# THE PROFIT OPPORTUNITY IN ACQUIRING ADVANCED DEVELOPMENT PROJECTS

Originally written in 1979 in collaboration with N. B. Keevil Sr., Chairman, Teck Corporation.

**Conclusion:** One of the best times to invest in a mining stock is during the construction – pre-production period when a ‘single’ orebody mining company is going about the work of 'making mines'. This is when the responsible principals of these companies are themselves investing further as are serious long-term investors.

**The absolute best time to buy a mining stock** would be just prior to the drilling of the ‘discovery’ drill hole which makes the nightly news and sends the penny stock soaring to extraordinary new highs! (see Fig 1, Item 1, Discovery hole). This is a difficult task for most investors as statistics show that over 1,000 properties have to be drilled for each ore body that is discovered. It can be a daunting and expensive proposition trying to cover your bets by speculating in all the penny dreadfuls.

The work we have done over the past 40 years suggests there is a **second best time to buy mining equities**. That is when a single ‘ore body’ mining company is preparing to convert/construct that ore body into a producing mine. A purchase of mining stocks during this ‘depressed’ price development and construction period has produced significant gains with a favourable risk/reward ratio.

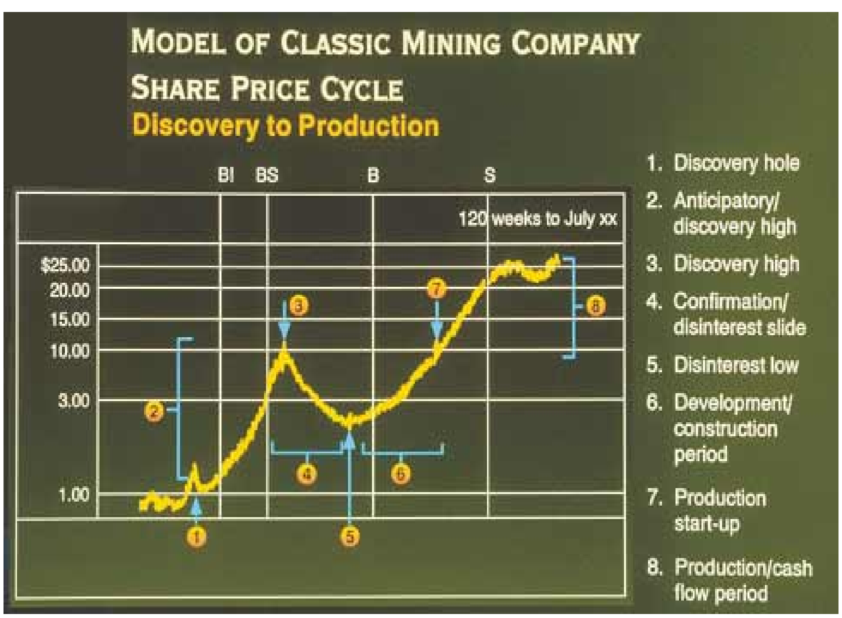
**Mines are not discovered, they are made!**

Ore bodies are usually "discovered" during an "up-cycle" in metal prices as the mining industry and the speculative public enthusiastically spend money on exploratory drilling. One or two discoveries are made and the enthusiasm spills over into all the penny mining companies. It can take 2 to 4 years to fully "prove" a discovery while the short-term "up-cycles" in metals prices are often as brief as 1-3 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 signaled by their price action in the stock market. They both go up during the general enthusiasm for the shares of any companies nearby (Fig 1, Item 2, Anticipatory/discovery rise) and down when metal prices recede (Fig 1, Item 4, Confirmation/disinterest slide).

The bona fide discoveries identify themselves (those discoveries that will 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, rather largely from management and longer term investors.

**Model of Classic Mining Company Share Price Cycle: Figure 1**



Buying discoveries can be fun and profitable and is largely speculation.  Buying 'mine making' is less risky investing that can yield significant returns with a more favourable 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 stocks of the particular metal.

Low metal prices and disinterest from the speculator community (who often drive the prices of 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. Th egains can be compounded when metal prices recover from their cyclical weakness.

**The Big Payoff:** There is significant capital gain potential as the market begins to anticipate, and then discount, the production of metal and the consequent earnings (Figure1, Items 6 through 8, Development through to cash flow period).  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 forty years of investing in over a dozen such 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 300-700% gains.

**Conclusion:** One of the best times to invest in a mining stock is during the construction – pre-production period when a 'single' orebody mining company is going about the work of 'making mines'.  This is when the responsible principals of these companies are themselves investing further as are serious long-term investors.

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