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How to Make (and Lose) Money in New Age Metals

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How to make and how to lose money in New Age Metals. That is an unusual topic for a presentation, isn't it? Everyone is full of ideas on how to make money, but no-one wants to lose money, do they? Of course not, but fortunes have been lost on account of long positions in New Age Metal stocks.

What are New Age Metals? According to the the flyer for this conference the term covers a wide range of commodities; cobalt, graphite, lithium, manganese, magnesium, nickel, rare earths and vanadium. We should add antimony, copper and uranium to the list. These are expected to play their part in the future of batteries, emission free power and technology generally.

However, we can debate whether or not all the companies trying to get a foothold in these commodities will have a future. Actually, we don't have to have a debate to appreciate that the vast majority of companies will fail. That is why losing on the stock market needs to part of the discussion.

The world has changed from 20 years ago because of the push for renewable energy. The easy hydrocarbon road is being abandoned, gradually, in favour harnessing the power of the sun. Whether it be solar or wind or tides - it all comes from the sun - that great ball of nuclear fire in the sky.

The transition is complicated and it is taking its time. There are no perfect solutions but there are plenty of alternatives to consider. It is this range of alternatives that give the opportunity for science and industry to go off and chase a wider range of possibilities. These alternatives have provided a rich playground for promoters to push their own stories, while another aspect of the New Age - the internet - has provided the platforms for these promoters to get into the minds of investors. We have had a perfect storm of misinformation that has served to cause many investors to behave like boys in a lolly shop, and it has led to massive confusion and worse, deception.

So, lets look at New Age Metals in the context of the New Age of Investing. What are the ground rules. How can you make money and how can you avoid losing money. Interestingly, the answers to these questions mostly date back to Old Age principles that will probably never change.

The Major New Dynamic is China

Any analysis of commodity markets today must involve a consideration of what China is doing and how it is doing it. Traditional fundamental analysis of economic activity and supply and demand will never work unless you do. The trouble is, China operates according to its own set of rules - and we don't know exactly what they are.

China is not happy to comply with traditional Western economics and analysis. The free market does not feature in the Chinese mindset, except where it shows its weaknesses. Xi Jin Ping is all about deception and control and taking maximum advantage of any flaws in markets for political benefit. Whereas our anti-trust and anti-manipulation laws try to maintain a level playing field, China is constantly weaponising its activities in order to control markets.

The New Age Metals are more vulnerable to market manipulation because of the lack of terminal markets such as the LME. Getting pricing information and transparency for any product is difficult. China is usually the largest consumer of these metals. It is also seeking to become the largest supplier through its international activities. China manipulates the markets to not just to its advantage, but to our blatant disadvantage.

The Nature of the Markets Today

For the most part there is no transparent market for New Age Metals. That means producers have to deal directly with the buyers, or the middlemen that service these buyers. It comes down to what the buyers - usually Chinese - are prepared to pay. Pricing mechanisms are not transparent and so sellers are often at the mercy of the buyers. Western contract law that normally provides confidence in commercial dealings is of limited benefit when arrangements are not enforceable in Western courts of law. So the inevitable happens - Western suppliers get screwed.

Having Chinese parties as investors or joint venture partners is a double edged sword. It serves to provide the Chinese with sensitive information about costs of production and profit margins as they tighten the screws. Yet, for many projects, the Chinese are usually the first to offer finance while traditional debt and equity sources of funding are much more cautious. Uncertainty regarding markets and pricing tend to keep these sources away but because China is manipulating markets, it has the whip hand.

The USA and the Western governments are aware of these problems as they seek to reduce reliance on China, but they are very clumsy in addressing the problem. They don't seem to be acting smart yet. The result may be a two-tiered pricing system that involves sanctions and penalties to counter Chinese manipulation, but that is little more than a thought process than a reality to date. Though, we have seen tariffs going up.

You Have to Be Able to Sell Your Product

That's enough about China for now. It presents challenges and occasionally opportunities, but there is not much we can do about it when the producers are price takers rather than price makers.

Many of these New Age Metals come from what can best be described as industrial mineral projects. Industrial mineral markets are traditionally boring. The deposits are not usually rare or hard to find, but there can be variations in quality that can attract premiums or discounts. They often have very long mine lives but there is no point in having the largest deposit in the world, with the longest mine life, if you can't sell it. Don't get sucked in by the description of them being world class as a point of distinction. That is at best, a cliché.

Over the last few years we have seen many junior companies acquire projects that are prospective for New Age Metals, but they can't all succeed. Most of them won't stack up geologically or commercially. Only the best will survive the long journey. The rest will fail. Sure, the share prices of these potential failures could give you good returns, up until the point where reality bites but there is nothing ground breaking in this observation.

Production levels are constrained by the ability to enter the market as a supplier. New entrants into the sector need to look for windows of opportunity where they can enter the supply chain without damaging the market price. New suppliers run the risk of predatory pricing designed to keep them away. Normal industrial activity growth constrains annual increases in demand except for when there is a disruptive new use, such as the switch to alternative energy, in the early stages of the transition. This can present a short term opportunity as production gear up to meet expected demand increases.

Fantasy versus Reality - Can you tell the difference?

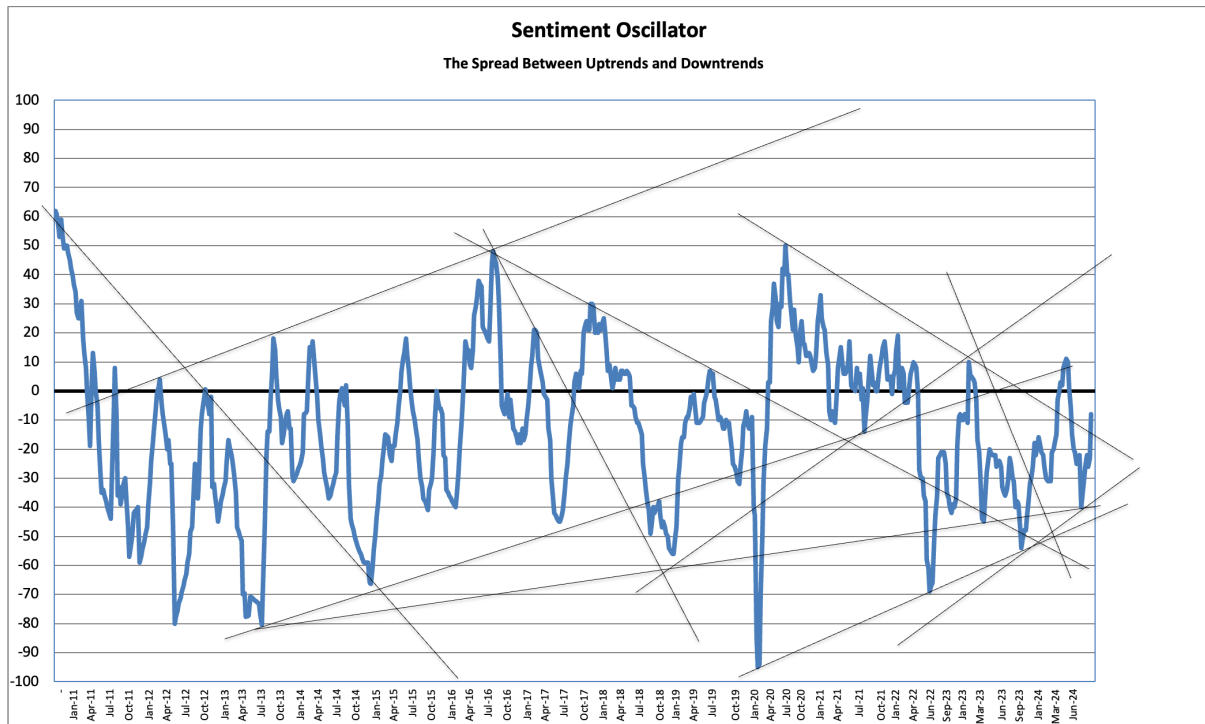
Alright. That is enough about the real world. Now let's consider what most of you want to hear about - the fantasy world - the world that is the casino that we call the stock market. That is where you will make, and lose, your money.

I'm on record for saying that it helps to be bipolar when playing the stock market. That means you need to understand the real world on the one hand, and the fantasy world on the other. Actually, that is not quite true. If you completely understand the fantasy world then you probably don't need to understand the real world.

My problem is that as an analyst, people want me to tell them about the real world. I can do so, and make myself seem sort of intelligent, but most people are more interested in what is happening in markets today rather than the long term.

Nevertheless, when I pass opinion on a stock quite often I will say that the company and the project will not succeed in the long term, but it will offer trading opportunities in the short term. I say "*feel free to play the trend and follow the pied piper while you can make profits, but just remember, don't be there when the music stops*". Play the fantasy while ever it has legs, but remember to close out before the inevitable downturn. That fantasy could go on for years and enormous amount of trading profits can be made, but never become a true believer. This applies not just to individual companies. It applies to the whole market, and sectors thereof. Switching into other stocks that haven't run yet, when they

look relatively cheap, is a dangerous thing to do if the market is getting near the top. That is where a quick look at the Sentiment Oscillator can help.



When I was about 15 years old I got caught by a severe correction in the market. That is when I started charting, as opposed to graphing stock price movements. That intention was to give me a pictorial demonstration of what was happening in the markets as opposed to figuring out real world economics and what the implications were for the stock market; you know, cause and effect. Charting doesn't care about the real world. Rather, it shows the interaction between the buyers and sellers. Everything is reduced to stock price movements. It is all about market dynamics and the formations of trends that result in patterns of behaviour. Get the trends right and everything else follows. They show pressure points and decision points on paper, and then all you have to do is combine the signals with probability analysis. As they say, the trend is your friend - until it is not and there is a reversal.

The challenge for me as both a chartist and an analyst is to cross from one dimension to the next and rationalise them in the process. What should I believe, the fundamentals or the charts? I developed the Sentiment Oscillator as an extra, very effective tool. The only input is stock market activity. It gives a reading on whether the overall market is overheated or oversold. It will tell you when you should be pulling money out of the market irrespective of how good you might think your individual portfolio is. It serves as a reminder that everything falls when the market turns down. They say that no-one rings the bell at the top of the market, but the Sentiment Oscillator can tell us within a matter of weeks when the silent bell will ring. You can see it, even if you can't hear it.

The Importance of FOMO

There is nothing like FOMO - the fear of missing out - to drive share prices higher. When FOMO is dominant it is a matter of the quick and the dead. You will buy on a whim before someone else takes the stock in the screen, and think about fundamentals later. If the share price keeps going up, you might not even bother with the fundamentals. You'll just go for the ride.

At the moment, at the depths of a bear market, FOMO is in short supply. Traders have limited free cash and it is difficult to sell positions without moving the market further down. There is a flawed belief that your shares will recover if you hang on long enough. If you wait, you can get a better price in a month, or three, or six. The trouble is, everyone else is thinking the same. That means the stock is full of stale bulls wanting to get out. Unless there is a dramatic change in circumstances they will never recover to previous levels. It is essentially game over! The faster you recognise this and switch to new stories without the stale bulls, the faster you will be back in the profit making mode.

How to Pick the Winners Next Time Around

I have just said that you need to get onto new stories, but more than that, you need to make sure they are the winning stories. There is no pressure to get set quickly as the bottom of the market. You can take your time to consider the various parameters without being rushed into action. You can act without FOMO distorting your judgement.

It is often said that management is 80% of the decision making process in investing. That is fair enough, but there is another factor which is just as important. That is leadership. Management is all about having experience and doing things right in a responsible, rewarding fashion. Leadership offers direction and inspiration to both company personnel and shareholders. Good leadership is a great motivator. It is the key to over-performance.

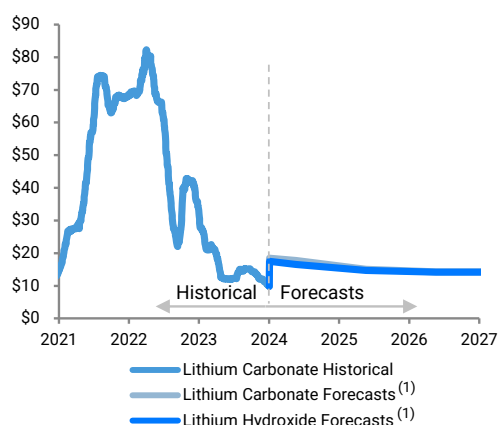
Looking at New Age Metals

Having delved into field of the stock market and described some of the pitfalls, we should get back to the New Age Metal themselves. Can you make money out them again or is that ballgame over? How many punters are prepared to have another go? What is going to inspire them? Have a look at some charts that an international broker published in a recent update on critical minerals. Note how far the prices have fallen and look at the forecast prices.

The first one is lithium carbonate. Does that look inspirational? Hardly.

LITHIUM CARBONATE 99% MIN CHINA

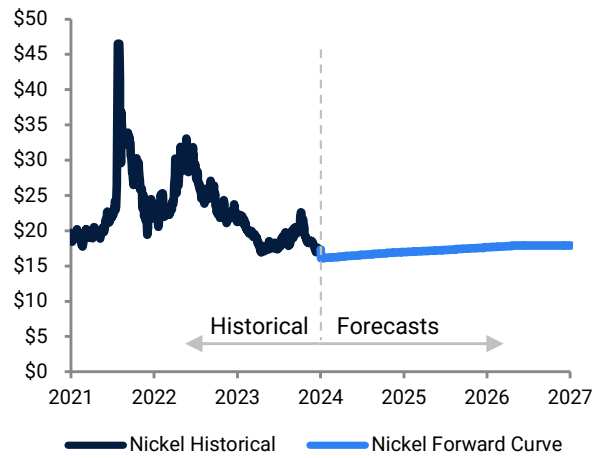
(US\$000 / tonne)



Next look at nickel. The forecast is for a gently higher price. Boring

LME NICKEL PRICE

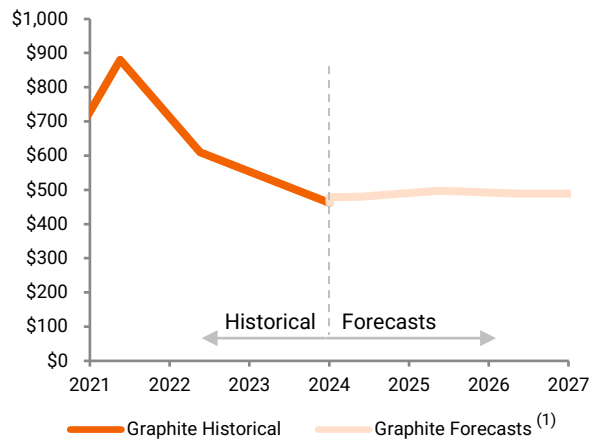
(US\$000 / tonne)



Graphite is no better

GRAPHITE FLAKE CONCENTRATE

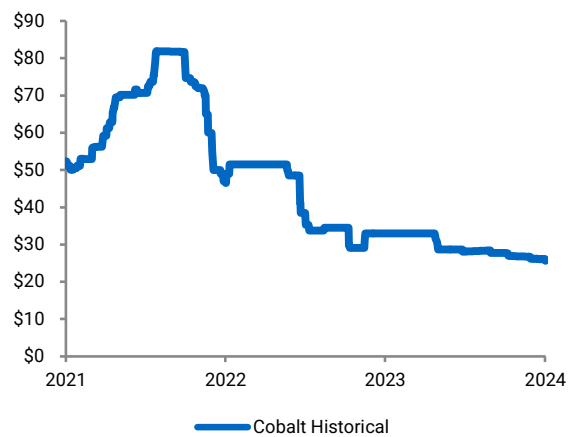
(US\$ / tonne)



The broker isn't confident enough in the future of cobalt to even make a forecast .

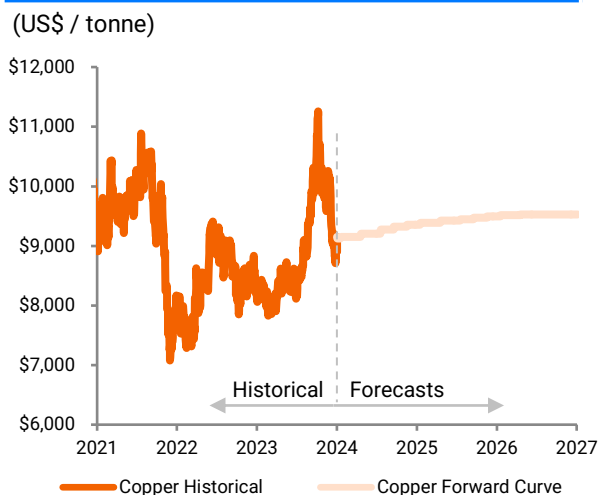
COBALT STANDARD GRADE CASH SETTLED

(US\$000 / tonne)



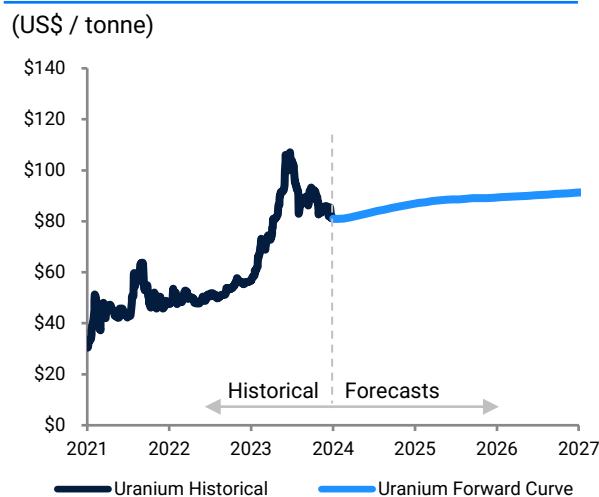
Copper, that commodity that everyone tells us has got a great future because it is essential for power wiring, is forecast to go high - sort of - but there is no suggestion it will regain the recent highs.

LME COPPER PRICE



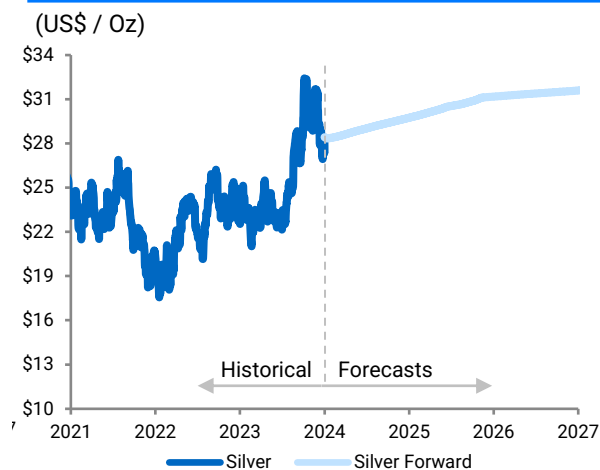
Uranium is forecast to remain relatively strong. This might not technically be a New Age Metal, but it should be. The whole transitions won't work without a greater reliance on nuclear power.

URANIUM PRICE



Silver, a metal used extensively in solar panels, is forecast to move higher but it is actually moving more in sympathy with forecasts of a rising gold price.

SILVER PRICE



So, if forecast metals prices aren't going to inspire us, what is? If there is no inspiration, no leadership and no FOMO, is there any point in playing the market?

No matter how bad the market gets, it will always recover - eventually. Will the punters come back when the metal and commodity prices start to recover? Will it be game-on again? After all, the lithium prices collapsed a few years ago and recovered very strongly. Will this happen again?

Much depends upon what China decides to do. Most recently we have seen a flurry in antimony companies on the market with news that China is imposing export controls. The Western world is dependent upon China, Russia and Tajikistan for 85% of the supply of antimony, an essential ingredient in ordnance. It is not so much that there is a shortage of antimony and antimony projects, but it is a case of China weaponising its dominant position. Some people are saying tungsten will be the next target.

China dominates the outlook for most, if not all, of the New Age Metals - both as a supplier and a consumer. Figure out what China is going to do and you will know what to, or what not to, invest in.

Maybe we have seen the end of the type of market for New Age Metals that is driven by FOMO. As time goes by, more and more projects will come on stream to satisfy the forecast demand. Is it realistic to expect that China's dominance will diminish in these market? No, it is not. China is not happy to just be a big consumer and be a price taker. It wants to knock out competition and be even more dominant and it will do this by rendering many new projects in our world uneconomic due to low commodity prices. It will employ predatory pricing tactics to exploit the underbelly of prospective new producers.

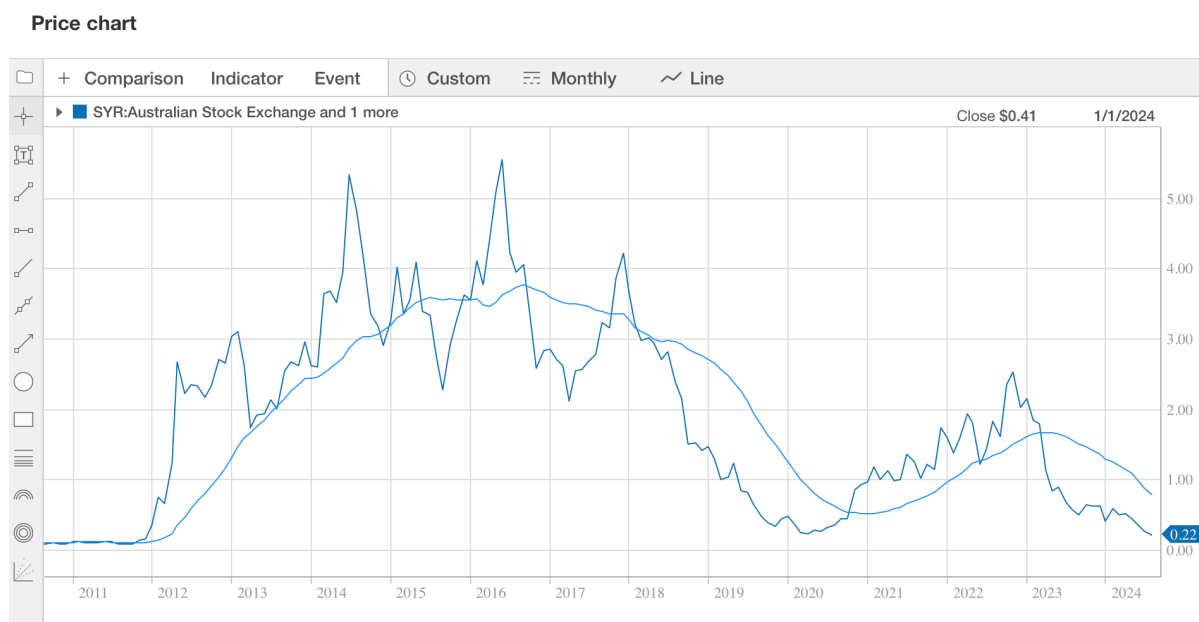
This means that even fundamental analysis of supply and demand will be hamstrung. It will be subservient to the whims of China. That means that the traditional maxim that you can safely invest in projects that will operating in the lowest quartile on the cost curve is no longer relevant.

A whole separate section - on what to believe and what not to believe when being promoted to by companies - needs to be considered in any paper that is trying to educate you on how to make money. However, given the role of China, it starts to seem irrelevant. Perhaps we can have that discussion when comparative analysis start to become more essential as a stock selection method.

Until then, I'd rather be playing the gold sector. Maybe that is the real New Age Metal.

Case Study : Graphite and Niobium

It is worthwhile reminding you of what happened with Syrah Resources and the graphite sector.



Syrah Share Price Chart 2011-2024

Back in late 2011, Syrah was just another penny dreadful with a flat lying share price around 20¢. Then out of the blue, the company turned up in my office saying it had the largest graphite deposit in the world. When I asked the guys how much drilling had been done, they said *“None, you can see it sticking up out of the ground”*. Within two years the share price was trading above \$5.00 on the back of a large graphite resource that was emerging. They called it world class.

Syrah worked out a plan to produce 300,000 tpa of graphite, when at the time, most existing mines were producing around 5-10,000 tpa, and struggling to make money. Never mind, Syrah was going to transform the industry. It didn't need to borrow money and expose itself to arduous due diligence that lenders would have insisted on. The share price was high enough, and there was sufficient enthusiasm from the market that the mine was equity financed.

Syrah ran into all sorts of problems, technically at first, then commercially. It was never able to sell more than about half of the capacity of the mine. Remember what I said earlier? You have to be able to sell your product. Well, Syrah couldn't. The mine never made a profit. In the recent June quarter Syrah sold only 10,000 tonnes. Annualise this and it is 40,000 tpa. The nameplate capacity of the plant is 300,000 tpa. The development was a complete disaster.

You could be forgiven for saying that it was a fraud on shareholders but Blind Freddy could have told you it would end in tears. Yet, as a stock market play it was highly successful. Enormous profits were made by the promoters and those investors who were lucky to get in early, and get out. Sometimes fantasy land can deliver!

The story took quite a few years to play out. That company was single handedly responsible for a graphite boom that sucked in dozens of junior companies and even more investors. Punters could have made a lot of money out of stocks that had no fundamental basis. (Isn't the stock market wonderful)? But I'm not aware of that boom resulting in any profitable new graphite mines. Yet, you still see companies exploring and trying to finance mines, and you still find punters backing them like there is no tomorrow. They haven't learnt the lessons or read the play book.



WA1 Share Price Chart 2023-2024

Now take a look at niobium. There are some strong parallels to what happened with graphite then, and niobium now. The share price performance of WA1 Resources has been truly amazing. It has risen from 20¢ to over \$20.00. Once again, there have been very large profits made by punters - if they have managed to sell. Millions of dollars worth of shares trade every day, so selling into a deep market isn't a problem

WA1's share market success has caused a boom in niobium stocks with many companies looking for the rub-off effect. Once again we have a wonderful fantasy land situation but in the long run it will not succeed. It would be virtually impossible for WA1 to develop a profitable mine in the most remote location in Australia. Not only would it be very expensive, but the company would need to enter a market where one company controls at least 75% of the supply. Another three operations almost account for the rest of world supply. It is not going to happen. Yet, the share price performs as if it is legitimate. I can say this as an analyst, but if you are a punter and want to have a seat at the table, don't let me stop you. Just make sure you know when to hold them and when to fold them.

So, getting back to the topic; **How to Make (and Lose) Money.**

It is obvious. To make money, play the game in a rising market. Don't worry about what is real and what isn't, just follow the money. Don't worry if you think the share price is being manipulate. Make it work in your favour and remember to take profits.

Losing money is also easy. Hang on too long. Become a true believer and fail to recognise both the general market signals and the stock specific performance. You can't afford to take your eye off the ball.

The bottom line is that you need to buy low, and sell high. That is all that matters. All the rest is just noise.