Why Gold Miner Shares Disappoint

Retrieved Friday 29th of September 2017 11:25:31 PM

After studying physics, a financier in San Diego hired me as a stockbroker ...

The box in question dealt with stocks in the gold sector ... especially the "micro-caps."

The giants of the sector - such as Barrick, BHP, or Goldcorp - already benefit from the attention of the investment banks and financiers of Wall Street ... As a result, valuations tend to fluctuate little. In addition, they have access to cash on Wall Street or London.

For speculation in the sector, microcaps - the "small" under $ 500 million in valuation - offer more potential ... Without having the Wall Street bundles on them, competition to invest in opportunities is lightening. In addition, they need money ... and few people have the knowledge or connections to participate in their funding.

As a result, a speculator with a knowledge of minerals, especially gold, can find a hunting ground in the microcaps.

My employer had done everything possible to put the chance on his side ... by hiring a geologist from Barrick ... Exploration engineers ... and oil specialists (to follow the opportunities in the field) ...

My physical qualification, and my conversations with him, convinced him to give me a position ... even without knowledge of geology, gold, or oil.

My three years in San Diego have taught me the mistrust of perlinpinpin powder sellers - many people in the financial sector are part of it.

Why the "conveniences" - oil, gold, and others - have dropped since 2012 ...

From 2012 to 2015, the team of my employer and I followed the opportunities in microcaps in minerals - in gold, silver, platinum and palladium, uranium, copper, and oil ...

Despite the certifications and knowledge of the group in the field, we saw the investments falling one after the other ...

From the beginning of my mandate, gold began to fall ... uranium soon followed because of the Fukushima disaster ... most of the metals - copper, platinum, and palladium - fell as well .

By the early 2000s, gold and metals had begun to explode in value. After 20 years of low-cost prices - during the 1980s and 1990s - for metals, the sector had dropped ...

No one wanted to invest in mines or exploration projects. With the fall of metal prices, the game was no longer worth the effort.

Then, in the early 2000s, metal markets began to wake up en masse ... The lack of investment had cut short the amount of metals on the market.

Similarly, oil had received little investment during the 1990s ... and the price of a barrel began to take off due to lack of supply and growth in demand.

The media and markets have seen the prices of metals and petroleum jump ... The peak oil theory - the achievement of maximum oil production per day - has emerged.

All along, the rise in prices has had an impact on the markets ... The financiers have started to invest again ...!

The miners, and the oil tankers stopped rolling to get pennies ... They were now fully supported by speculators and financiers.

The markets have given hundreds of billions of dollars to miners and oil companies ... encouraging them to drill wells ... to find deposits ... and to develop farms.

With rising prices, dozens of projects - in gold and other - have begun to attract the attention of markets ...

A deposit could have cost too much to exploit with gold at $ 200 an ounce, its price in 2001 ...

On the other hand, with gold approaching $ 2,000 an ounce in 2011, these deposits could receive funding for their exploitation ...

Similarly, oil tankers responded with oil research in the oceans - "offshore" - in shale rocks (requiring more investment), and in the bitumen sands of Canada. Saudi Arabia and others have invested to increase production of their wells in the Middle East ...

In short, the production of metals like gold or uranium, and commodities such as oil, jumped ... More and more money was going in the sector ... and always more projects were born ... In addition, prices continued to rise from day to day ...

In 2012, the market has changed direction. Over a decade, markets had invested heavily on metals ... and the amount of metals on the market had climbed year after year.

After a while, the offer began to surpass demand ... and prices began to fall. Many projects requiring gold prices of $ 1,900 per ounce or more suddenly saw their funding evaporate.

By 2014, the disease has reached oil ... massive investment in the years 2000 has increased tenfold the world's oil production. Instead of seeing a "peak oil" situation, production had risen steadily ... The United States was again the # 1 oil producer in the world (Saudi Arabia took the title in the 1980s).

As for gold and metals, the price of a barrel of oil has tumbled ... losing about half of its value over 1 year.

Why Shares in Gold Mines tend to disappoint ...

After the discovery of a gold deposit, the explorer will usually sell it to a miner ...

Miners are under pressure from financiers to "optimize their value."

When the price of gold climbs, the financiers are pressing the miners to take more and more risks ... to borrow more and more money ... and to develop more and more mines ...

As gold rises, markets seek to profit from the rise in the price of metal ... So, by deploying the maximum amount of capital to the exploitation of deposits, the miner makes sure to generate a maximum of profits thanks to the increase prices…

The financiers encourage them to take risks ... Indeed, the more he positions to take advantage of the price increase, the more his shares can climb in response ...

On the other hand, the mining risk is big if metals prices do not meet expectations ... Sooner or later, prices will change direction ... and the taking of debts in the market will lead to disaster…

The financial pressure to "expose" to the rise in the price of gold more or less guarantees the catastrophe ... and many miners, like Barrick or others, have seen their valuation collapse over 5 years ...

In short, the game of finance pushes the miners to take an excess risk when prices rise ... and, conversely, to "freeze" their activities when prices fall ...

In the long run, instead of helping him take advantage of the rising price of gold, stocks in mining ensure it to come out with losses ...

A company to take into account to invest in the gold sector ...

Almost all stocks in the gold sector have dropped from 2012 to today ... "big" billions of euro valuation, to "small" worth less than 10 million.

On the other hand, one of the participants in the sector - a competitor of Wall Street financiers - continued to see its price climb, despite the collapse of the sector ...

The company, named Franco-Nevada, has helped many companies in the sector to finance themselves, without pushing them to take an excess risk to take advantage of the rise in prices.

Its creator, a Quebecer by the name of Pierre Lassonde, had the kindness to talk to me on the phone in 2014 ... to tell me about his company ... now making 15.4 billion euros of valuation on the stock market.

For example, he revealed how, in the early days of Franco-Nevada, they invested around $ 2 million in a gold mine ... for today's output of more than a billion dollars.

These types of maneuvers have allowed Franco-Nevada to climb again and again ... even when the gold sector has tumbled ... (Its price continues to climb, although the sector has recovered little since).

If you are contemplating an investment in the gold sector, Franco-Nevada might interest you ... (Note: Franco-Nevada does not appear in my assets to me).

Truly,

Henri Bonner