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INVESTMENT OPPORTUNITIES AND NEWS

Possibly a great time to invest in junior resources

– but do your homework

by Derek Wood

As this article is being written, the performance of the TSX Venture Exchange, home to approximately 60% of the world's junior resources companies, has been abysmal. The TSX Venture Exchange has fallen over 70% since reaching its high in 2007 (Source: Thomson One WM Canada Trading, Chart Data).

Recently John Kaiser, of the *Kaiser Bottom Fishing Report*, estimated that as many as 500 companies listed on the exchange will fail in the next year. Financings have slowed dramatically and it is estimated that as many as 700 of the 1,484 listed junior resource companies have less than $200,000 dollars of working capital left.

Ironically, many seasoned industry professionals believe this is likely one of the best times ever to invest in the junior resource sector. Recently Rick Rule, Chairman of Sprott US Holdings, commented that the valuations of developmental junior gold stocks are trading at the most attractive levels since 1992.

In weak markets, capitulation on the part of investors and forced liquidation of funds due to redemptions, often bring share prices down across entire sectors. Sellers often pay little attention to the quality of issues being sold. This is where the opportunity is most likely to exist. Historically, investors who take a contrarian approach and invest in the junior resource sector while it is out of favour have been well rewarded. During the 2008 financial crisis, the TSX Venture index fell to a low of 678.62 in December of 2008 only to recover to 2,464.78 by March 2011 – a 363% increase (Source: Thomson One WM Canada Trading, Chart Data).

Today, there are fewer brokers and brokerage firms giving advice and providing research to assist the retail and institutional investor in taking advantage of this situation than in past bear markets. The good news is that, now more than ever, investors and industry professionals have easier access to public information that can be used to evaluate companies. One must be willing to put in the time and effort to perform one's own due diligence.

There is a wide variety of methods used to evaluate junior resource companies, but there are some basic rules of thumb. In the current market environment one should focus on companies with proven management and quality assets that are trading at significant discounts to previous trading ranges and financings. One should also favour companies with strong cash positions and/or proven resources.

By utilizing some standards, and accessing public information through various Internet sites, while getting to know management prior to investing, it is possible to lower risk and manage expectations of possible returns. Some key sites are:

www.sedar.com: Sedar is a good place to look at recent financials and news releases to determine approximate cash position, how much a company spends on exploration, as well general office and administrative expenses. All of a public company's public records are listed here. Other items that should be reviewed include the most recent management discussion and analysis.

www.sedi.ca: Sedi lists insider holdings and trading information. On this site one can see the holdings of insiders as well as individuals or entities holding greater than 10% interest in a company. This site can also provide information regarding management's other ventures, both current and historical. Management's track record is an important consideration before deciding to invest.

www.tmxmoney.com: Tmxmoney provides a host of investor tools and research resources to help you invest with insight. From this site one can enter a particular company ticker symbol and then link to TSX Venture information. This site provides company specific information, including news releases, share structure, list of insiders, as well as dates and terms of previous financings.

www.canadianinsider.ca: This site shows recently reported insider transactions. It makes it obvious when a company is reporting shares purchased through an issuer bid for redemption. Usually insider selling should be explained before considering investing. Insider purchases and issuer bids are usually indications that management believes the company is currently undervalued.

Individual company websites: There will usually be a variety of useful information available on a company's website. Often included will be property descriptions, corporate philosophy, management bios, presentations, and analyst coverage and contact information.

If due diligence leads to specific questions, one should place a phone call and speak directly to management. Management is usually willing to take the time to speak with a potential investor. It often helps an investor assess the quality of management. If an individual is interested in making a significant investment he/she should consider meeting management in person when possible.

It is very difficult to predict when investor sentiment towards junior resource stocks will improve. History has shown that large potential gains are possible by investing in quality companies when this particular market sector is out of favour. By conducting one's own due diligence, or having it done on their behalf, down side risk, while not eliminated, can be greatly reduced. ■

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