Precious Metal Stock Review

April 6, 2008

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METALS REVIEW

Last week I stated the possibility of a retracement to the 100 day MA. Gold bottomed exactly there at $880. The bad news is that Gold is forming a bearish flag pattern. But I expect it to be false and broken to the upside next week.

Gold will need to best $920 to break this pattern and ignite to buy signals. So $850 is my downside target still, but I doubt that will happen. I am calling for a further consolidation in Gold next week to the upside. However if Gold can best the $960 region it will be off to the races again.

Silver held up nicely this week on a daily closing basis. Silver needs to break $18 before any major buying will appear. Support in the $17 region is very strong and I don't expect the 100 day MA to be broken.

Silver can go right back up to $21 in very short order if $18.25 at the 50 day MA is conquered. It may take a further week or two of consolidation, but I doubt it will be too long.

Platinum looks poised to go higher. No change in the Eskom situation (see below). A series of higher highs and higher lows is developing and a beautiful uptrend looks to be solidly in place now. A quick reverse head and shoulder pattern formed this month and if $2,050 is broken to the upside then $2,150 is the only resistance left and may prove futile. Of all the Precious Metals I would not be short Platinum.

Palladium is building a base in its solid band of support from $425 to $450. Palladium is trending mildly higher here and if $465 is broken a run to $525 is very plausible.

The daily spread is getting shorter on the candle chart meaning it is coiling and like a spring can move quickly when not able to be coiled anymore. I expect small daily movements until the coil springs to the upside with furious volatility. You can see in mid-February when that coil broke, Palladium moved up $50 in one day!

Fundametals Review

Possibly the most revealing news this week is this release by Newmont stating they will be spending a quarter of a billion dollars on exploration this year. They state the known fact that it's hard to find a deposit with 5 million ounces these days and only 4% of deposits in the world are over 5 million ounces.

In the years to come there will be discoveries and many quality Junior and Exploration Stocks will be taken over at huge premium. There is a new area which I have exposure to which has had very little exploration ever. It presents huge potential with little waste rock and newer high grade mineral formations. It could be the new frontier for Gold mining and mining in general.

The area I speak of has very large interest by some of the largest mining companies in the world. But they are all playing it through investment in the company I speak of. Please sign up to watch "MY PORTFOLIO" if you would like to discover more.

As usual I draw attention to the ongoing power crisis in South Africa. This latest article is short and simple. Eskom CEO Jacob Maroga states "If we only rely on (an increase in supply), the numbers are not looking good for many years," yikes. So if demand doesn't drop the power crisis will continue for many years. It's about time someone told us what we already knew!

So we have cause, how about effect, this article talks about the results for the world's second largest Platinum producer Implats. Their full year output ending in June will be down from 2.03 million ounces last year to less than 2 million ounces this year, down some 40,000 ounces. This power crisis is only a few months old so imagine the impact on a full year of mining.

This story is so important I am pasting it entirely. This will affect all bonds issues secured by MBIA. I expect Ambac to be downgraded next week. Just as a company within a country cannot have a credit rating higher than the host country, so too a bond held under MBIA cannot be valued higher than the insuring company.

MBIA Loses AAA Insurer Rating From Fitch Over Capital (Update5)

By Christine Richard

April 4 (Bloomberg) -- Fitch Ratings cut MBIA Inc.'s insurance unit to AA from AAA, saying the bond insurer no longer has enough capital to warrant the top ranking.

MBIA, the world's largest financial guarantor, would need as much as $3.8 billion more in capital to deserve an AAA, New York-based Fitch said today in a report. The outlook is negative, Fitch said.

Fitch issued the new, lower rating even though Armonk, New York-based MBIA asked the ratings company last month to stop assessing its credit worthiness. The two companies disagree over how much capital MBIA needs to absorb losses on the bonds it insures. Moody's Investors Service and Standard & Poor's both affirmed their AAA ratings earlier this year.

``It will be difficult for MBIA to stabilize its credit trend until the company can more effectively limit the downside risk'' from collateralized debt obligations, Fitch said.

The long-term rating of MBIA Inc. was cut to A from AA, Fitch said.

``We respectfully disagree with Fitch's conclusions,'' MBIA Chief Financial Officer Chuck Chaplin said today in a statement. ``MBIA has a balance sheet that is among the strongest in the industry with over $17 billion in claims-paying resources, and has a high quality insured portfolio.''

MBIA shares closed down 68 cents, or 4.8 percent, to $13.61 in New York Stock Exchange Composite trading. The stock has declined 27 percent this year.

Capital Raising

MBIA raised $2.6 billion in capital through a bond offering and the sale of a stake to Warburg Pincus LLC, eliminated its dividend and stopped guaranteeing asset-backed securities for six months.

Those decisions prompted Moody's and S&P to keep their top ratings for MBIA. Fitch continued its review. Fitch has rated MBIA's insurance unit since at least 2000, according to data compiled by Bloomberg. S&P and Moody's have rated the company since at least 1987, the data show.

MBIA last month asked Fitch to stop rating the company because it disagreed with the ratings company's requirement that MBIA hold more capital.

MBIA, which started as the Municipal Bond Insurance Association in 1974, and the rest of the bond insurers stumbled after expanding into CDOs that caused losses of more than $7 billion. CDOs repackage pools of assets into securities with varying degrees of risk. The company previously recorded at least 15 years of consecutive profits insuring bonds sold by schools, hospitals and municipalities.

``It's tough for a rating agency to downgrade a bond insurer, to take away the AAA rating,'' said Mark Adelson, founding member of Adelson & Jacob Consulting in Long Island City, New York.

Holding Company

The capital MBIA raised has yet to be contributed to its insurance company and could be diverted to meet obligations at the holding company, Fitch said in its report. MBIA's holding company engages in transactions that may require it to post collateral, creating a rising demand for cash, Fitch said.

MBIA's suspension of its structured finance business, which includes CDOs and asset-backed securities, may help to boost the company's rating back to AAA in the future, Fitch said today.

MBIA will have losses on CDOs backed by subprime mortgages of as much as $4.9 billion after taking into account that they will be paid over time, Fitch said.

The analysis assumes that subprime mortgages backing securities sold in 2006 will experience losses of 21 percent and those originated in 2007 will lose 26 percent, Fitch said. Subprime mortgages are given to borrowers with poor credit.

This past week saw some unprecedented borrowing by investment firms who supposedly have enough capital to operate. Why would they borrow money if they have enough? "The Federal Reserve reported Thursday that those firms averaged $38.1 billion in daily borrowing over the past week from the new lending program. That compared with $32.9 billion in the previous week and $13.4 billion in the first week the lending facility opened."

The fed stated they would make up to $200 billion of loans available through this operation. They don't say but I assume that is weekly since last week alone the lending totalled $190.5 billion. And the total of the three weeks since the program's inception is a staggering $422 billion. To put it in perspective that is lending rate of $13.95 million every minute of every day for the past three weeks. That is staggering and is nothing more than a massive liquidity injection which will push the dollar to lower levels taking purchasing power away from hard working American.

On a side note Jim Sinclair this week offered to wager $1,000,000 that Gold will hit $1,650 by the second week of 2011. Now it seems as if he has a taker/sucker and details will be finalized this weekend. Good luck to the taker, they will need it!

☞ Stocks Review

Liberty Star holds a large land position with one arm touching some of Northern Dynasty's ground some two miles from the spectacular Pebble deposit. I wrote an article on Northern Dynasty some time back and it can be found here. This is highly prospective ground with no less than four major global mining companies either exploring near Pebble in joint venture partnerships or working on Pebble itself. The latest being Freeport McMoran partnering with Full Metal Minerals on their Pebble adjoining property.

Liberty Star is working towards building a joint venture partnership with a major to explore this land. I expect they will not have too much trouble and I expect an announcement before the spring is out in order to take advantage of the summer exploration season.

From a peak of $2.20 the stock has languished more than most and now seems to have a fairly solid base in the $0.20 region. I need to see the 50 day MA crossed and hold for a month at least but they really just need to come out with some results and proof of potential for a project.

Osisko Exploration finished their preliminary assessment of their Canadian Malartic Project. They are moving forward very nicely and with the deposit at 8.4 million oz inferred resources as of 2007 it could be a takeover target. As Newmont stated these types of deposits are few and far between and will represent a good opportunity for a major.

Although low grade at 1.05 g/t this project will yield 572,000 ounces of Gold over the first three years of operation at a cost of $314 per ounce. That's not bad to start. With Gold at $900 these days that would generate an internal rate of return of 30.5%. At $1,000 Gold it's a 36.8 IRR. I expect Gold to reach well beyond the $1,000 mark before this project even begins producing so the IRR should be fantastic.

Gold Price ($)	IRR (%)	NPV at 5% discount (M $)	NPV at 0% discount (M $)
650	13.0	394.5	904.7
775	**22.2**	**952.3**	**1,710.8**
900	30.5	1,464.1	2,516.9
1000	36.8	1,891.9	3,161.7

As you can see this is the type of stock I like to find....but two years ago. Even with the Junior and Exploration stocks performing poorly Osisko has gone from $0.12 to $7.00 and with the whole sector performing poorly closed the week off at $4.60. While not as oversold as many stocks in the Junior and Exploration sector this one has been set back and with its real and viable economics I expect it to outperform going forward.

Silver Wheaton, while neither a Junior and Exploration stock, nor a mining stock is a great story. Silver Wheaton is a great alternative way to play the Silver price. This week Silver Wheaton announced a tripling of reserves to 346.4 million ounces.

The basic model Silver Wheaton follows is to fund development of a mine for a percentage of Silver output. They have contracts which after funding, allows them to purchase Silver for under $4.00 an ounce they then turn around and sell it on the open market. They have negotiated some super deals and have a very limited workforce and take on no exploration risk or expense. Their prices are relatively locked in with small potential increases over time. They are not a royalty company but close to it in some ways and my personal favourite way to play the price of Silver.

While a far cry from $2 a share three years ago they still represent good value in my opinion. The 50 day MA is has provided strong support in the past and should hold in the future. Silver Wheaton will be much higher than $100 a share by the time this secular Precious Metals bull market is over.

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