantly depreciated, to lessen the real values and costs of those debts.

This is why real rates must remain negative going forward, with the rate of interest being less than the rate of inflation.

In short, the dollar must depreciate more quickly (inflation) than debt service costs can rise.

The end result is that we’ll have negative real rates going forward, essentially as long as the current monetary regime is in place.

And that is an extremely bullish environment for gold and silver, as well as virtually all commodities.

This is the primary reason why we can rest assured that the prices of gold and silver, and mining stocks, will be much higher over the long term.

But there are other reasons, including the fundamental and irresistible trend of ever-easier monetary policy.

Easier And Easier Monetary Policy

In the U.S., as a prominent example, the trend toward overspending began with the “guns and butter” policies of the 1960s. These spending programs led to significant deficit spending, which in turn led to the creation of ever-increasing amounts of dollars as the Federal Reserve monetized the debt.

Eventually, this prompted governments around the world, most notably France, to take advantage of the dollar’s only remaining link to gold: The gold “window” that allowed foreign central banks to exchange dollars for gold from the U.S. gold reserve.

The outflow of gold from Treasury vaults grew so great that President Nixon was forced to “temporarily” close the gold window on August 15, 1971.

Of course, like all confiscatory government programs, that temporary closing proved to be permanent. But the most important repercussion was that it freed the Federal Reserve to pursue easy-money policies without restraint.

To paraphrase our friend P.J. O’Rourke, giving central bankers this power was akin to “giving whiskey and car
keys to teenage boys.” The rampaging inflation of the 1970s proves this metaphor, as the Fed’s governors quickly veered the U.S. economy into a figurative ditch.

Thanks to the extraordinary conviction and political imperviousness of Fed Chairman Paul Volcker, the central bank was able to get inflation under control and the economy back on track. But subsequent Fed chairs were unable to resist the temptation to move back toward easier-money policies whenever the economy began to slow.

The result, as you can see in the accompanying chart, is an ever-descending staircase of interest-rate ranges.

The red lines mark the bottoms of each of the Fed’s rate-cutting cycles. Note that not only is each bottom successively lower than the previous, but the central bank was never able to “normalize” rates to anywhere near the previous levels.

The central bankers themselves became addicted to manipulating interest rates — the cost of money, and therefore the cost of everything — ever lower in response to any hiccup in the economy.

Even worse, in the process they also addicted the financial markets to the drug of easy money.

The upshot is that the current financial markets are towering to record levels of valuations, but with that growth fueled almost exclusively by the adrenaline of easy money.

At this point, they demand not just easy money, but ever-easier money.

The problem, of course, is that the descending stairs of interest rates hit the ground floor after the 2008 Great Financial Crisis. And then it returned to zero as a result of the Covid-19 crisis. The next step, which the Fed has done everything but fully deny as a possibility, would be negative rates.

If the Fed truly isn’t considering negative rates as a possibility, it is the only central bank in the world with such conviction.

...And More Money Altogether

If ever-easier interest-rates were the only consequence of this trend, it would be bad enough. But after the 2008 crisis, the Fed took things to a new level with “quantitative easing.”

With its QE 1, 2 and 3 programs, the Federal Reserve expanding its balance sheet to previously unimaginable levels over $4.5 trillion. And while officials protested that this new-money creation was noninflationary because much of the purchasing was being “sterilized,” remember that every cent of those Treasury securities were backing government spending that had already gone into the economy.

These were new dollars being created at a mind-boggling rate.

As before, the Fed did attempt to normalize policies after a few years, but were only able to get their balance sheet back to around $3.7 trillion and the fed funds rate just below 2.5%.

Their attempts at normalization led the U.S. stock market to throw a hissy fit, powerfully illustrating the fact that normalization would never be possible without collapsing the financial house of cards that had been built by the
Every investor who has accumulated any degree of wealth needs to insure that wealth by owning gold and silver.

Of course, the U.S. central bank escalated all previous policies to new records, almost immediately doubling the Fed’s balance sheet to nearly $7.5 trillion and setting interest rates back to zero…and all this before the major fiscal programs came in to add trillions in spending.

Which leads us to the present situation, in which many trillions of dollars have been (and are about to) be created, thereby diluting the value of every other dollar in circulation…and in which the markets and the financial system itself are dependent upon these policies continuing.

If the size of the federal debt were not enough to demand a significant depreciation of the U.S. dollar, then this dependency of the financial system upon ever-easier money would guarantee it.

Own Gold — For Insurance And Profit

The bottom line is that every investor who has accumulated any degree of wealth needs to insure that wealth by owning gold and silver.

The very essence of gold is its ability to insulate you from the depreciation of your currency. It represents freedom — your independence from the inevitable destruction of your wealth by government policies.

Consider gold as insurance, but not against something that might happen, but from something you know will happen. You purchase home insurance, but you don’t expect your house to catch on fire.

But gold protects you from something that is inevitable: the depreciation of your currency.

Moreover, gold is the only insurance in which you can pay the premium only once.

The lesson of history — and recent trends — argue that you should pay that golden insurance premium soon, if you haven’t already.

Beyond its role as insurance, there are ways you can leverage the inevitable increase in gold prices to build your wealth.

Our Investor’s Guide to Gold and Silver is a comprehensive report that covers the entire spectrum of precious metals investments, from physical bullion to rare coins to futures and options and mining stocks. And the range of options and valuable strategies are discussed within each sector.

Our flagship subscription publication, Gold Newsletter, was instrumental in the fight to legalize gold ownership in the U.S. 50 years ago, and has since evolved into one of today’s preeminent advisories on the junior mining sector.

These equities are high-risk/high-potential, but the risk is dramatically lowered during a secular gold and silver bull market based on monetary fundamentals. In short, precisely the kind of investing environment we have today…and likely for years to come.

Not only is the risk lowered in such a bullish environment, but the potential rewards are also raised. One pick, for example, recently soared over 55 times in value since it was recommended in a Gold Newsletter Alert in December of 2017. Many other picks have risen hundreds of percent in value.

But to maximize your returns and lower your risk in mining equities, you need to do your homework.

You see, the key to investing in mining stocks is to realize that it’s an inefficient market, especially so at the junior end of the spectrum. Thus, by dedicating time and money to researching the sector, you can gain a distinct advantage over those who aren’t as diligent.
If the argument for investing in gold and silver is simple, the next step — deciding precisely how to do it — is anything but.

There are a number of broad classes of precious metals investments, from physical metals to options to equities and more, with many sub-sectors within each. They all offer specific advantages and disadvantages and, generally, we advise that investors diversify by allocating their designated funds across a number of areas. You should always, however, keep your individual risk appetite and tolerance in consideration.

While the array of choices can be dizzying, we’ve tried to simplify your decision process with the following information and guidelines.

Physical Gold And Silver

In spite of the huge imbalances that have built up in the global economy, it’s still unlikely that they will result in complete financial Armageddon. But you never know, right?

That’s why investors with a bias toward hard money need to have a portion of physical gold and silver at their ready disposal. This type of investment does not offer any leverage — the physical metal in your possession will increase or decrease in value in accordance with the spot markets for gold and silver.

What it does offer is peace of mind. In the event the global economy does go over the cliff, you’ll have an ample supply of hard money to ensure you can provide for you and your family.

There are a number of ways to invest in physical precious metals, with each offering varying degrees of leverage, safety, liquidity, accessibility and other key attributes.

“Bag” Or “Junk” Silver

“Bag,” or “junk,” silver is curiously named, since it refers to the denominational coins produced by the U.S. mint in 1964 and earlier, coins that were 90 percent silver by weight. You would think, therefore, that these valuable coins would have earned some respect.
But their monikers were earned for good reason. They are called bag silver because they are typically sold in mass quantities, in canvas bags. They are called junk because these typically circulated coins are well-worn and, from a numismatist’s standpoint, ugly in comparison to uncirculated, high-grade rare coins.

In any event, junk silver is a great way to buy silver at the lowest premium to melt value. This silver is typically delivered in bags of $250, $500 and (most commonly) $1,000 in face value denominations (meaning the face values of the quarters, dimes and half-dollars in the bag add up to $1,000).

For coins composed of 90 percent silver, this equates to a silver bag weighing 795 ounces. Subtract the 10 percent copper content of the coins and that leaves you 723 ounces of silver in a $1,000 bag. Add in a factor for wear-and-tear metal loss over the decades since these coins were minted, and most $1,000 bags contain around 715 ounces of pure silver.

Junk silver has a couple advantages. First, in the event of a complete economic collapse, the smaller denominations involved in bag silver would be fungible and readily tradable for goods and services. (Try exchanging a one-ounce gold bar for a loaf of bread, and asking for change.)

Second, because the silver coins in junk silver bags were created by the government for circulation, they come with no refining or minting costs attached.

Thus, although junk silver has some disadvantages in terms of the sheer bulk of the investment, it represents the least expensive way to buy bullion, with the lowest premiums above melt value.

<table>
<thead>
<tr>
<th>Coin Name</th>
<th>Nation</th>
<th>Fineness</th>
<th>Gold Weight In Troy Ounces</th>
<th>Years Of Mintage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold Nugget</td>
<td>Australia</td>
<td>0.9999</td>
<td>1/20 oz, 1/10 oz, 1/4 oz, 1/2 oz, 1 oz, 2 oz, 10 oz, 1 kg</td>
<td>1986–present, 1991–present</td>
</tr>
<tr>
<td>Lunar Series I</td>
<td>Australia</td>
<td>0.9999</td>
<td>1 oz</td>
<td>1996–2007</td>
</tr>
<tr>
<td>Lunar Series II</td>
<td>Australia</td>
<td>0.9999</td>
<td>1/10 oz, 1/4 oz, 1/2 oz, 1 oz</td>
<td>2008–present</td>
</tr>
<tr>
<td>Philharmonic</td>
<td>Austria</td>
<td>0.9999</td>
<td>1/20 oz, 1/15 oz, 1/10 oz, 1/4 oz, 1/2 oz, 1 oz, 1 oz, 100 Kilo</td>
<td>1979–present</td>
</tr>
<tr>
<td>Maple Leaf</td>
<td>Canada</td>
<td>.9999</td>
<td>1/20 oz, 1/10 oz, 1/4 oz, 1/2 oz, 1 oz</td>
<td>1982–present</td>
</tr>
<tr>
<td>Gold Panda</td>
<td>China</td>
<td>0.999</td>
<td>1/20 oz, 1/10 oz, 1/4 oz, 1/2 oz, 1 oz</td>
<td>1806–1914</td>
</tr>
<tr>
<td>20 Francs Napoleon</td>
<td>France</td>
<td>0.9</td>
<td>1 oz</td>
<td>1991–present</td>
</tr>
<tr>
<td>Libertad</td>
<td>Mexico</td>
<td>0.999</td>
<td>1/20 oz, 1/10 oz, 1/4 oz, 1/2 oz, 1 oz</td>
<td>1981–1990</td>
</tr>
<tr>
<td>Libertad</td>
<td>Mexico</td>
<td>0.9</td>
<td>1/4 oz, 1/2 oz, 1 oz</td>
<td>1921 - 1931</td>
</tr>
<tr>
<td>Centenario (50 Pesos)</td>
<td>Mexico</td>
<td>0.9</td>
<td>1.20565 oz</td>
<td>1967–present</td>
</tr>
<tr>
<td>George the Victorious</td>
<td>Russia</td>
<td>0.999</td>
<td>0.2537 oz</td>
<td>2006–present</td>
</tr>
<tr>
<td>Krugerrand</td>
<td>South Africa</td>
<td>0.9167</td>
<td>1/10 oz, 1/4 oz, 1/2 oz, 1 oz</td>
<td>1997 - 1936, 1947, 1949</td>
</tr>
<tr>
<td>Vreneli</td>
<td>Switzerland</td>
<td>0.9</td>
<td>0.0933 oz, 0.1866 oz</td>
<td>1987–2012</td>
</tr>
<tr>
<td>Sovereign</td>
<td>United Kingdom</td>
<td>0.9167</td>
<td>0.2354 oz</td>
<td>Various</td>
</tr>
<tr>
<td>Britannia</td>
<td>United Kingdom</td>
<td>0.9167</td>
<td>1/10 oz, 1/4 oz, 1/2 oz, 1 oz</td>
<td>1987–2012</td>
</tr>
<tr>
<td>Britannia</td>
<td>United Kingdom</td>
<td>0.9999</td>
<td>1 oz</td>
<td>2013-</td>
</tr>
<tr>
<td>Gold Eagle</td>
<td>United States</td>
<td>0.9167</td>
<td>1/10 oz, 1/4 oz, 1/2 oz, 1 oz</td>
<td>1986–present</td>
</tr>
<tr>
<td>American Buffalo</td>
<td>United States</td>
<td>0.9999</td>
<td>1 oz</td>
<td>2006–present</td>
</tr>
<tr>
<td>Double Eagle</td>
<td>United States</td>
<td>0.9</td>
<td>0.9675 oz</td>
<td>1849–1933</td>
</tr>
</tbody>
</table>
Gold And Silver Bullion

Precious metals bullion is typically sold in coin or bar form, and either form offers key advantages of portability and relatively low premiums over melt value.

The accompanying tables list some of the more common and widely accepted bullion coins along with their characteristics. As you can see, the variety is dizzying.

The issue gets more confusing when you have to consider where to store your bullion; the options run along wide spectrums of affordability, security, convenience and other factors.

For instance, you can choose to store your gold in a storage facility, which are generally quite secure and designed to store bullion. In fact, you can usually buy and sell bullion from your account in a storage facility.

One key distinction that you’ll find, however, is that your bullion can be either in an allocated or an unallocated account.

In allocated storage, specific bars (or portions thereof) are assigned to your account; you have legal title to your gold. In unallocated storage, you are credited with a specific weight of bullion included amongst a much larger amount held in the vault or vaults. All other things being equal, unallocated storage offers lower costs, but many investors feel more comfortable with the security of ownership offered by allocated storage.

You can also store your bullion in a safe deposit box at your local bank. This could put your metal closer to you, but your accessibility will be limited to the bank’s hours.

And finally, of course, you can choose to store your bullion at home, either in a safe or hidden somehow. Generally, however, any substantial amount of gold or silver should be safely secured in either a storage facility or a safe deposit box.

Semi-Numismatic And Numismatic Coins

Semi-numismatic and numismatic coins are a viable investment option, and knowledgeable collectors/investors can profit as the premiums over melt and/or collectible values rise and fall, often independently of the fluctuations in the metals markets.

Semi-numismatic coins are those old, U.S. gold or silver coins with common dates and/or large surviving populations, and which don’t have a high grade (condition). They typically sell for a greater premium over their melt value than bullion coins, but for significantly lower premiums than rare (numismatic) coins.

<table>
<thead>
<tr>
<th>Coin Name</th>
<th>Nation</th>
<th>Fineness</th>
<th>Silver in Troy Ounces</th>
<th>Years Of Mintage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Silver Kookaburra</td>
<td>Australia</td>
<td>0.999</td>
<td>1 oz, 2 oz, 10 oz, 1 kg</td>
<td>1990–present</td>
</tr>
<tr>
<td>Lunar</td>
<td>Australia</td>
<td>0.999</td>
<td>1 oz, 2 oz, 10 oz, 1 kg</td>
<td>1999–present</td>
</tr>
<tr>
<td>Philharmonic</td>
<td>Austria</td>
<td>0.999</td>
<td>1 oz</td>
<td>2008–present</td>
</tr>
<tr>
<td>Maple Leaf</td>
<td>Canada</td>
<td>0.9999</td>
<td>1/2 oz, 1 oz</td>
<td>1988–present</td>
</tr>
<tr>
<td>Libertad</td>
<td>Mexico</td>
<td>0.999</td>
<td>1/20 oz, 1/10 oz, 1/4 oz, 1/2 oz, 1 oz, 2 oz, 5 oz, 1 kg</td>
<td>1982–present</td>
</tr>
<tr>
<td>Saint George the Victorious</td>
<td>Russia</td>
<td>0.999</td>
<td>1.01 oz</td>
<td>2009–2010</td>
</tr>
<tr>
<td>Britannia</td>
<td>United Kingdom</td>
<td>0.958</td>
<td>1/10 oz, 1/4 oz, 1/2 oz, 1 oz</td>
<td>1997–2012</td>
</tr>
<tr>
<td>Britannia</td>
<td>United Kingdom</td>
<td>0.999</td>
<td>1 oz</td>
<td>2013-</td>
</tr>
<tr>
<td>America the Beautiful</td>
<td>United States</td>
<td>0.999</td>
<td>1 oz</td>
<td>2010–present</td>
</tr>
<tr>
<td>Silver Eagle</td>
<td>United States</td>
<td>0.999</td>
<td>1 oz</td>
<td>1986–present</td>
</tr>
</tbody>
</table>
So what advantage do semi-numismatic coins offer investors? The premiums over melt value for any particular coin can vary substantially over time, so investors buying at the low end of a trading range can realize added profits if they can also sell at the high end of the range, and metal prices have advanced or at least held steady.

But the primary potential benefit of semi-numismatic coins is safety (or the perception thereof). You see, the collectible value of these coins is great enough that many investors feel they would be excluded from any U.S. government gold confiscation.

While we believe that a U.S. gold confiscation is highly unlikely, there’s no denying that it has happened before. And when President Franklin Roosevelt issued his Executive Order 6102 on April 5, 1933, forcing American citizens to sell their gold to the U.S. government, it excluded “gold coins having recognized special value to collectors of rare and unusual coins.”

So investors in semi-numismatic coins are hoping to get significant bullion value, along with premiums that will hopefully expand, as well as some level of potential protection against confiscation.

Rare, or numismatic, coins offer very little bullion value in comparison to their selling price, but even better potential protection against confiscation. The key difference is that rare coins can be rewarding in ways extending beyond potential profits.

This is because the value of rare coins is primarily based not in the value of their contained metal, but in their rarity, beauty and collectability. For rare coin collectors, profits take a back seat to the ongoing pursuit of the elusive pieces they desire. And in fact, those who pursue coins for their collector value are those who often realize the greatest monetary profits from their efforts.

Rare coin collecting and investing is a complicated subject, and too extensive to be adequately addressed in this report. The arena can seem intimidating to those interested in getting involved, and those looking to enjoy the sector’s varied rewards should educate themselves before making significant investments.

Where To Buy

Here are myriad bullion brokers and coin dealers who can handle your bullion purchases — a fact that seems obvious from the barrage of gold and silver dealer ads that have cropped up on television in recent years.

Generally, you can assume that expensive advertising budgets must be paid for somehow. And, typically, the companies running these ads are going to offer low-profit bullion coins just to get you as a customer. After your initial purchase (or even before), you can expect to be subjected to high-pressure sales pitches offering rare coins or modern-issue “rarities” that the dealer can sell at a higher profit margin.

There are many honest, reputable and knowledgeable coin dealers out there, though, and the secret is in finding them and developing a relationship.

Regardless of where you buy (or sell), it’s important that you shop around for the best price. Of course, it’s difficult to shop prices for truly rare coins, and in these cases it’s important that you have developed a trusting relationship with two or more dealers so that you can compare advice.

The following are coin and bullion dealers that we have found to be knowledgeable, trustworthy and customer-friendly:

**American Gold Exchange**  
Austin, TX • 800-613-9323  
info@amergold.com • www.amergold.com

**Asset Strategies International**  
Rockville, MD • 800-831-0007  
www.assetstrategies.com

**Camino Coins**  
Burlingame, CA • 800-348-8001  
www.caminocompany.com

**David Hall Rare Coins**  
Newport Beach, CA • 949-567-1325  
kate@davidhall.com • www.davidhall.com

**Maurice Jackson**  
Miles Franklin Precious Metals • 855-505-1900  
contact@provenandprobable.com • www.provenandprobable.com

**The Coin Agent**  
Jefferson, LA • 888-494-8889  
thecoinagent@gmail.com • www.thecoinagent.com
Another key factor is finding rare coin dealers you can trust, and developing relationships wherein the dealers know what you’re looking for.

Fortunately, the numismatic market has advanced light-years over the past 25 years, especially with the emergence of the independent coin-grading services of PCGS and NGC. As a result, the primary area where an investor can get burned is not in counterfeit coins or over-grading, but in price. And today’s active rare coin market means that the risk here, while not completely eliminated, has been minimized.

Options

Another way to invest in precious metals is to buy gold or silver options on the COMEX or one of the world’s other commodities exchanges.

Mechanics Of Options

Options are essentially contracts that allow those that engage in them the right, but not the obligation, to buy or sell an investment for a set price on or before a date certain.

Typically, the longer the window of time offered by the option to hit that set price, the more costly the option. By the same token, the closer the set or “strike” price is to the current trading price of the underlying investment, the more expensive an option will be.

“Buy” options are referred to as “calls.” These securities are a bet that the price of an underlying security will exceed the strike price on or before the exercise date. “Sell” options are referred to as “puts.” Put options are bets that an underlying investment will decline below the set strike price before the exercise date.

The advantage of options is that, if you guess correctly, they can provide a significant amount of leverage on the price movements of gold and silver. Moreover, if your options expire without breaking through their set strike price, you are only out the cost of the option, which is typically a fractional amount of the notional value of the underlying investment.

The downside to options is that, unlike investments in physical assets or relatively liquid stocks and bonds, you risk losing your entire investment amount if your options don’t put you “in the money” before the exercise date.

Fortunately, there are a variety of ways to hedge against this latter risk that typically involve buying additional (and often more complex) options.

COMEX Trading

Still, this sort of investing is not for the faint of heart. Unless you are a seasoned options trader, it’s probably best to allocate no more than 10 percent of your risk capital to the options sector. Also, in order to trade in these instruments, you have to work with a broker that’s specifically licensed to trade in commodities securities.

How To Invest In Options

If you’re looking for a seasoned broker with a strong track record of success in this arena, we recommend Sue Rutsen of the Rutsen Meier Belmont Group (RMB) in Chicago. Sue and her team have been trading futures and options successfully for Gold Newsletter subscribers since 1984. They know options inside and out, and will be happy to help you create a winning investment strategy for this sector.

You can reach Sue at 800-345-7026 or 312-528-3494 direct. Mention this report and she will send you the RMB Short Course in Futures and Options free of charge.

Exchange Traded Funds

Exchange traded funds (ETFs) are a relatively new type of investment vehicle, having only arrived in the precious metals space within the last decade.
Designed to be mini-mutual funds that trade like stocks, ETFs allow investors to diversify their investment portfolios without having to pay for the services of a broker or mutual fund manager. ETFs exist for all sorts of things and are particularly popular for their ability to sell indexes like the S&P 500 and the Russell 5000 as if they were individual stocks.

The ETFs that track these indexes are designed to mirror their performance as closely as possible. And, because they are sold like individual stocks, their liquidity in the market is unparalleled.

About 10 years ago, the ETF market began developing ETFs that tracked the price of silver and gold by taking physical positions in the metals and selling fractional shares of those positions. Gold and silver were bought and sold out of these vehicles to track the spot prices for these two precious metals.

The most popular gold ETF is GLD, which is sold by State Street’s SPDR division. The ETF is available for sale on the open market and comes with a tiny expense ratio of just 0.40 percent plus the cost of buying and selling shares. To date, GLD alone has absorbed about 40.8 million ounces of the world’s gold supply.

The most popular silver ETF trades under the symbol SLV and is sold by iShares. The expense fee for SLV is also low (0.50 percent). To date, this ETF alone has accumulated over 325 million ounces of physical silver in its trust.

One of the best takes on these paper representations of physical metals holdings can be found in the Sprott Physical Bullion Trust. Offering a unique combination of liquidity, allocated holdings, redeemable units and potential tax advantages for U.S. individuals, the trusts are offered in gold (PHYS), silver (PSLV), gold and silver (CEF) and platinum and palladium (SPPP).

The advantages of the precious metals ETFs are that they are very liquid and generally do a good job tracking the spot prices of their underlying metals. They also provide a way for smaller investors to own a fractional interest in gold and silver. They give investors the benefits of owning the physical metals without the hassles of storage and transportation.

The downside of the ETFs is they are inherently unlevered vehicles. Your ability to enjoy capital gains is limited to the upside for the underlying metals. And while both gold and silver have done quite well over the past decade (and, as you can tell from this report, we expect them to do quite well in the future), the road to truly spectacular profits in this sector requires leverage.

There are two main ways to leverage this market. The options strategy we have already outlined is one; investment in mining equities is the other.

This is not to dismiss the ETFs or a few of the other ways to invest in precious metals that we’ve detailed. We maintain that a diversified and risk-laddered approach to this sector makes a great deal of sense. And there’s room for all levels of risk aversion when developing a precious metals portfolio.

**Mining-Themed Mutual Funds**

Another way to invest in the gold sector is to buy one of the many gold and precious metal-themed mutual funds that are out there.
These funds collect investor money and then buy and sell gold- and silver-related equities in an attempt to maximize returns on this sector. In an ideal world, the mutual fund managers’ superior knowledge of the market as a whole and this sector in particular allow these funds to beat the broader mining stock tracking indexes like the HUI and XAU.

Of course, such outperformance is not very likely, given that the majors and mid-tier companies that generally form the bulk of these mutual funds’ portfolios are the very same companies that comprise the HUI and XAU.

This is a matter of simple arithmetic. The precious metals sector takes up a minute portion of the overall investment universe. Consequently, there aren’t that many major and mid-tier gold and silver companies from which to build a portfolio.

That being said, if you can find a mutual fund that seems to time the market better than most with its purchases and divestments, that’s probably one to look at if you want a relatively low-maintenance way to play this sector.

Just remember, actively traded mutual funds tend to come with sizable money management fees and can, in certain circumstances, be tax disadvantaged.

That’s why many investors, particularly those new to the sector, simply buy one or both of the two major mining stock ETFs — GDX and GDXJ. The “J” in GDXJ signifies that it focuses on the more “junior” gold and silver producers. But because this fund is generally believed to offer greater performance potential (with of course more risk), it’s grown very popular over the years.

The end result is that GDXJ has grown so large that it has been forced to include larger and larger-cap companies in its portfolio, such that the difference between its portfolio and that of GDX has narrowed significantly.

Individual Mining Stocks

Finally, we come to the possibility of using your own research and investing acumen to choose individual mining stocks. Your ability to do this will depend heavily on your background in and knowledge of this market.

But, not to worry. Even if your mining stock investing track record is thin (or non-existent), this report is designed to get you up to speed and looking in the right direction for advice and education in this volatile, but potentially lucrative, sector.

The Majors

There are only a handful of major mining companies in the world, and even fewer that are focused primarily on the extraction of gold. The world’s largest silver producers are generally base-metal miners that generate silver as a by-product of their copper, gold or zinc-lead operations.

Because the reserve and assets bases of majors are so large, an investment in any one of these companies (as opposed to an investment in physical gold and silver in some form) is essentially an investment in their management talent.
Moving earth, processing ore, replacing reserves, keeping a lid on labor and fuel costs — all these factors and more make mining a challenging business. That’s why there tends to be only a few big players out there. In order to make money year-in and year-out in the precious metals business, you need two things high (and, ideally, rising) metals prices and economies of scale.

The majors (e.g. Newmont Gold, Barrick Gold, Harmony Gold, Goldcorp and Anglogold Ashanti) are companies with enough large metals deposits to consistently turn a profit in this often cut-throat industry.

Growth for these companies tends to happen on the margins, and their fates are largely determined by the trajectory of gold and silver prices and the ability of their management teams to make sound operating and financial decisions.

There’s not much of a case to be made for owning an individual major as opposed to owning the sector. The upside to be gained by chasing the stock of any individual major is pretty minimal (if not outright non-existent) compared to the downside of potentially being overinvested in an underperforming player in the market.

The Mid-Tiers

Moving a step down from the major players are the mid-tier producers.

These are the companies with one, two or a handful of operating mines and 100,000 to 500,000 ounces of gold-equivalent production annually. These companies can provide a modest amount of leverage in times of rising precious metals prices.

They can provide leverage because, unlike their big brothers in the major category, mid-tier producers have more potential for growth by growing their existing profile, making an exciting new discovery or acquiring an advanced-stage deposit from a junior.

As it is all along the investment food chain, management talent is critical to a mid-tier producers success. Because they often operate mines on the margins of profitability, operational skill is critical to their long-term performance.

Of course, because they do operate at the margins explains why these stocks become so popular with investors when gold prices begin to pop. Their ongoing production provides the safety of cash-flow generation while their sensitivity to rising metals prices makes them solid ways to leverage a bull market in the precious metals.

The leverage that a fast-rising mid-tier company can provide explains how these companies often find their way onto Gold Newsletter’s list of recommended companies. They provide a level of downside protection and upside potential that’s often very attractive.

The Juniors

That being said, to expose yourself to potentially mind-numbing, tax-bracket-altering returns in precious metals investing, you have to consider allocating a piece of your portfolio in a collection of high-potential junior explorers and developers.

Make no mistake — this is not a sector for the faint of heart. Fortunes are often made or lost in the blink of an eye with these companies. Money invested in this sector should be earmarked for speculative purposes only.

But with that caveat, nowhere else in the market will you find as much potential for investments to double, triple (or multiply many, many times over) in a short span of time. When you combine the power of a “discovery story” for
a junior with a tight share structure and an ebullient market for gold and silver, you have the makings of one of the most lucrative investment opportunities out there.

The focus of the following section is to increase your knowledge level in the junior mining sector so you can trade with confidence and carve your own path to wealth in this high-risk, high-reward investment space.

**How To Trade**

Most majors and mid-tier producers trade on U.S. stock exchanges. If you are a U.S. investor, you can use pretty much any sort of broker to trade in the companies.

However, when you start dealing in explorers and small-scale producers, you’ll find most of those stocks only actively trade on the Toronto Stock Exchange and the TSX-Venture Exchange, which are the two major Canadian securities exchanges.

Because of these exchanges’ long histories in the mining and exploration sector, they have developed regulations and procedures that make investing in junior mining stocks much safer on their exchanges than their counterparts in the U.S.

This runs contrary to the perceptions of many long-time U.S. investors, who may remember the “old days” decades ago when the Vancouver Stock Exchange was a hotbed of penny mining share scams. But the exchanges began a concerted effort to clean up their act in the 1980s, and it is precisely because the regulators were intimately aware of every type of scam and swindle that they were able to craft a regulatory regime that avoids the peculiar pitfalls of mining speculation.

Unfortunately, the U.S. over-the-counter, or “bulletin board,” market enjoys none of the protections that exist on the Canadian exchanges. In fact, given the ease of listing on the large Canadian stock exchanges, we assume that any company listed only in the U.S. is simply trying to avoid the Canadian regulatory regime. Thus, we don’t recommend investing in any junior resource company not listed on the Toronto Venture Exchange or the Toronto Stock Exchange.

It is increasingly easy for U.S. investors to buy Canadian-listed stocks. Most of the major online brokers allow you to trade these stocks, either directly via their Toronto Stock Exchange or Toronto Venture Exchange listings, or through “pink sheet” surrogate listings that are eventually settled on these exchanges.

The important thing to remember is that, regardless of the stock symbol showing up on your trading confirmation, the underlying company should have a Toronto Stock Exchange or Toronto Venture Exchange listing.

You may also want to enlist the services of a broker specializing in this sector. There are many good brokers out there. One that has produced consistent results for investors over the years is Rick Rule and his team at Sprott Global Resource Investments.

Well-versed in the pitfalls and potential of junior mining investing, Rick and his team of brokers at Sprott have the experience and the market intelligence to give you the best chance of pulling winners from this notoriously fickle market. ([www.sprottusa.com](http://www.sprottusa.com))

In addition, our friends at Casey Research have compiled a valuable listing of brokers that can trade these stocks [here](http://www.sprottusa.com).
Best Newsletters

Investment information is readily available for the bigger companies in the precious metals space.

If a company is mining gold or silver profitably, there’s a good chance that a large number of buy-side and sell-side analysts are following its story. But things get trickier as we move into the more speculative explorers and developers in this sector.

To get good information about junior mining companies, you’ll want to subscribe to a number of the better-known newsletter writers that cover the industry. If we were purely self-serving, we would argue that Gold Newsletter is the only publication you need to read to succeed in this sector.

But while few newsletters can match Gold Newsletter’s longevity or success at picking winners, the truth is that this is a broad, albeit thinly-traded, sector, and the more information and analysis you can bring in to guide your decision making the better.

In addition to Gold Newsletter, some of the more valuable newsletters in this sector are written by Eric Coffin (Hard Rock Analyst), Brent Cook and Joe Mazumdar (Exploration Insights), James Dines (The Dines Letter), Nick Hodge (Resource Stock Digest), Louis James aka Logo Tiggre (The Independent Speculator) and Gwen Preston (Resource Maven). All of these bring a fresh, insider’s perspective to the junior mining game, and I would encourage all potential and existing Gold Newsletter readers to subscribe to their publications as well.

By putting together a good collection of analysts and writers to guide you on your journey through this sector, you’ll put yourself in the best position to leverage the power of the juniors and rising precious metals prices into substantial personal wealth.

The back half of this report is dedicated to showing you how to understand the language of junior mining companies and how to make sound investment decisions based on an unbiased synthesis of available public information, be it from company websites, precious metals conferences or newsletters writers and analysts that follow the sector closely.

And so, without further ado, let’s dive into the nuts and bolts of investing in junior gold and silver exploration companies.

Components Of Junior Mining Success

Quality Projects

In some ways, junior mining companies are no different than other publicly traded companies.

No matter a company’s size, in essence it is a collection of projects. Nabisco, for example, is made up of Oreos projects, Saltines projects and the like. An oil and gas company is made up of active wells and exploration projects, and each one has an NPV, IRR or some other measure of future profitability attached to it.

Exploration-level mining companies are similar in that their market capitalization generally represents the market’s estimation of the present value of their assets (which at this end of the sector are basically exploration projects), the price and price-trends of those projects’ underlying metals, cash on hand and, perhaps, a market premium due to...
the reputation of the company’s management team and the perceived likelihood of a discovery.

If a large part of a junior mining company’s valuation is tied to the potential value of its projects, then it stands to reason that knowing how to assess those projects’ potential value is a critical component of junior mining stock investing.

In the pages ahead, you’ll learn all the basic geological and financial jargon you’ll need to assess a project’s potential. You’ll learn about terms such as deposit size, mineralization, resource estimates, feasibility studies, net present value (NPV), internal rate of return (IRR) and much more.

Along the way, I’ll show you the factors to consider before making investments in junior mining companies. Remember, one of the secrets to profits in this sector is timing. With some well-timed and well-placed investments (and a reasonably high tolerance for risk), you can reap the power of leverage to rising metals prices that these stocks can provide.

As you’re about to see, junior mining companies typically employ one of two main strategies when exploring for and developing new mineral deposits. But no matter which model a company chooses, at the end of the day, its valuation will be primarily determined by the value the market assigns to its projects, a fact which makes having high-potential projects critical to a junior mining company’s long-term success.

**Exploration Strategy**

Junior mining companies must live within the expenditure constraints imposed by their ability to raise capital. As a result, most companies follow one of two general models of operation.

The first is to own a handful of projects and have one project that is the “flagship project.” Companies that follow this model spend the vast majority of their available capital exploring and developing their flagship project. Any additional funds are typically used to ply their earlier-stage projects with less expensive, “first pass” exploration techniques (as opposed to drilling, which tends to be more capital intensive).

For companies that use the flagship project model, most of the value of the company obviously comes from the potential value of the flagship project. In junior mining companies, this is typically the project that is seeing intensive drilling and already has (or has the potential to have) a large metal deposit as defined by Canada’s geological standards for publicly traded mining companies (aka National Instrument 43-101 standards or NI 43-101). I’ll have more to say about these standards later.

For now, it’s enough to know that the market values not only drill results, but also the release of NI 43-101 compliant resource estimates. With those estimates, analysts and retail investors can begin to have some level of confidence that a mineral deposit has the potential to become a cash-flow generating project.

The other basic model for junior mining companies is the “prospect generator” model. Under this model, a company uses its geologic expertise to identify and acquire/control a large portfolio of projects of merit. It then uses first-pass exploration techniques to prep as many of these projects as possible for further exploration by joint venture partners.

In the mining game, a joint venture is an option agreement whereby a mining company earns a majority interest (typically around 70%) in another company’s project. To earn that interest, the company agrees to spend a specified amount of money on exploration over a specific amount of time, or until the project reaches a specified benchmark.
Mining exploration is a numbers game, with the odds stacked solidly against a discovery. So the idea of the prospect generator business model is to advance as many projects as possible — to get as many tickets in the lottery, so to speak — to maximize the odds of getting a discovery.

The junior retains only a minority stake in any discovery, of course, but it also doesn’t have to bear the vast majority of the expenses. And expenses are the killer for small companies that don’t have any revenue other than periodic financings from speculative investors.

Of course, some companies follow a hybrid of the “flagship project” and “prospect generator” models. And the terms themselves are just useful ways to describe how junior mining companies tend to operate. They are not hard and fast industry categorizations per se.

**Good Management Is Key**

No matter what model a junior mining company employs, having a management team that can execute the strategy effectively is critical to a company’s success.

In assessing a company’s management team, you need answers to two key questions:

*What is management’s track record?* While it’s undoubtedly true that past performance is no guarantee of future results, for thinly traded companies like those found in the junior mining space, a management team with a track record of success can be critical, particularly in the early going.

Teams with reputations for delivering for shareholders will usually win in the competition for scarce capital. Teams with geological expertise can attract both capital and joint venture partners — especially if that expertise includes a record of past discoveries.

*How well-connected is management?* Generally speaking, management teams with strong track records of success and established careers in the industry have the “Rolodexes” to prove it. Their contacts can prove vital to a company trying to get its story heard by institutional and retail investors in a market that is already very crowded and noisy. Those networks are also essential to raising the funds necessary to advance the company and the projects (see below).

**Cash In The Bank**

Because looking for mineral deposits requires a substantial outlay of cash with no guarantee of success, the abili-
The ability to raise capital is crucial to an exploration company’s viability as a going concern.

Publicly traded exploration companies are funded with seed money from private investors, provided through “private placement” financings. Typically, these financings are comprised of units consisting of one common share of the company’s stock, plus either a full- or a half-warrant. The warrants are essentially options, with a limited term, to buy a corresponding share of the company’s stock at a specific strike price set above the current price. The units are usually sold at a discount of up to 20% from the current share price, and the attached share is restricted from trading for four months from the time of closing.

Keep in mind that the above are general terms, and terms will vary from financing to financing. In addition, although most financings in Canada are open to accredited U.S. investors, there are special exemptions that must be relied upon for Americans to get the same terms as Canadians and offshore investors.

In other words, make sure you get professional advice if you have the opportunity to participate in a private placement in a public Canadian company. (And this publication is most definitely NOT a replacement for this advice!)

This money raised through private placements allows a company to acquire projects of merit and (hopefully) to begin exploring those projects with at least first-pass exploration techniques.

I’ll get into the specifics of those techniques further on in this report, right now it’s enough to know that initial cash outlays often pay for either exploration preparatory to drilling or actual drilling. In either case, exploration is not without expense, and companies with stocked treasuries will always have a better chance of generating news flow than those that are short on funds.

Of course, issuing equity to raise those funds dilutes a company’s stock, so it’s critical that a company be smart with its money (yet another reason why good management is so important). The tighter a company’s share structure is before it makes a big discovery, the more leverage it will provide investors. More on that in a minute.

**News Flow**

First, it’s important to know what money can buy for junior mining stock investors, and one of the key things is news flow.

News flow — especially strong drill results, or a resource estimate or economic assessment with a surprise to the upside — has the potential to move a company’s share price significantly. Again, it’s a crowded market out there. And just as the squeaky wheel gets the grease in some corporate settings, the company with more news flow tends to garner more of the market’s attention than the company that makes news less frequently.

Of course, a company can always crank out news of the non-market-moving variety. Generally speaking, new appointments to the board of directors, down-the-food-chain hires and options issuances to corporate insiders fall into this category. News that does move markets includes unusually good drill results, a maiden resource estimate and a preliminary economic assessment with strong economics.

And while most quality news flow depends heavily upon the quality of a company’s projects, consistent news flow is one indicator of a well-managed company.

**A Tight Share Structure**

As I alluded to earlier, how tight a company’s share structure is can have a direct relationship to how much leverage a discovery (or other market-moving news) can give to a junior mining stock.

While inherently risky, the reason to invest in these companies is to take advantage of the leverage they can provide investors who want to maximize their returns on rising markets for gold, silver and other metals.

The tighter a company’s share structure (i.e. the fewer shares it has outstanding), the more likely it is to deliver a robust price gain when the company delivers good news to the market. This is not to say that companies with more shares outstanding...

"...the ability to raise capital is crucial to an exploration company’s viability as a going concern."
“The tighter a company’s share structure (i.e. the fewer shares it has outstanding), the more likely it is to deliver a robust price gain when the company delivers good news to the market.”

Warrant And Option Overhang

A related issue to tight share structures is warrant and option overhang. The private placements that often fund the first few rounds of exploration for a mining junior usually come with warrants to entice risk capital to place a bet on the company.

Both warrants and options are issued with an expiration date, usually varying between one year and five years, with a two-year term being the most common. Warrants allow participants in private placements to buy additional shares of the company at a price set above the offering price of the common shares issued in the placement.

Most warrants issued under these circumstances come with a four-month hold period where they cannot be traded. A company that has been through a few private placements may have several tranches of warrants overhanging its stock.

The word overhang applies because any stock that trades above the exercise price of its warrants for a significant length of time will see them cashed in for additional shares. And while warrant exercises help raise additional funds for companies (and are usually an indicator of corporate health), they also increase the number of shares outstanding.

In addition, shareholders will often sell the common shares they own to raise the funds necessary to exercise the warrants and buy the stock at the strike price.

As a result, warrant overhang can provide a headwind that will impede a stock’s ability to climb as quickly as it would absent all that outstanding paper. Warrant overhang isn’t by any means a deal-breaker in terms of a decision to buy a stock, but it is an important factor to consider when timing your trades.

Trading Volume

As I mentioned in my discussion of share structures, trading volume is another critical component to determining whether a company is a good value.

Companies in this sector have nowhere near the trading volume of your typical Fortune 500 firm. This fact leads to wider bid-ask spreads and periods where liquidity in certain companies can more or less dry up.

It’s a truism, but profit-taking in this sector generally requires selling into volume. That’s why you want to be as early into a good story as your risk tolerance will allow, because when the big news hits (e.g., a big drill result), you’ll be able to cash in on your initial investment.

Depending on the company’s story and the state of the broader market, you may want to sell just enough to recapture your initial investment and then watch how high the stock moves with “house money.”

In any event, keep a close eye on trading volumes for your selected stocks, as that data can provide important cues on when and how to trade on your positions.

Gauging A Project’s Potential

If a junior mining company is a collection of projects, then it stands to reason that the ability to correctly evaluate those projects and their potential to grow will be critical to an investor’s success in this sector.
What follows are the key factors to consider when assessing where a project can add value a company’s market cap.

**Location**

One of the best ways to gauge a project’s potential is to look at its location, which has a variety of meanings in this context.

First, there’s a project’s location in the world. South Africa, West Africa and the United States, for example, are among the many regions known for gold production. Chile, Peru and the islands of the southern Pacific are known for large deposits of copper and gold as well. Mexico has a wealth of silver and gold. The list for other metals goes on and on. (It’s important to understand that there can be good locations geologically that are also bad locations for political risk, as we’ll discuss later.)

Second, a project’s location adjacent to an existing mine or major deposit can be another good sign. And while “closeology” is a questionable science at best when it comes to assessing projects, it’s equally true that most new mines get found near where a major deposit has already been discovered. The mineralizing events that caused the initial deposit often trend elsewhere onto other projects’ property boundaries.

Third, and finally, location can be important in terms of a project’s remoteness. Generally speaking, the farther off the beaten path a project is, the more expensive it’s going to be to mine any deposit found there. This gets into the infrastructure issue, which I’ll highlight shortly. For now, it’s enough to know that as you’re looking at what part of the world a project is in, pay attention to its location relative to other mines and infrastructure.

**Grade**

As you scan the press releases of the companies in this sector, you’ll want to pay attention to the grades involved.

For the uninitiated, grade is a measure of how much of a given metal exists within a set amount of rock. Typically, grades are cited in either grams per metric tonne or ounces per English ton. Grams per tonne is the predominant industry standard, however U.S. projects, particularly those in Nevada, often get quoted in ounces per ton.

With gold and other metals still trading at historically high levels, it doesn’t take a very high grade to make a deposit economically viable. Still, there are some practical limits to what is mineable.

In general, an open-pittable deposit that can be mined using surface mining techniques should have an average gold grade of 1.0 g/t or better or a copper grade of 1.0% copper per tonne of material. Zinc and lead, which are often found together (along with silver), typically need to be available in percentages above 5% to make open-pit mining worthwhile.

For underground mines, the thresholds are higher because the operating costs to extract the ore are higher. A mineable underground mine generally needs a grade of 3 g/t or more and an underground copper mine needs a grade of at least 2% copper and probably closer to 3% copper.

It’s important to remember that these are the average grades that are needed over an entire deposit. One or two “honey holes” from a drilling program can make the market take notice, but they do not make a deposit.

You should also keep in mind that these are very general guidelines. There are very large gold mines that are profitable at average grades below 1 g/t gold. And one needs to consider the contributions that other metals will make to a deposit. For example, an open-pittable deposit running 0.5 g/t gold and 0.5% copper has a chance of being very profitable if it size, metallurgy and logistics check out.
And finally, things change as the global economy changes. Inflation, which would typically drive up the prices of gold, silver and copper, will also increase the prices of diesel and other costs necessary to run a mine. This is why, even as gold prices surged over $1,000 in recent years, the profit margins of big miners compressed severely.

So, just keep these rough grade thresholds in mind as you sift through the press releases of the companies you follow, and realize that many other factors also come into play.

**Past Exploration Data/Success**

The world is full of “brownfield” projects that have been explored by other mining companies in the past. In many cases, these exploration programs turned up sizable deposits. They were left to lie fallow, however, because up until the turn of the 21st century, metals prices had been severely depressed. What would normally be an economic mine had to be mothballed due to poor economics given then-current metals prices.

In today’s bull market for precious metals, one of the surest ways for a junior explorer to hit the ground running is to snap up one of these brownfield projects. In many cases, a historical (but non 43-101 compliant) resource has already been established by previous operators and, with a modicum of drilling, a new owner can bring that resource up to NI 43-101 standards and have a substantial deposit on its hands.

Even projects that do not come with a historical resource often come with a wealth of historical data, both from drilling and from other exploration techniques. This data can prove invaluable in a company’s ability to quickly identify the trend of potential mineralization as well as areas that were untested by previous operators.

It’s a fact that many of the most profitable mining/exploration plays in recent years weren’t so much “discoveries” as “re-discoveries.”

**Types Of Anomalies**

There are two main types of anomalies: geochemical anomalies and geophysical anomalies.

Geochemical anomalies are generally mapped by taking soil samples over a wide swath of ground. The amounts of gold, copper or other metals found in the soil are mapped, providing geologists with a first-pass look at how strong the surface expression of mineralization is on a property.

As a rule, the larger the anomaly, the larger the potential deposit, provided that the surface mineralization coincides with significant mineralization at depth. The presence of such mineralization can only be determined by an extensive drilling program, which is why the drill is often referred to as the “truth machine” in this sector.

Geophysical anomalies are determined by running magnetic, gravity or resistivity studies (either from the ground or by air). Large areas of either high- or low-resistivity or high- or low-magnetics, for example, can signal the presence of a significant, mineralization-hosting anomaly below surface. Again, only a drilling program can verify that this is the case.

Still, if a project has a large geochemical anomaly that is underlain by a large geophysical anomaly, that can be a sign that the company has stumbled onto a high-value target.

**Continuity Of Mineralization**

Continuity describes how well a deposit hangs together.

A drilling program can turn in excellent grades and widths from relatively small deposit areas. But if the mineralization outside of those areas is either discontinuous or non-existent, then those small areas probably won’t be large enough to justify a working mine.

This is particularly true for potential open-pit mines. Without ore body continuity, a company cannot justify all the cost-intensive earth-moving needed to extract the ore from the ground.
The need for this type of continuity explains why companies engage in infill drilling programs after they identify the overall boundaries of the mineralization with step-out drilling. For the purposes of running economic studies, companies need to know with a fairly high degree of confidence that the mineralization that its mapping software is assuming exists between drill holes actually does exist.

The need for this level of certainty before committing to a development program on a given project explains the need for the various categories of mineralization as defined by Canada’s NI 43-101 requirements.

I’ll go into the particulars of those categories in another section of this report. The main point here is similar to my comment earlier about “honey holes.” Just because a company reports a couple of eye-popping drill results doesn’t necessarily mean it has a deposit on its hands. It well may, but more drilling will be needed to determine the size, scope and continuity of that deposit.

**Infrastructure**

Infrastructure came up in our discussion about location.

Simply put, a mining company needs power, water, labor, roads and (perhaps) port access to effectively turn a potential deposit into an operating mine. The more of these components that are already in place when a company discovers a deposit, the better that deposit’s chances of getting developed.

Having existing mining and processing infrastructure nearby (courtesy of an already operating mine) is a huge bonus for junior explorers. Not only will they not have to wait for power and road access to get put in before developing their projects, but they may well have the option of simply selling their ore to the nearby mine for processing.

Such a situation can dramatically lower the capital expenditure bar to get a deposit developed. If a company no longer needs to pay for a milling operation or a leach pad to separate the economic metals from the host rock, then the potential profitability of a deposit goes way up.

**Barriers To Development**

Comprised of factors as disparate as political risk, environmental risk and labor risk, barriers to development are those items that can prevent a potentially lucrative deposit from becoming a mine.

Political risk can involve either the red tape of a given country’s mining bureaucracies or the alarming tendency of some third world countries to nationalize deposits once foreign capital has established their presence.

Environmental risk runs the gamut from bureaucratic red tape to activist Non-Governmental Organizations (NGOs). No matter what the cause, it’s a fact that arguments over environmental assessments and other environmental restrictions can hamstring a project. Predicting when these situations will arise is often a mug’s game, but the best indicator is a past history of NGO activism or bureaucratic foot-dragging in an area.

Labor risk comes in two forms as well. There is the risk that the location of the deposit is not close enough to sea-
soned mining teams to make extraction feasible. There is also the risk that union activity will upset mine construction and/or production once a project gets the green light. While it can be fairly apparent if there’s a lack of available labor, determining whether a project will experience labor unrest can be more challenging.

Our best advice is to do your due diligence on other active projects in a given region and make your best determination as to which of these barriers to development (if any) may arise. For some of the riskier political jurisdictions, this analysis is fairly simple to do.

**Metallurgy**

How easily can the payable metal be extracted from the host rock that comprises the bulk of a deposit’s ore?

The answer to that question can go a long way toward determining if a deposit can be economically mined. Simply put, if recoveries are much below 70%, it becomes increasingly difficult for a mine to be profitable. And ideally, recoveries for the primary metal in a deposit should approach 90% or more.

How much effort it will take to reach those recovery thresholds is also a key consideration. If ore has to be subjected to two or three processes to maximize extraction, the power and input costs required by those processes may make the cost of extraction prohibitively high.

The importance of metallurgy explains why companies are anxious to get their first metallurgical results back from the lab, even after drilling has clearly outlined a major deposit. Poor metallurgy can stop development on even the largest potential projects in its tracks.

**Open Pit Or Underground**

One final consideration when assessing a project’s potential is whether it will host an open-pit or underground mine. The deeper a company has to drill before hitting mineralization, the more likely it is that it will have to extract the ore using underground mining development.

Because these methods are more expensive, on a per-tonne basis, than open-pit methods, the grades for underground deposits have to be appreciably higher than open pit deposits to justify the additional cost of tunneling down to access that deposit’s mineralization.

Open-pit mines can run into challenges if the property isn’t large enough to contain a large open-pit mine, a heap-leach pad, a processing facility and tailings infrastructure. Of course, if the underlying deposit is large and lucrative enough, then the expense of buying additional land to accommodate this infrastructure is usually justified.

Still, a company will be well served if it expands its property boundaries quickly as soon it gets a whiff that a large, open-pit deposit might be a possibility. Otherwise adjacent land owners will extract a high ransom for the right to put a potential mine’s infrastructure on their property.

**Stages Of Exploration And Development**

The goal of a junior exploration company is to find a project that, ideally, will justify advancement along all of
The term “resource estimate” is a critical one in the junior mining world. With that term, companies begin to answer the question of how much gold/silver/copper/etc. is in the ground on a given project.

Around the world, there are a variety of sets of standards for estimating how much metal a project contains and for establishing the degree of confidence a company has in that estimate. The global nature of the mining and investment industries is putting pressure on countries to bring these various standards into alignment. However, for now, the two main countries whose standards we will focus on are the U.S. and Canada.

### Differences Between U.S. And Canadian Reporting Rules

The United States and Canada have similar rules governing when a resource can be labeled an economic deposit. Both use the categories of “proven” and “probable” reserves to describe deposits that are proven up to a standard where they can get financed.

According to the U.S. Securities & Exchange Commission’s “Industry Guide # 7” a proven reserve has two characteristics:

- A quantity and grade for the reserve has been computed by detailed sampling
- The sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.

“Probable reserves” are computed from information similar to that used for proven reserves, but there is less certainty about their continuity because “the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced.”

For the purposes of generating a bankable (i.e. financeable) feasibility study on a project, the degree of assurance on probable reserves is high enough to add them to the proven reserves for the study.

Where U.S. and Canadian rules differ is that the U.S does not allow resources proven up below the standards required to be reported as potential economic assets. While the U.S. and Canadian definitions and standards for proven and probable reserves are essentially the same, Canadian rules allow for exploration companies to demonstrate viability at the resource level as well.

#### NI 43-101 Standards

The Canadian Institute of Mining, Metallurgy & Petroleum (“CIM”) codified the standards for resource estimation in the late 1990s at the behest of a task force formed by the Ontario Securities Commission and the Toronto Stock Exchange.

The result of the CIM’s efforts was the CIM Definition of Standards on Mineral Resources and Mineral Reserves. This set of standards not only created carefully defined categories by which resources could be labeled, but it also established third-party and geologist-level verification practices to ensure that estimates were presented to the investment community in a uniform and verifiable way.

National Instrument 43-101 (“NI 43-101”) is a series of rules implemented by the Canadian Securities Administrators (“CSA”) that incorporates the standards established by the CIM. As investors, we need to know these terms because companies that want to talk about the resources that have proven up on their projects must use the categories detailed by the CIM’s standards.

In addition to proven and probable reserves, NI 43-101 also allows Canadian-listed companies to report resources proven up to the “measured,” “indicated” and “inferred” levels of confidence.

A measured resource is a potential deposit that has been drilled to the point where a company’s level of confidence is high and the tonnage and grade of the resource can be established within close limits. As a result, there remains little doubt about the potential economic viability of the mineralization within a measured resource.

An indicated resource is a potential deposit that has been proven up to the point where technical and economic parameters can be applied. Mineralization categorized at the indicated level or above can be used to generate either a PEA or a prefeasibility study on a potential deposit.

Exploration data generated for an indicated resource must be sufficient for a reasonable assumption of grade and continuity. Like the SEC standards for probable reserves, a portion of indicated resources can clear the CIM standard for probable reserves if a company has provided sufficient information about mining, processing, metallurgy and economics for the resource.

An inferred resource is an estimate generated on geological evidence and limited sampling. The level of uncertainty for inferred estimates is higher than the levels of uncertainty for indicated and measured estimates. Companies can issue inferred estimates in press releases, but they cannot use them for economics estimates. Only measured and indicated resources can be used to project the potential economic viability of deposits in prefeasibility and feasibility studies.

As investors, it’s important to keep the distinctions between all these categories in mind. The establishment of a significant inferred resource can begin a stock’s upward trajectory. When further drilling proves up that inferred resource into the indicated and measured categories, investor excitement usually mounts.

This is the level at which exploration companies begin to attract potential buyers from mid-tier and major producers. It’s also the point at which analysts and the investment community at large can begin to guess estimate how much money an operating mine would generate.
Drill rigs are known as the “truth machines” in the exploration industry, as only assays of drill core can accurately define the size and grade of a mineral resource. Source: Endeavour Silver.

Thus, if a major company opts to buy in early, the junior may get less money than if it took an offer later in the process. But it will ideally have a much lower number of shares outstanding, so the price/share could be greater.

And there’s always the chance — even likelihood — that subsequent results will be disappointing, and the value will drop or even disappear.

It’s a balancing act, and there’s definitely a “sweet spot” where the value is optimized. Smart management teams will aim directly for that bull’s eye as they progress along the following exploration and development process.

**First Pass**

Companies typically take control of properties by staking unclaimed land within a country’s public lands, or they take an interest in the land of a private holder via a contract or option agreement.

In either case, once a property has been claimed, the real work of exploration begins. Company geologists fan out over the property collecting rock samples (called “grab” and “chip” samples) and soil samples. These samples are typically sent to a third party for assay.

Assaying measures the payable metal content of the samples, and is generically referred to as geochemical analysis. Whereas grab and chip samples tend to be “cherry-picked” samples based on promising looking rocks identified by the field geologists, soil sampling tends to be more systematic. Large areas of the property’s surface are tested with fences, or lines, of soil samples.

Those grids of soil samples are used to determine if the surface of the property contains consistently anomalous amounts of payable metals. While not definitive proof of an economic deposit, the existence of large areas of soil samples with anomalous metals grades can mark the presence, at surface, of a significant deposit.

Another form of first-pass exploration involves magnetics and resistivity surveys. These surveys are conducted either on the ground or by air. Their purpose is to identify the presence of significant areas of magnetics and resistivity. Both unusually high and unusually low areas of magnetics and resistivity can indicate the presence of a significant deposit.

This is particularly true if, for instance, a significant magnetic anomaly underlays a large geochemical anomaly identified by soil sampling. The data collected with these first-pass techniques has one primary purpose: to help geologists develop likely targets for trenching and eventual drilling.
A Preliminary Economic Assessment, or PEA as it is usually abbreviated, gives investors a window into the potential for a given project to turn into a money generator.

The PEA is an initial, rough-cut estimate of a project’s potential. As a company moves a deposit along the development curve, more finely tuned estimates are released. Those estimates are either prefeasibility studies or feasibility studies. Again, the main distinction between a PEA, a prefeasibility study and a feasibility study is the level of confidence in the inputs and the amount of data collected to create the study.

A PEA gives the market a first look at what a project might be worth. A prefeasibility study applies more estimates about metallurgy, environmental concerns and engineering. A feasibility study will typically be used to attract capital to finance the work needed to bring a project to a production decision.

Production decisions get made based on the ability of a company to get a mine financed and built. Hence, the feasibility study that companies present to potential financiers of a project is often called a bankable feasibility study. In a feasibility study, all the “Is” are dotted, the “Ts” are crossed and the confidence level in a project’s deposit and economics is high.

In spite of these differences, the basic metrics that investors focus on in these reports is the same across all three. The market wants to know how much cash flow, discounted at some level of risk-adjusted interest, a project will generate. They want to know what kind of potential return the project will deliver relative to other available investments. Additionally, they also want to know how long it will take for the project to pay for itself and what ongoing operating costs will be.

Here's a look at some of those metrics:

**NPV**

*Investopedia* defines net present value (“NPV”) as: “the difference between the present value of cash inflows and the present value of cash outflows.”

For the purposes of mining projects, the cash outflows are the initial capital expenditure necessary to build a mine and the costs of ongoing production. The cash inflows are the revenues provided by the project’s metal sales, less the operating costs and overhead required to dig up and process the project’s ore.

We’ll discuss the various components of the cash outputs in a minute. The cash inputs, obviously, will be heavily related to the market price for the metal being mined. For this reason, assumptions about long-term metals prices are critical to estimating a project’s potential to generate positive cash flow. Many projects, especially the larger, lower-grade ones, have NPVs that are extremely sensitive to metals prices.

In a period of rising metals prices like the one we have been living through, that sensitivity is one of the key sources of leverage that exploration level mining companies and their projects provide to investors.

As long as the base-case price and input assumptions are reasonable (and an appropriate discount rate is applied to arrive at a project’s NPV), then this metric can give us a pretty good idea of a company’s growth potential.

**IRR**

Internal Rate of Return (“IRR”) gives investors a sense of a project’s attractiveness as an investment versus other potential investments. The higher a project internal rate of return, the more tempting it is for investors and company management to take on the risk of building and operating a mine.

Like NPV, IRR is calculated based on the cash outflows and inflows for a project. The IRR number is the discount (or percentage rate) at which outflows and inflows balance. Like all major financial metrics, IRR takes the time value of money into account.

While NPV is usually the primary number on which analysts and other market observers base their target prices for a company’s share price, a high IRR can give investors a sense of how motivated management will be to move the project through development. Generally speaking, the higher a project’s IRR and NPV, the more likely it is that a given project will see its way to production.

**Capex**

A project’s initial capital expenditure (or “capex”) is an important input to look at. While a large, profitable mining operation can justify a large initial investment, the risks and uncertainties inherent in mining mean that projects that require a large, up-front investment can sometimes go begging for financing.

One potential solution to this dilemma, for junior explorers and developers, is to get bought out by a mid-tier producer or a major producer. Players nearer to the top of the industry’s food chain are always on the lookout for projects that can make a difference in their large reserve bases and production profiles.

Of course, a mine’s grades and tonnage may be so tempting that a large investment, financed by key sources of debt financing, seems worth it to the junior. Not all exploration companies have management teams with the skill sets needed to build and operate a mine, but some do.

In a rising market for a project’s underlying metals, a large capex is not necessarily the obstacle it would be in a less vibrant environment. Even absent a suitor from the larger companies in the sector, a company may elect to move forward with development on its own (and provide investors with a substantial payoff along the way).

**Payback Period**

No matter how large or small a project’s capex, the amount of time it will take for the project’s operations to payback that initial investment figures into the market’s assessment of a project’s value and risk.

With a shorter payback period, often made possible by a high-grade “starter pit,” companies can more easily attract the financing needed to get a project up and running. Longer payback periods are not necessarily “deal killers,” but investors usually need a higher-than-average NPV and IRR to justify fronting the initial capex costs for a project.

**Operating Costs**

Finally, investors need to keep a close eye on the estimates for ongoing operating costs. Fuel costs, grade dilution from non-ore material, labor costs, weather-related issues and more can impact the projected profitability of a mine.
Trenching

While a company is analyzing the data from the first-pass of exploration, it may elect to take the intermediate step of trenching a select group of the more promising areas established by this initial work.

Trenching usually involves cutting one or more reasonably long trenches on a surface anomaly identified by mapping and sampling. The goal is to see if the surface expressions of mineralization extend to the ground immediately below and, if so, gauge the continuity of that mineralization.

Results from trenching are also sent back to the lab, where they are assayed, usually in one-meter sections. Like high grades in rock and soil sampling, even great trenching results are not certain indicators of a viable deposit, but if they are impressive enough, they can begin to attract investor attention to the drilling program for a property.

Drilling

As I said, all this preliminary work lays the ground for a drilling program to see if a significant deposit lies below the surface. Because drilling begins to provide geologists with hard data about the size and grade of any metal resource that may exist on a project, the drill is known in industry circles as the “truth machine.”

Given that this process requires diesel-powered drills to drill as much as 400 meters into the ground, and given that a large number of holes must be drilled to determine size and scope of a deposit, drilling is far and away the most expensive part of project’s exploration phase.

The two most common types of drilling are reverse circulation (RC) and diamond core.

RC drilling is the typically less expensive of the two. The results it produces usually are not as definitive as results from diamond drilling, however, because only rock chips (rather than substantially solid core samples) are recovered. This makes it more difficult to interpret structures in the rock, and increases the chances of under-sampling due to small chips and dust getting lost or washed out in the drilling process.

In contrast, diamond core drilling, as the name suggests, uses diamond-tipped drill bits and hollow drill rods to remove a solid core of material. This allows for much more detailed analysis and optimum sample recovery.

RC drilling is often used when a company wants to quickly and inexpensively determine the overall scope of a project. If a significant deposit is outlined, the company may follow up with diamond drilling to raise the confidence level and better understand the geologic structures.

This is just a partial explanation. Depending on the type of ground a company is drilling into, data from an RC campaign may be more than sufficient. Many of the near-surface gold deposits found in West Africa fall into this category, for example. In other areas, underlying soil and rock conditions make diamond drilling a must for certainty.

Analyzing Data

Once the drill holes from a program have generated sections of core, that core must be analyzed by a third-party lab to determine its metal content. This work is typically done in phases and, depending on the state of back-up at the lab, it can be a significant bottle-neck in the news flow for a project.

Canadian securities rules require a neutral, third-party firm to analyze and assay core as a check against any management incentive to doctor the results of drilling. While this sort of chicanery is not common in the industry, major fiascos like the Bre-X scandal of the late 1990s convinced regulators to insert this step into the data validation process.

As batches of assays get sent back from the lab, the company preps them for public announcement via press release. Assay releases are usually the most highly-anticipated form of news that junior mining companies generate. If a batch of assays shows the potential for a project to host a significant deposit, these “discovery” holes can send a company’s share price skyrocketing.

As more data comes back from the lab and “step-out” holes from the initial discovery are drilled, market enthusi-
asm for a story can grow dramatically. Size and continuity are the key components here.

Look for step out holes with intersections that match or exceed the grades and widths identified in the initial discovery area. Look for infill holes that confirm that the deposit is continuous within the bounds of mineralization established by the deposit’s outlying holes.

Make sure to peruse the deposit and drilling maps that companies typically provide on their websites. These maps can give you a sense of how the deposit is growing in all three dimensions.

To give you a sense of the process, let’s assume a deposit has been discovered within a hill. The goal of drilling is to determine what chunk of that hill is worth excavating, via either open-pit or underground techniques. Geochemical results can give you idea of the length (strike) and width of the overall area. Drilling data gives you a wealth of information about the size, continuity and proximity to surface of the initially outlined target area.

As data from the lab accumulates, companies and their investors get a better and better idea of the nature of the discovery. Once enough data has been analyzed, a resource estimate will be commissioned to gauge the potential size and metal content of the deposit (assuming the grades and widths of mineralized intersections warrant this step).

**Resource Estimation**

Resource estimates give the market an opportunity to begin projecting how profitable a given deposit might be.

I’ll go into the particular categories for resource estimates shortly. For now, it’s enough to know that the requirements set by Canada’s National Instrument 43-101 (NI 43-101) are the standards by which deposits are categorized.

These standards allow for a bit more inference in terms of deposit size and drill data than the standards set for mining companies that list on U.S. exchanges. The SEC only allows companies to call something a deposit (and an asset) once that deposit has established at the proven and probable reserve level.

Canadian listed companies can begin speaking about conjectural deposits once they pass the threshold for inferred resources. From there, more systematic and closely spaced drilling can “prove up” a resource from inferred into the more rigorous indicated and measured categories.

From that point, proven and probable reserves are determined by how much of the measured and indicated resources will get mined under the conditions posited by a feasibility study for the project (more on these in a minute).

Resource estimates are compiled by third-parties to ensure bias is removed from the estimate to every extent possible. The release of the first NI-43 101 compliant resource for a project can have a major impact on a company’s share price. If the resource exceeds the expectations that the initial drilling data have set for the market, then a company’s share price can quickly take off.

Just as often, however, sector analysts will over-project the size of a resource based on the pre-estimate drilling data. When this occurs, share prices may climb in anticipation of the study’s release and then fall once the disappointing results actually hit the market.

Knowing which way a company’s stock is going to move post-release is a major reason why you need to stay tuned to a company’s news releases and read widely among the many available newsletters that cover this sector.

**PEA/Prefeasibility Study**

Usually once a project has a significant resource in the measured and indicated categories, companies will attempt to estimate how much the resource would be worth if it became an operating mine.

This guesstimate is called a Preliminary Economic Assessment (“PEA”). In order to produce this report, companies generally want to get at least a preliminary metallurgical study done on the potential ore from the resource. The percentage of payable metal...
The two key numbers generated by a PEA are the Net Present Value (‘NPV’) and the Internal Rate of Return (‘IRR’). and the Internal Rate of Return (“IRR”). These are standard terms used by financial analysts to measure the value of projects.

NPV is a measure that sets the cash outflows to build the project against the net cash inflows once the project is up and running. In the case of a mine, an outflow allowance is also made for the mine’s end-of-life condemnation and remediation process. NPV is computed using various cash discount rates. The larger the discount rate, the more conservative the market considers the resulting estimate to be.

Internal Rate of Return gives a rough number on a project’s profitability potential. Generally speaking, the higher a project’s IRR, the more attractive it is relative to less risky forms of investment.

As an example, if a PEA establishes an NPV for a project that is worth many multiples of the company’s current market cap, that can be a good gauge of a company’s potential as an investment. And if that NPV is discounted at a relatively high-rate (say 8 percent or 10 percent), and the project is still worth multiples of a company’s market cap, that is typically the sign of an excellent buying opportunity in this sector.

In regard to IRR, a very general rule of thumb is that an IRR under 20% is unattractive, while IRRs over 30% can get the market excited. Broadly speaking, larger projects can justify smaller rates of return, while smaller projects can often yield (and need) higher returns.

The next level up for these sorts of reports is a prefeasibility study. These studies are more rigorous than PEAs and incorporate hard data gathered from fairly intensive environmental, engineering and metallurgical analyses.

In a good market for gold and other commodities, the production of a positive prefeasibility study will usually allow the company to raise the funds to generate the more labor, time and resource intensive feasibility study for a project.

Feasibility Study

Having a bankable feasibility study in hand is absolutely essential for companies that want to secure the financing to put projects into production.

These studies generate final, best-estimate NPVs and IRRs for the project using a variety of scenarios: conservative, base-case and optimistic. Those scenarios are usually very sensitive to the average price of the mine’s underlying metals over the life of the potential mine. This is why marginal projects can offer such great leverage during an extended period of rising metals prices.

As I alluded to in my discussion of prefeasibility studies, feasibility studies are more costly and require more time and data to generate. It can take a year or two (or more) for a company to generate a feasibility study that is bankable, or sufficient to attract debt financing to whatever degree necessary.

The process requires engagement with local communities, as well as provincial and country-level authorities. An Environmental Impact Statement (EIS) must usually be submitted and approved in advance of the release of the feasibility study.

During the process, the company begins to engage equipment and engineering firms to estimate the costs of equipment and plant construction. A definitive mine plan that attempts to create the most economical way to mine the project is produced, as is a more extensive metallurgical report and a process flow sheet.

The relatively long-lead time involved in the generation of a feasibility study usually makes it a slack-tide period for the company’s share price. As the feasibility study gets closer to release (and as other factors look to be lining up in a project’s favor), a company’s share price will often start to gather steam.
If the economics still look good upon release of the final feasibility study, the next step for the company is to determine whether to sell the project to a major or mid-tier producer or to become a producer itself.

**Development Options**

Produce or sell? If the company or the project hasn’t been acquired by a larger company up to this point, then this is the remaining question once a project has reached the bankable feasibility stage.

Companies that are good at exploring for and defining sizable metal resources are not necessarily good at building and operating mines. Selling a project to a major with the economies of scale and the talent pool to run a mine is often the best solution.

However, there are times when a management team comes to a project with the expertise to both prove up a deposit and to build and run a mine. In that case, the company’s decision will depend upon how hot the market currently is for new metals projects.

As a rule, the larger and more profitable a project, the more likely it is that a bidding war among majors and marquee mid-tier producers will develop for that project. In that case, the best interests of shareholders usually dictate that a project be sold.

For more marginal projects, if a company has the management team to make construction and operation a go, keeping the production “in-house” will often be the better decision.

**Valuation Methods For Juniors**

Because the vast majority of junior explorers have no cash-flow producing assets, valuation of these companies is a combination of analysis and guesswork based on publicly available information.

Here are some “quick and dirty” ways to gauge whether a company’s current market cap and trading price accurately reflect the long-term potential of the company and its major project(s).

**Value Per Unit Of Metal**

In the past, many rule-of-thumb methods of valuing a company have been employed based on the “in situ” value of the metal in a deposit, or the company’s market cap divided by the amount of gold- or silver-equivalent ounces in a resource.

However, these methods vary widely depending upon current market sentiment. And in some cases, as we saw in the depths of the spring 2013 market correction, it really didn’t matter how much metal a company could boast of. No one was going to write a check for anything.

For example, during a hot market it wasn’t surprising to see a project bought for $100/ounce of indicated gold resource. During the depths of a correction, a company’s market cap can imply a value of $10/ounce or even less.

Of course, these examples show how cyclical the market can be, and how patient, long-term investors can play such cycles for great profit.

Still, to take into account the current market sentiment at any point in time, it’s best to use comparables with similar companies in that market environment. And, for longer-term views of value when some economic assessments have been made of a project, it’s best to use net present value metrics.

**Industry Comparables**

As we noted, one of the best ways to assess a company’s potential value at any given point in time is to do an apples to apples comparison with its peers.

Let’s assume you are analyzing five gold exploration companies, each with gold resources of varying sizes. One way of comparing these companies is to divide their market capitalization by their overall, in situ
If four of the companies are trading at roughly the same level (say $30.00 per ounce of in situ gold), and one is trading at $10.00 per ounce of situ gold, that implies that, all things being equal, the $10.00/an ounce company could multiply three times over and still be fairly valued, relative to its peers.

Again, this is a very rough comparison, and assumes that all factors are equal. The junior resource markets are not perfectly efficient, but they aren’t haphazard either. Discounts are applied to many projects and companies for good reasons, including the economic viability of a project and the political risk in its location.

At its extremes, a multi-million-ounce gold project in Nevada might be worth hundreds of millions of dollars. That same project located in Venezuela would be worth nearly zero in the public markets.

**Cash Position**

Less a valuation exercise than an assessment of how much potential the market sees in a company’s projects, the cash position valuation method assumes that a company’s market cap should at least be equal to the amount of cash it has in the bank.

Barring having some truly unsalable assets in its portfolio, most company’s market caps will clear this bar with ease. If most of the company’s projects are early-stage, any premium the market applies over the company’s cash position may well reflect the market’s opinion of its management team.

This can be useful information, particularly in the absence of more tangible assets with which to assess a company’s value.

**Projected NPV vs. Market Cap**

As noted, this valuation method is more analysis and less guesswork than the others, but it requires that the company has developed a project enough to have generated at least a PEA on it. The PEA will usually provide a range of NPVs on the project, based on a set of estimates about capex, operating costs, metallurgical recoveries, long-term metals prices and implied discount rates.

If, even when applying the most conservative estimates for these inputs, a project has an NPV that is a considerable multiple of its current market cap, that implies that the company’s share price has room to grow.

Often, that growth will come in chunks, as the company steadily de-risks the project by moving it along the development curve to prefeasibility to feasibility and then into production.

Regardless of which valuation methodology you apply to a company’s market cap, remember that perception is often reality in this market. A company with a million ounce gold deposit in a red-hot gold market is going to appreciate much more quickly than the same company in a tepid or lukewarm market for gold.

This report is being written during a slack tide period for the gold and precious metals markets. And while that might make for some short-term headaches for those heavily invested in this sector, history has shown that market doldrums can turn out to be spectacular profit opportunities over the long term, as the market cycles play out.

So how do you take advantage of this buying opportunity? Well, if you’ve read this far, you should have a pretty good idea. However, to further clarify things, I would like to close this report with Gold Newsletter’s recommended strategy for making money in the precious metals bull market still to come.
In order to feel comfortable with investing in this sector as a whole, it’s important to revisit the argument for precious metals as an investment class.

**The Case For Gold And Commodities**

Gold and silver have both been associated with money and true wealth for all of recorded human history. And throughout that history, these metals have always — repeat, *always* — protected their holders from economic mismanagement and currency devaluation.

Continuing on the topic of absolute truths, it is also worth noting that, in the long history of human economic endeavor, every fiat currency (defined as a currency unbacked by gold or silver, whose value is derived solely by the authority of the state) has eventually been subjected to significant devaluation.

Of course, most Americans would assume that the U.S. dollar is an exception to this rule. However, on April 5, 1933, President Franklin Roosevelt signed Executive Order 6102, forcing citizens to hand over their gold to the U.S. government in exchange for 20.67 U.S. dollars per troy ounce.

After the gold was turned in, Roosevelt then raised the official price of gold used in international transactions to $35 an ounce, effectively and instantly devaluing the U.S. dollar by 69%.

Perhaps this isn’t the best example since, from 1933 until President Richard Nixon ended the dollar’s international convertibility into gold in 1971, the dollar was still technically backed by gold.

But consider this: The U.S. stopped minting dimes, quarters, half-dollar and dollar coins in 90% silver after 1964. Using the government’s own Consumer Price Index calculations from that point on, the U.S. dollar has lost 87% of its value.

Again, that’s what the government admits to. The reality is probably much worse.

So when someone argues that the U.S. dollar will never be devalued like we’ve seen happen to other fiat currencies, one can counter that it’s *already* happened. Twice.

And it’s in the process of happening again. As the introduction to this report made clear, the profligate spending ways of the U.S. and Europe show no signs of abating. As new entitlement programs come on line and older entitlement programs grow beyond governments’ capacity to fund them, the mounting debt problems in the West will only accelerate.

We have already reached the point where it is economically and mathematically impossible to address these massive and growing debt issues through growth or budget cuts. And it has proven politically impossible to fundamentally reform the entitlement programs that eat up most of government spending.

So the only realistic option left is to depreciate the value of those debts by depreciating the fiat currencies in which they are denominated. In other words, print much more money, to pay back the debts in cheaper currencies.

This is why, regardless of what the U.S. Federal Reserve may say, long-term money creation and accommodative monetary policies will continue. The long-term debt levels will absolutely demand ongoing dollar devaluation relative to gold and other tangible assets.

In this environment, gold and silver should, of course, continue to generate impressive profit perfor-
mance. But most importantly, they will act as protectors of investor wealth as paper currencies continue to be created and devalued.

In short, the prospects for both gold and silver look extremely bright in the coming years.

**Invest To Your Individual Comfort Level**

While I make no representations as an investment adviser (and, indeed, encourage you to seek the advice of an investment professional before making any trading or portfolio allocation positions), I can safely say that you should build your portfolio based on your personal circumstances and risk tolerance.

Importantly, regardless of how much you allocate into the high-risk, high-reward portions of this sector, be sure to leave some room for physical gold and silver in your portfolio, as insurance against not only the expected currency devaluations, but also any sort of unexpected economic turmoil.

**Recommendations For Research**

Whatever investment strategy you settle on, make sure you do your due diligence on your investments, particularly the individual equities. Here are some key sources of information on companies:

**Company Websites**

First off, pore over the company’s website.

It will contain all relevant public data, including the most recent news releases, as well as maps and descriptions of its major projects. One good place to start is by perusing the company’s most current corporate presentation. Most sites give you the ability to view and download these presentations.

Virtually every publicly traded resource company clearly presents its share structure — basic shares outstanding, shares outstanding fully diluted and, usually, details on outstanding warrants and options — on its website. If you can’t find this information easily on a website, it almost assuredly means that the company is hiding the fact that it has an awful lot of shares outstanding.

Finally, while a sharp-looking website isn’t necessarily a sure-fire sign of success, a shoddy website can tell you a lot about a company’s marketing savvy and its ability to raise funds in a difficult financing environment.

**Conferences**

The precious metals sector offers retail investors numerous opportunities throughout the year to meet with and hear the stories of the companies that they’re considering investing in.

The New Orleans Investment Conference stands as the sector’s longest-running and most prestigious event for hard-money oriented investors, having served investors for more than four decades. The event happens every fall in the Crescent City and is known for featuring celebrated figures of modern history, as well
as dozens of other experts on geopolitics, economics and every area of investing.

The Conference also features presentations and exhibits by some of the most promising companies in the junior sector. It seems like every year, the biggest winners in the sector were featured at the New Orleans Investment Conference.

Another top event is the Sprott Natural Resource Symposium, held in Vancouver, Canada every year in July, and hosted by our friend Rick Rule. In addition to the New Orleans Conference, the Sprott Symposium is a “can’t miss” event for serious resource investors.

Other conferences take place throughout the U.S. and Canada throughout the year. The most prominent organization hosting these events is MoneyShow (MoneyShow.com). Other organizations producing conferences include the Prospectors and Developers Association of Canada (pdac.ca), Cambridge House International (cambridgehouse.com) and Metals Investor Forum (metalsinvestorforum.com).

A fun and valuable event that covers real-asset investing, focusing on real estate but also including precious metals along with economic analyses, is the Real Estate Guys, (Russell Gray and Robert Helms) Summit at Sea (RealEstateGuysRadio.com)

The information you can glean from a face-to-face encounter with management and the industry scuttle-butt that you’ll pick up along the way make attending these sorts of conferences a must for any serious hard assets investor.

**Financial Websites**

If you’ve spent any time investing, you’re undoubtedly familiar with the more mainstream financial news sites.

The Wall Street Journal, Marketwatch.com, The Street, Reuters, Bloomberg, Fox Business News, Yahoo Finance — all will provide you with needed stock and economic information.


**Newsletters**

As the world’s oldest and most respected precious metals advisory, Gold Newsletter has a four-decade track record of providing its readers with solid market intelligence and lucrative investment ideas.

Gold Newsletter was founded in 1971 by James U. Blanchard III, a legendary investor, entrepreneur and advocate for liberty.

Most investors today don’t realize that it was illegal for private U.S. citizens to own gold bullion since FDR outlawed it in 1933. Once President Richard Nixon ended the U.S. dollar’s international convertibility into gold in 1971, Jim Blanchard knew that the dollar was headed for a dramatic devaluation over the succeeding years.

He knew that gold could protect American citizens from the inflation that was to come, but owning gold was illegal. So he decided to do something about it:
He began a nation-wide series of protests and founded Gold Newsletter as the mouthpiece for his National Committee to Legalize Gold.

As it turns out, Gold Newsletter became Jim’s principal weapon in that fight. It was a weapon that proved unusually effective — three years after its inception, President Gerald Ford signed a bill that restored Americans’ gold ownership rights. Over the next four decades, the publication has gone on to feature some of modern history’s greatest free market economists and investment analysts.

Edited by noted investment expert Brien Lundin since 1993, Gold Newsletter continues to provide its readers with timely and profitable analysis of the precious metals and mining share markets and the economic and geopolitical issues that impact them.

Subscribing to Gold Newsletter ensures that you’ll keep your finger on the pulse of the gold and precious metals markets, and that you’ll be among the first to discover the highest-potential junior mining opportunities. For more-active traders, Gold Newsletter also offers a weekly Alert Service.

With an iron-clad money-back guarantee, a subscription to Gold Newsletter represents a low-risk, extremely-high-reward proposition.

For details or to subscribe, visit www.goldnewsletter.com or call toll free at 800-648-8411.

As noted at the beginning of this report, we also recommend that you consider newsletters from some of the other top professionals in the industry. Our recommendations include:

- Asset Strategies International: assetstrategies.com (Information Line and Always Something Interesting alerts by Michael Checkan, Rich Checkan and staff)
- The Dines Letter: dinesletter.com (James Dines)
- The Elliot Wave Theorist: elliottwave.com (Although it doesn’t solely cover gold and silver, Bob Prechter’s newsletter is the best source for Elliot Wave Theory aficionados)
- Exploration Insights: explorationinsights.com (featuring the musings of exploration geologists Brent Cook and Joe Mazumdar)
- Gold Newsletter: goldnewsletter.com (founded by James U. Blanchard III in 1971, and largely responsible for returning right of gold ownership to U.S. citizens)
- HRA Advisories/Hard Rock Analyst: hraadvisory.com (founded by Eric Coffin and his brother, the late David Coffin)
- The Independent Speculator: independentspeculator.com (Louis James, aka Lobo Tiggre)
- Resource Stock Digest: resourcestockdigest.com (Nick Hodge)
- Resource Maven: resourcemaven.ca (Gwen Preston)

For more information: To learn more about Gold Newsletter, the New Orleans Investment Conference or our other investment reports and products, visit our websites at goldnewsletter.com or neworleansconference.com.

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