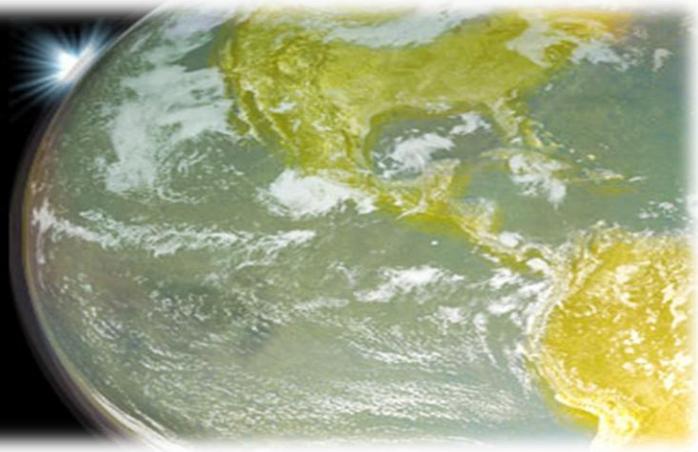


Precious Metal Stock Review



www.preciousmetalstockreview.com

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It looks as if we have put in bottoms in all precious metals and should see an upwards range trade throughout the summer with more strenght coming in the fall or late summer. There is still a chance things will take off like I had hoped but the more likely scenario is the range trade.

Fundamentals continue to strengthen for the metals and weaken for the financials and general economy in the US.

Metals review



Gold continued its volatile action this week. A short term bottom looks to be in and I expect a test of \$900 next week. All three indicators remain set for a large run up in the Gold price and fundamentals continue to impress, but still no real action on the upside.

As hard as it is to admit, it looks like Gold may continue its consolidation type trade over the summer. See my weekly chart for a longer term view which looks very similar to the past range trade, after Gold touched the \$730 area in 2006.

The major Gold bottom looks to be in at \$850 and this jives with seasonal patterns. We should look for a slightly up trading range with a breach of \$1,000 in the fall, but you never know in today's dangerous economic times.



Silver remains explosive but was beaten down this week quite hard. There is a huge base at \$16.50 and that should remain except for potential intraday gyrations.

The huge bullish triangle which began in mid-March is coming close to resolving itself. This is evident as the \$16.50 base and down sloping line drawn from above \$21 touching the \$18.25 peak in mid-May. This should resolve itself within the next month at the latest. Keep an eye out for that.



Platinum continued to range between \$2,000 and \$2,200 but trading was very tight this past week. The 100 day MA is providing great support and direction to the Platinum price.

Slow STO is flashing a buy signal while MACD and RSI remain flat and could go either way. I would not be betting against the 100 day MA support right now but you never know. While fundamentals do remain strong all it takes is one story, even if not totally true, to knock the price down.

The next objective on the upside is to fill the gap left in late May.



Reports of Russian Palladium stockpiles possibly being depleted in one to five years drove the price up this past week. Resistance was met at the 100 day MA which is the major point of resistance before \$475.

The three indicators flashed buy signals this week and the 25 day MA is close to crossing the 50 day MA giving another buy signal. There is a reverse head and shoulders pattern and if the line at the 100 day MA is bested then that will give a wide buy signal and we should see some follow through on the upside.

Fundamentals Review

Since MBIA and Ambac lost their AAA rating, over \$1 trillion of insured assets had a rating reduction as a result. This will cause holders of these assets to take losses on the falsely rated assets. In [this](#) story Merrill Lynch and UBS alone are expected to lose \$10 billion. If you think revenue at Ambac and MBIA is bad now then how can they expect to survive now that their insurance writing abilities are now limited to assets of their rating or lower? This spells trouble. Not to mention the coming influx of lawsuits.

Well the historic day finally happened. The word quadrillion was implied in [this](#) article. Interest rate derivatives rose 32% year over year to \$548 trillion notional value. If you add the OTC (over the counter) derivative notional value of \$596 trillion you get \$1.14 quadrillion. That is simply staggering and another milestone in this fiat world we live in. If currencies were sound and backed by something this would not have happened for centuries if ever, alas, it was not to be.

Government officials are [reinforcing](#) the issues around Eskom's power crisis in South Africa this week. One nice tidbit is that while Eskom is undertaking a \$44.5 billion infrastructure expansion their input cost, coal, is rising sharply, not to mention building costs. Nuclear energy remains, in my eyes, the main viable solution to much of the world's energy needs in the future. Eskom's infrastructure expansion does include numerous nuclear power plants as well as coal fired plants.

Eskom also [said](#): "*We will maintain the status quo until we are guaranteed there is enough supply,*" in reference to keeping power rationed at 95% to some mines unnamed.

Newcrest Mining in Australia has [lost](#) 30,000 ounces of Gold production as a result of the recent gas explosions. This will impact negatively their forecast production of 1.8 million ounces this year.

Canada's Silvercorp Metals who operates in China has [posted](#) a record profit and are considering a secondary listing on the NYSE. China can be risky but it can be done. There is a great interview [here](#) under the May 24th broadcast, part 3. The interview goes into many of the benefits of operating in China and is highly worth a listen even if for informational purposes on Silvercorp. The company's production is growing rapidly, exploration potential is fantastic, costs are low and they are becoming very familiar with the business environment and gaining recognition for it in China. On top of that the company is planning to buy back 3 million shares this year, a tactic I very much like to see rather than the usual shareholder dilution.

Ecuador has [revoked](#) 2.08 out of 4.5 million hectares of mining concessions. All Metals Mineria, Atlas Moly, Santa Barbara Copper and Ecuador Gold are companies affected by the revocation. The concessions were revoked on the basis of illegal titles, no investment spent on the area and speculation. As well the decree now limits companies to three concessions.

Centerra Gold is rumoured to be under [attack](#) by the Kyrgyz Republic. Reports of a breach of the previously negotiated contract whereby the government would get a 29.3% stake in the company should be raised to 40% are surfacing. Also the previously agreed upon tax rate of 11% in 2008, 12% in 2009 and 13% in 2010 will potentially be changed to an 18% flat tax. The shares issued to accommodate this possibility will be 13.7 million rather than 10 million under the current contract. Shareholders will be diluted that much more as a result. Shares were hit as a result.

The Democratic Republic of Congo (DRC) is planning to begin [renegotiation](#) of some 60 mining leases beginning in mid-July. The long awaited process began last year with an announcement stating they would revoke or renegotiate leases acquired during 1998-2003 war in the DRC. Mining giants BHP, Freeport McMoran and De Beers will be affected by these negotiations which are under no timeline for completion.

The labour federation in South Africa is [planning](#) a strike next month over the power crisis stemming from lack of infrastructure development over the years. The National Union of Mineworkers (NUM) represents 320,000 workers has agreed to join the strike. The power crisis has affected GDP in South Africa and many jobs are on the line as most mines continue to run on 95% power rationing. New projects are also slowed or on hold from a lack of a secure power source. It's still undecided exactly how long or how the strike will be carried out, but the threat alone should be causing prices of Gold and Platinum group metals (PGM) to rise.

More than 5,000 [demonstrated](#) and blocked roads in Peru demanding the president share the benefits of the economic boom there with the populous, more specifically the poor. Southern Peru Copper was affected as roads to their mine and smelter was blocked. The strike was widely supported by officials with a dozen provincial mayors going on a hunger strike. The mining union is also considering going on strike in support.

Freeport McMoran is also being [affected](#) by another protest in Peru at their Cerro Verde mine but says production remains steady. Protesters are stepping up and blocking access to or from the mine which should begin to cause a problem for the company.

Similar to Silver Wheaton a new company, Gold Wheaton, has been [formed](#) and entered into its first transaction with FNX Mining. They seem to have a similar business model to the highly successful Silver Wheaton. Unlike Silver Wheaton who purely earns profits from Silver, Gold Wheaton is not a pure play on Gold since they will be receiving Platinum and Palladium too. Not that it is a bad thing but I would like to see a pure Gold company with this business model. In their first contract they purchase Gold for \$400 and sell it into the market at the spot price. Contrast that to Silver Wheaton who has all their contracts at \$3.90 per ounce of Silver. They will only trade in Canada for now but are working on a US listing sometime in the future.

Russian miner Peter Hambro Mining is [stepping](#) outside of Russia as lead in an investment consortium investing \$80 million in Rusoro mining in the very risky Venezuela. The investment is in the form of a loan which can be converted into a 14% stake in Rusoro if things go well. Keep in mind the close ties between Russian and Venezuela may aid the company in not becoming nationalized in the future.

GLR Resources has received [approval](#) to develop their Goldfields project near the historic Uranium City in Saskatchewan, Canada. Production is expected to be at 90,000 ounces a year for 10 years with a potential three year extension if the Athona deposit is mined of its roughly 339,000 ounces of Gold. The plan is for open pit production to begin in 2009 and development costs are projected to be \$65 million.

China's first quarter Gold production [exceeded](#) 84 tonnes. This marks an 8.08% increase over the same period last year. This is official so who know knows how much was produced including black market production.

Tokyo is planning to [list](#) a Gold ETF by June 30th.

Russian Palladium stockpiles are apparently being [depleted](#) at a fast rate and could run out in one to five years according to Anton Berlin, head of Norilsk's analysis and development department.

lamgold doesn't [foresee](#) any production losses stemming from a 21 hour work stoppage at their Rosebel mine in Surinam this past week.

Excellon Resources has done an efficient and quick job [plugging](#) a water inflow which occurred in development at Platosa in Mexico. Dewatering has begun and it shouldn't be too long until development can resume as normal. They did an excellent job to quickly remedy this problem which instils confidence in their operational team.

Anglo Platinum is making a valiant [attempt](#) to empower and give incentive to employees by giving shares to workers who have been with the company seven years or more. Up to 46,000 miners can benefit. They will receive 500 shares for every year of the seven years and must complete at least seven years. To date this transaction represents the largest ever attempt in the mining industry. This program is only available to low-income earners at the company where the most turnover and issues occur. I hope this works and creates goodwill between the company and its employees. I think it will really help and provide a model for other companies to follow.

For the conspiracy mined among us, [here](#) is a nice story to give you something to think about.

Stocks Review

NovaGold [announced](#) the feasibility study on the 50/50 partnership with Barrick at Donlin Creek, will be completed in early 2009. Construction is expected to begin in 2012 after a three year permitting process. The resource is 31.7 million ounces of measured and indicated while the inferred category at 4.2 million ounces. Mine life is estimated between 25 and 30 years with annual output between 1 and 1.5 million ounces per annum.

Phase one of the planned 2008 drilling is nearly complete and spectacular. Here are some highlights;

- DC08-1686 intersected 256.9 meters of 3.25 g/t gold in 19 mineralized intervals
- DC08-1687 intersected 71.5 meters of 4.48 g/t gold in 9 mineralized intervals
- DC08-1688 intersected 60.0 meters of 4.36 g/t gold in 4 mineralized intervals
- DC08-1689 intersected 42.1 meters of 6.97 g/t gold in 8 mineralized intervals
- DC08-1695 intersected 302.6 meters of 3.97 g/t gold in 13 mineralized intervals
- DC08-1701 intersected 154.5 meters of 3.67 g/t gold in 12 mineralized intervals
- DC08-1702 intersected 160.6 meters of 5.08 g/t gold in 8 mineralized intervals

Analysts are expecting costs to soar as they did at the halted Galore Creek project. Citigroup [says](#) costs could rise 25% to 5 billion to develop the project. To date 2006 saw Nova Gold predict costs at \$2.5 billion, then Barrick estimated them to be at \$4 billion shortly after, now two years later anyone who spends any money at all knows nearly everything is more expensive, especially infrastructure, labour and fuel. Both companies and Citigroup may be underestimating the costs considering how much prices have risen in just two year with Donlin tentatively scheduled to open in 2015 who knows.



Technically the chart looks ugly. After the Galore halt you can see how quickly and sharply the stock dropped. A bottom looks to be in.

I can't stress enough the importance of fundamentals and management. I was lucky enough to get out very near the top since I had a feeling and some information which led me to believe things were running on the high side. Also, development stage companies rarely do well up until they are close to production so it's sometimes good to take money off the table and revisit the stock as it approaches production.

The market cap is \$826 million. Just considering the Donlin resource of a roughly 35 million ounces at \$1,000 Gold, it will be much higher but that will do. So assets are \$35 billion just in Gold. Being very generous let's say a cost of \$8 billion to develop Donlin would leave roughly \$27 billion left over. Let's assume cash costs of \$500 per ounce so total costs would be \$17.5 billion. So just a quick rough estimate would leave \$17.5 billion (production costs) + \$8 billion (development) = \$25.5 billion. So the \$35 billion (total resource) - \$25.5 billion (total costs) = \$9.5 billion.

So roughly \$10 billion at 50% interest for Nova Gold looks good and the company is far under that valuation today. If we consider their other exploration projects which looks really

good, plus the inevitable development of Galore Creek, then Nova Gold looks like a screaming buy. But it won't pay off tomorrow or next week or maybe even next year, but for the long term it looks great. It may even get cheaper so possibly investing in stages would be the way to go with this company if you are so inclined.

I was asked this week if I am a perma-bull in precious metals to which I answered; No, it is a bull market now and I believe it has a long way to run. I am interested in bull markets. I don't care where it is, and would actually prefer a simpler industry, but precious metals are the place to be now so that's why I am there.

I know I must sound redundant but to make money in the markets is simple. Follow the bull markets, accumulate when prices are low and hold on. This is a very volatile and I believe manipulated market so things are going very slowly. In the final mania stage things will go up almost daily and I expect this stage to last for at least a year. We are nowhere near that stage. It is time to back up the truck.

I focus on fundamental with a technical skew used to enter and exit depending on what stage of the bull market we are in. So far it has worked to a tee, and provided me with total portfolio return of over 1,000% since 2002. I have been lucky, but I have followed a disciplined approach which I credit for much of my success. Honestly, I am just warming up and expect much higher returns in the future.

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