

Mining Stocks

'The Second Best Time To Buy Mining Stocks'

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How To Select Good Mining Stocks

The absolute best time to select and buy mining stocks is just prior to the drilling of the 'discovery' drill hole which makes the nightly news and sends the penny mining stock soaring to extraordinary new highs! (see Fig 1, Item 1-3, Discovery hole). This is a difficult task as statistics show that over 600 properties have to be drilled for each ore body that is discovered and subsequently made into a mine. It can be a daunting and expensive proposition trying to cover your bets by speculating in all the penny mining stock dreadfuls.

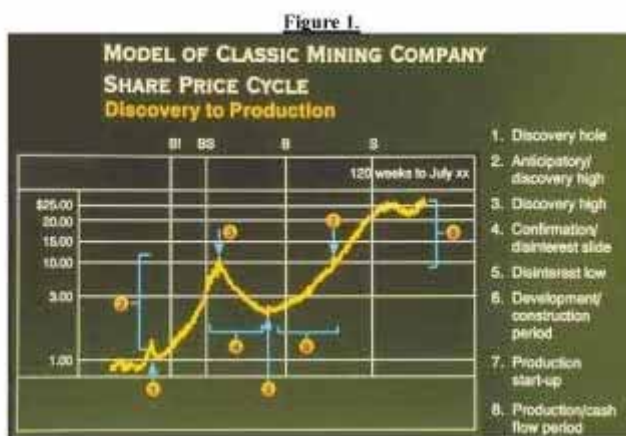
The experience we have enjoyed over the past 30 years suggests there is a second best time to buy mining stocks. That is when a qualified management team is preparing to convert/construct a single 'ore body' mining company into a producing mine. A purchase of mining stocks during this development/construction period has produced significant gains with a favorable risk/reward ratio.

Mines Are Not Discovered...They're Made!

Ore bodies are usually "discovered" during an "up-cycle" in metal prices as the mining industry and the speculative publics enthusiastically spend money on exploratory drilling. One or two discoveries are made and the enthusiasm spills over into all the penny exploration companies. It can take two to four years to fully "prove" a discovery while the short-term "up-cycles" in metals prices are often as brief as one to three years. Thus discoveries are often brought into production, made into mines, in the following (or possibly later) up-cycle in metals prices.

The difference between the real discoveries and the promotional clones is not always signaled by their price action in the stock market. They both go up during the general enthusiasm for the shares of any companies nearby the 'discovery' (Fig 1, Item 2, Anticipatory/discovery rise) and down when metal prices recede (Fig 1, Item 4, Confirmation/disinterest slide).

Model of Classic Mining Stock Company Share Price Cycle



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The bona fide discoveries identify themselves (those discoveries that will ultimately be 'made' into mines) by continuing to spend money on their property when metal prices are cyclically weak, (Fig 1, Item 6, Development /construction period) and when funds are not as readily available from a now less enthusiastic public, but rather largely from management and longer term investors.

Buying discoveries can be fun and profitable, and is largely speculation. Buying qualified 'mine making' is investing that can yield significant returns on mining stocks with a favorable risk/reward ratio. Investing in a 'single' orebody mining stock when it is being readied to go into production (Fig 1, Item 6) provides some of the lowest risk/highest reward mining industry investment opportunities. And results are even better if this period of pre-production/construction coincides with the trough in a market cycle for the mining stocks of the particular metal.

Low metal prices and disinterest from the speculator community (who often drive the prices of mining stocks to excess during the discovery period) combine to produce a very depressed price for a mining stock during the confirmation/disinterest slide (Fig 1, Item 4). This is precisely when a good ore body, financed by knowledgeable long-term investors and operated by qualified management, can be bought in anticipation of substantial gains during the pre-production and production period, compounded when metal prices recover from their cyclical weakness.

The Big Payoff on Mining Stocks

There is significant capital gain potential on mining stocks as the market begins to anticipate and discount the production of metal and the consequent earnings (Figure1, Items 6 through 8). The maximum appreciation is recorded if the mine is being readied for production during a period of metal prices weakness and begins pouring metal and generating earnings as prices are trending up again.

In 30 years of identifying 10 companies that have qualified, all but one have equaled or exceeded their discovery highs by more than 100%! The price rises from their confirmation/disinterest lows to their production/cash flow highs have produced 300-1000% gains.

Conclusion:

One of the best times to invest in mining stocks is during the construction/pre-production period when a qualified 'single' orebody mining management team is going about the work of 'making mines'.

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This article was originally published in The Oxford Club Communique and more recently in a special report on mining stock on the InvestmentU.com Web site. The Oxford Club, founded in 1984, has become the largest financial organization of its kind with over 65,000 members in over 110 countries. The Club helps investors around the world create a financial legacy for their families that is shielded from excessive taxation, seizure, fraud, and inflation. The Club supports limited government, free markets, and individual liberty. For more information, visit: <http://www.oxfordclub.com>