

Profit From A Rising Gold Market

Gold is all over the news these days. It is always in the news at a time like this... **after** it is had a big run. The time that most people are hearing and reading about gold is typically not the best time to be investing. This may be not the best time, but it is still a good time, if you do it correctly.

There is an enormous diversity of opinion with regard to the outlook for gold. At this event today and tomorrow, I have no doubt that you will hear forecasts of gold in the multi-thousand dollar range. On the other hand, at least one person here will warn you that gold may experience a rather severe correction at sometime in the near future.

The reason for the enormous diversity in opinion is that most people tend to look at one or two of the factors impacting on the gold market. They ignore the other factors, and make projections on the basis of that narrow analysis.

Look, there are many, many factors influencing the gold price, more than any mortal can begin to analyze. The best way to get an understanding of the combined effect of all of those factors is to look at the actual gold price over a several year timeframe.

[gold chart]

Looking at this chart going back to 2001, it is clear that there is a sustained uptrend. It is also important to note that there is a pattern of spiking up and then pulling back. The market then consolidates for a while before making the next leg up.

In my opinion, the best estimate for what is coming next in the gold market is to look carefully at what has come before. Using history as a guide, it is apparent that we are unlikely to see a multi-thousand dollar price in the near term. There may be a correction after the big gains of the past few weeks. But, not severe.

[DJIA]

By way of comparison, here is the Dow Jones Industrial Average over that same period. After almost 8 years, an investment based on the Dow would have the same value as when you started, except that there has been 8-years of inflation and 8-years of devaluation of the dollar.

Clearly, investing in gold would have made a lot more sense last April, when it was under \$900. There is still enormous upside potential, over time.

Most people think of gold investing in terms of bullion... or a proxy for bullion like an exchange traded fund, or ETF. Secondly, they look at the major gold producers like Newmont or Barrick. If you are managing a multi-billion-dollar pension fund, those may be your only choices.

For an individual investor, there is another approach to investing in the gold market. That is, the junior companies. Many of the juniors are exploration companies that hope to find a gold deposit one day. If you own one of those companies that makes a discovery, your payoff can be enormous – 50 times or

100 times return on your investment. But, it is tough to pick that one company that is about to make a discovery.

There is an intermediate approach between the early stage exploration companies and the majors. There are a great many small companies that have made discoveries, yet still offer potential for huge returns. These companies offer a balance of risk and potential return.

In fact, companies that have already made a discovery can still offer the potential to increase in value by 10 times or more as that gold deposit evolves from early stage through to production. You can avoid the discovery risk, yet still have the potential for enormous returns.

[Chart]

The bar on the left side of the chart shows the value of a company with an early stage deposit. That value is expressed as market value per ounce of estimated gold in the ground. Market value, of course, is the price at which the shares are trading multiplied by the number of shares that the company has issued.

That early stage deposit, what we call an informal estimate, is typically based on a few tens of drill holes and some general geological understanding. There is enough information to give some indication of size, but there is a great deal of uncertainty. At that stage investors give a value of roughly 10 to 20 dollars per ounce of estimated gold in the ground.

There is an even earlier stage, a real sweet spot, when the company has announced the drill results but has not yet completed a formal calculation. That is an area where I like to get involved. There are some exceptional bargains at that level.

With more drilling, the confidence level in the size and the grade of the deposit increases and the company can deliver a measured and indicated resource estimate. At that stage, the value of the deposit has been elevated to \$50 to \$100 per ounce of resource.

As the company gains confidence that they have a meaningful gold deposit, they will begin to carry out other test work and engineering studies intended to determine if the deposit is economically viable. When the studies have reached a sufficient level of detail, they become a feasibility study upon which the company can base a production decision. At that time, investors and analysts have a great deal more information upon which to base a valuation, and the company would now carry a value equivalent of up to \$150 per ounce of gold in the ground.

If a gold mine is developed by a small company, that company will attract a value in the order of \$200 per ounce. Already, we have seen an escalation in the value of that gold deposit by 10 or 20 times in going from the initial estimates to a producing mine in the hands of a small company. At the same time as the value per ounce has been increasing, it is very common for the overall size of the deposit to continue to expand.

There is still a further step that could again increase the value by 50% or more. You see, that same deposit in the hands of a major producer is valued at up to \$300 per ounce. The majors are continually buying smaller companies in order to replace the reserves that are being mined.

These are all approximations and there is an enormous range in values at each level depending on the particular factors for each deposit. The intent here is to demonstrate the concept that the value of a gold deposit can increase enormously **after** a discovery has been made, as the company advances that deposit through the exploration and development process.

Next, I'm going to show you some real life stock charts that illustrate that progression in value. These are all one year stock charts and are all companies that we have covered in Resource Opportunities during that time.

It is clear that these gains are more than just a recovery in the market. You will also notice that these gains are substantially greater than the increase in the price of bullion during the period. I also want to emphasize that I am not necessarily recommending these companies, but merely using them to illustrate the progression in value as companies achieve milestones.

We will just quickly run through a few stock charts.

We saw earlier that the gold price had increased 4-fold this decade. Many exploration and development companies increase 4-fold in a **year**.

The really important point here is that you can realize huge gains in value, without having to take on the discovery risk. You can own a company that increases in value and at the same gain exposure to the long term uptrend in the value of gold.

That gain in value from a successful junior can be much greater than the return from bullion or from a major.

[Key points]

I will be hosting a round table discussion from 10:30 to 11.