

Gold spike reminds us that the bull market is still with us

Absence of pain in markets at present

Early in the week I commented that the markets are almost boringly good at present. Everyone playing in the mining sector should be making money in what is a broad based recovery. Of course there will always be a few dogs you have to avoid, and companies will suffer if there is bad management, so you may have to be switching around to get the best returns. At least now you can move stock as volumes are improving.

At the end of the week we saw the gold price spike higher, above US\$1,290/oz. This seems to be a direct response to growth in the US economy being lower than anticipated, which has pushed back any expectations of interest rises in the country. There is nothing earth shattering in this, but the market has pushed the gold price higher whilst the Dow has been sold down.

The iron ore sector has provided some respite but it is difficult to see iron ore shares as "must haves". It is more about these companies trying to make the most of difficult times. The share prices have risen as short positions have unwound but there is no obvious growth path here.

Base metals such as lead and zinc rarely offer sex appeal so they make up a small proportion of the market and appeal to more fundamental investors. Copper is a favoured trading commodity but you need to be selective here as very few copper companies deliver the goods. The good ones usually get taken over, to the benefit of shareholders, but many of them just wallow along. Coal is one of those dogs that are sleeping. There is no suggestion that they will recover soon but equally there is no feeling that coal stocks will fall lower. Nickel is still looking for supply cuts and mine closures before offering any momentum.

The hot money is still looking for battery storage input stocks. Lithium has had a great run but reality may be coming back with profit taking in order. Cobalt is tempting some traders but there are very few vehicles to play. Some promoters are pushing cobalt in laterite nickel projects but you can forget them. They will never be developed.

Flake graphite has had its extended flirtation with markets but the easy trading profits are a thing of the past. Smart investors will be taking money off the table with stocks like Syrah and Magnis. No matter how good they look on paper it is most unlikely that they will deliver according to expectations. We are hearing scuttlebutt that Syrah is going much slower in the project development than it has said, but who is telling the truth? Magnis has released plans to increase the world supply of natural graphite by more than 20%, with a capital expenditure budget of A \$350m. The share price has run very hard but who really wants to be there for the financing, development and commissioning hurdles - assuming they progress through these. You have to know when to cash in profits.

As soon as you realise what is happening ...

Isn't it always the case that as soon as you notice that the market is "cooking", it slows down? As soon as the unwashed masses scramble for stock (and get filled), it goes quiet. So it has always been, but what can we learn from this? The experienced professionals will be buying when they see opportunity and value. They don't mind if they are the only buyers on a particular day because they can get set at their preferred prices.

Similarly, these guys are likely to be feeding the market on days of buying frenzy. While they might not sell their entire position, thereby leaving themselves naked in a market that could keep rising, they are reducing their average cost and improving their performance figures. Back in the days of the mining boom these sensible investors often failed to make as much money as the novices who held for a long time, believing that the boom would keep on keeping on. It did go on for a long time, but it was an extraordinary period that comes around once in a generation.

Lucapa options exercise is out of the way with about \$9m received.

When the market was depressed and money was being pulled out of the mining sector over the past couple of years, Lucapa offered a spark of brightness due to the extraordinary size and quality of diamonds that it was producing. Over the past two years it managed to raise approximately \$20m in tough times and it has made significant operational progress, including the recovery of a 404 carat diamond sold for A\$22.5m. That diamond prompted a share price run to 49¢ but since then it has drifted as low as 32-33¢. Why?

Lucapa had on issue about 68 million options, expiring April 29th this year, with a strike price of 30¢. Predictably the shares were pulled back close to the exercise price, but since the options ceased trading last week the shares have risen to the high 30s. The pressure is now off the shares. Movements in the share price from here should be more orderly with the expiry of the options, enabling a resumption of the uptrend we have previously seen.

Lucapa has reported that about A\$9m has been received from the exercise of options so far with a few more dollars expected (out of total potential of A\$18m if all options convert). Thus the cash balance under current management is growing considerably. Some of this will likely be consumed to purchase plant and equipment to double capacity to 40,000 BCM per month over the next few months, but that should also lead to better cash generation from operations. Any more news on the size and quality of the kimberlite pipe(s) will focus on the share without the distraction of heavily traded options.

Understanding options

This is a convenient point to explain to investors and corporates in particular, what options are good for. ASX listed options are not about raising capital through their

exercise, yet I still see companies budgeting for funds coming in from options 12 and 24 months out. That is plainly naive. You cannot bank on options being exercised. They may be, but as the experience with Lucapa demonstrates, there will usually be collateral damage on the share price. Shareholders sell shares to fund their option exercise payments.

Options are a very useful tool in creating value out of time, doing so through the leverage that they give traders. If a company issues shares at 10¢, with attached free options and a strike price of 10¢, the options will probably sell at 2-3¢ in the market. That is all attributable to the time value and the leverage they offer. If the shares double in price to 20¢, that is a 100% gain. The options will go from 2-3¢ to at least 10¢, giving a 400-500% gain. Traders will look for this opportunity.

The other use of options is that a company can place shares in a capital raising at a price closer to the market price rather than the standard 5-15% discount if it attaches free options. Subscribers can then decide whether they want to sell the attaching options to reduce their net entry price, or they can become even more leveraged by selling shares to buy more options.

[Green Party should change its name to the Mad Hatters Party](#)

The recent statement by the Greens that there should be a “millionaires tax” shows that they are not all about the environment. The reality is that they are an anti-growth party. They are an anti-jobs party. They want to bring everyone down to the lowest common denominator. They want to destroy entrepreneurial initiative. In their view the

creative and the capable should become worker bees for those that are either incapable of unwilling to get out there and have a go. They want to take away all initiative to rise up and over-achieve because this conflicts with their concept of equality. This is exactly what Ayn Rand warned against in *Atlas Shrugged*. Just ask John Galt.

While much of the political debate is about how to reduce the deficit the Greens came out saying it was acceptable for the government to borrow up to 25% of GDP, based on levels seen in countries overseas. That would provide another \$70bn that could be spent on education and health care.

In response, one of the greatest obstacles in international economics is the high level of debt that precludes fiscal initiatives by governments. That is why the world is borderline recessionary just now.

Further, why throw more money at an education system that is failing to teach the pupils basic reading and writing skills? Why pay more money to teachers who aren't doing a good job just so they can conduct more social conditioning in preference to a tangible, useful education.

We have just seen reports of over servicing in the health industry and professionals bumping up incomes by 30% over the past couple of years. Why throw more money at sectors where roting is rife? Bring out the razor gang and introduce the concepts of value for money and rewards for good services and we would all be better off.

Let's hope the hipsters and other trendy inner-city voters are smart enough to figure out where the Greens will lead us. The Labor Party has finally woken up to it. Voting for the Greens no is no longer trendy, it is just stupid.

Sentiment Indicator: There was another small improvement in sentiment over the week. There were 47% (45%) of the stocks in uptrend and 18% (19%) in downtrend.

Detailed Chart Comments

NB. Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant.

Indices	Code	Trend Comment	
All Ordinaries	XAO	strong break out of downtrend	
Metals and Mining	XMM	strong uptrend	
Energy	XEJ	strong breakout	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	stopped by resistance	gold
Aeon Metals	AML	hitting resistance line again	copper + cobalt
Alacer Gold	AQG	strongly higher	gold – production
Alkane Resources	ALK	at resistance line	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
African Energy	AFR	still in downtrend	coal
Aguia Resources	AGR	punched through downtrend, then pullback	phosphate
Alicanto Minerals	AQI	testing secondary downtrend	gold exploration
Altech Chemicals	ATC	rallying in a secondary uptrend	industrial minerals
Anova Metals	AWV	new high	gold
Antipa Minerals	AZY	rising	gold
Archer Exploration	AXE	stronger	graphite


















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Argent Minerals	ARD	strong rise, then pullback	polymetallic
Atlas Iron	AGO	breached support line	iron ore
Atrum Coal	ATU	breached ST uptrend	coal
Auroch Minerals	AOU	uptrend	exploration
Australian Bauxite	ABX	strongly higher	bauxite
Avanco Resources	AVB	breached ST uptrend	copper
AWE	AWE	breached ST uptrend but rallying	oil and gas
BHP	BHP	breached downtrend	diversified
Base Resources	BSE	steep rise from lows	mineral sands
Beach Energy	BPT	breached ST uptrend, but rallying	oil and gas
Beadell Resources	BDR	new high	gold
Berkeley Resources	BKY	rising again	uranium
Blackham Resources	BLK	steeply higher then a pullback	gold
Broken Hill Prospect.	BPL	new high	minerals sands, cobalt
Buru Energy	BRU	new low	oil
Canyon Resources	CAY	rising	bauxite
Cardinal Resources	CDV	stepped up	gold exploration
Carnegie Wave	CWE	breached downtrend	wave energy
Cassini Resources	CZI	new uptrend	nickel/Cu expl.
Chalice Gold	CHN	moved to new high	gold
Consolidated Tin	CSD	strong rise, at resistance	tin
Consolidated Zinc	CZL	secondary downtrend	zinc
Coventary Resources	CYY	breached downtrend	copper
Dacian Gold	DCN	uptrend , at high	gold exploration
Danakiali	DNK	off its lows	potash
Doray Minerals	DRM	new high	gold
Duketon Mining	DKM	rallying in a secondary uptrend	nickel
Eden Energy	EDE	correcting after steep rise	carbon nanotubes in concrete
Energia Minerals	EMX	uptrend in place	zinc
Energy Resources	ERA	breached downtrend	uranium
Evolution Mining	EVN	back to highs	gold
Excelsior Gold	EXG	sideways through downtrend	gold
First Australian	FAR	breached downtrend	oil/gas
First Graphite	FGR	new high	graphite
Fortescue Metals	FMG	correcting	iron ore
Galaxy Resources	GXY	heavy profit taking	lithium
Galilee Energy	GXY	surged higher, then pullback	oil and gas, CBM
Gascoyne Resources	GCY	new high	gold
General Mining	GMM	heavy profit taking	lithium
Geopacific Res. Resources	GPR	heavy fall, testing uptrend	copper/gold exp.
Gold Road	GOR	uptrend	gold exploration
Goldphyre	GPH	higher	potash, gold
Gryphon Minerals	GRY	strongly higher	gold
Herron Resources	HRR	edging higher	zinc
Highfield Resources	HFR	heavy fall	potash
Highlands Pacific	HIG	testing downtrend	copper, nickel
Hillgrove Resources	HGO	rallying off its low	copper
Hot Chilli	HCH	off its lows	copper
Iluka Resources	ILU	down heavily	mineral sands
Independence	IGO	strong rally	gold, nickel
Intrepid Mines	IAU	sideways	copper
IMX Resources	IXR	testing downtrend	graphite
Karoo Gas	KAR	bounced	gas
Kasbah Resources	KAS	breached uptrend	tin
KBL Mining	KBL	collapse back to lows	copper/gold/zinc
Kibaran Resources	KNL	breaching support	graphite
Kin Mining	KIN	sideways at lows	gold
King Island Scheel.	KIS	New low	tungsten

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Kingsgate Consol.	KCN	improving	gold
Kingsrose Mining	KRM	sideways	gold
Legend Mining	LEG	testing uptrend	exploration
Lithium Australia	LIT	heavy profit taking	lithium
Lucapa Diamond	LOM	in a wedge between uptrend and downtrend	diamonds
Macphersons Res.	MRP	testing uptrend	silver
Medusa Mining	MML	testing uptrend	gold
Metals of Africa	MTA	surged higher, but at resistance line	zinc expl/graph.
MetalsX	MLX	breached downtrend	tin, gold
Mincor Resources	MCR	testing resistance line	nickel
MMJ PhytoTech	MMJ	uptrend breached	medical cannabis
Mount Gibson	MGX	rising off lows	iron ore
Mustang Resources	MUS	new low	diamonds, rubies
MZI Resources	MZI	new low	mineral sands
Newfield Resources	NWF	collapse on tiny volume	diamonds
Northern Minerals	NTU	testing downtrend	REE
Northern Star Res.	NST	rallying	gold
Oceana Gold	OGC	back to high	gold
Oklo Resources	OKU	rising	gold expl.
OM Holdings	OMH	steep rise out of downtrend	manganese
Orecorp	ORR	new high	gold development
Orinoco Gold	OGX	short term down	gold development
Orocobre	ORE	through resistance and higher	lithium
Oz Minerals	OZL	new high	copper
Paladin Energy	PDN	new uptrend	uranium
Pacific American Coal	PAK	new high	coal
Pantoro	PNR	rising	gold
Panoramic Res	PAN	breached uptrend	nickel
Panterra Gold	PGI	breached new uptrend	gold production
Paringa Resources	PNL	secondary downtrend	coal
Peel Mining	PEX	breached downtrend	copper
Peninsula Energy	PEN	new low	uranium
Perseus Mining	PRU	new high	gold
Pilbara Minerals	PLS	new high	lithium/tantalum
Platina Resources	PGM	back to downtrend	PGMs, gold
Potash West	PWN	breached secondary downtrend	potash
Red River Resources	RVR	rising again	zinc
Regal Resources	RER	strong rise	copper
Regis Resources	RRL	rising again	gold
Renaissance Min.	RNS	short term higher, with pullback	gold
Resolute Mining	RSG	strongly higher	gold
Reward Minerals	RWD	breaching downtrend	potash
Rex Minerals	RXM	surge through downtrend	copper
RIO	RIO	steep ST uptrend	diversified
RTG Mining	RTG	strongly higher	copper/gold
Rum Jungle	RUM	turned down at resistance line	quartz
Salt Lake Potash	SO4	uptrend	potash
Saracen Minerals	SAR	new high	gold
St Barbara	SBM	new high	gold
Sandfire Resources	SFR	breached ST downtrend	copper
Santana Minerals	SMI	vertical rise then pullback	silver
Santos	STO	rallying	oil/gas
Sheffield Resources	SFX	uptrend in play	mineral sands
Silver City Minerals	SCI	new uptrend	base metals
Silver Lake Resources	SLR	secondary uptrend	gold
Sino Gas & Energy	SEH	new uptrend	gas
Southern Gold	SAU	testing uptrend	gold
Stavely Minerals	SVY	up from lows	copper exploration

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Sunbird Energy	SNY		sideways through downtrend	gas/CBM
Sundance Energy	SEA		surge higher	oil/gas
Syrah Resources	SYR		rallied back to trendline	graphite
Talga Resources	TLG		sideways through downtrend	graphene
Tanami Gold	TAM		down	gold
Tiger Resources	TGS		back into downtrend	copper
TNG Resources	TGS		secondary uptrend	titanium, vanadium
Torian Resources	TNR		downtrend	gold expl'n
Toro Energy	TOE		downtrend	uranium
Troy Resources	TRY		uptrend	gold
UraniumSA	USA		Secondary downtrend	uranium
URI	URI		downtrend	uranium
Vimy Resources	VMY		breached downtrend	uranium
West African Resources	WAF		strong rise	gold
Westwits	WWI		breached downtrend then a pullback	gold exploration/development
Western Areas	WSA		back into uptrend	nickel
Wolf Minerals	WLF		down	tungsten
Totals	47%	68	Uptrend	
	18%	26	Downtrend	
		144	Total	

Guides to Chart Interpretations

- Charts usually go pass from one trend (up or down) into the other via a period of indecision and uncertainty during which the trend can either recover or change. This period is signified by the orange colour. The orange represent both the greatest risk and greatest reward possibilities.
- Once a chart is in confirmed up or downtrends it is not uncommon for 10-20% of that trend to have already transpired.
- There are trends within trends. The focus of this chart review is the immediate trend that affects the sentiment i.e. it can be a downtrend within a long-term uptrend.
- Not every chart warrants a new comment every week. The new comments are in bold type. Grey type comments may be dated.
- Individual charts provide a single view. It is valuable to look at charts of other companies in similar commodities, and the overall sentiment is also very valuable. Not many stocks can swim against the tide.
- We periodically add or delete charts, some times for obscure reasons. If a chart consistent gives poor signals or is very erratic, we may delete it. Sometimes we add a chart because we want to see what all the fuss is about. We do have a preference for charting stocks that we cover in our research as well.
- Errors and omissions may occur from time to time, especially in fast moving markets.

Amber Lights in Tables: Just a reminder if when the amber light is used in the table – it is when the charts are ambiguous or when there is a change of trend taking place. If a chart is breaching a downtrend it can either be a positive sign or a trap. Only once it has done more work can it be confirmed as a new uptrend. Maybe it is a new uptrend (or conversely a new downtrend); the risk takers can decide to jump on board early (or sell). They will maximise their profits (or minimise their losses if indeed it is the start of the new uptrend (downtrend). More risk-averse investors should wait a little longer, being prepared to give up some of the gains in return for greater certainty.

Weightings of Sectors Represented in the Company Charts			
Sector	No. of Companies	Weighting	
Gold	33	22.9%	
Copper	17	11.8%	
Oil/Gas	10	6.9%	
Gold Exploration	10	6.9%	
Uranium	8	5.6%	
Graphite	6	4.2%	
Potash/Phosphate	7	4.9%	
Zinc	6	4.2%	
Nickel	5	3.5%	
Coal	5	3.5%	
Mineral Sands	5	3.5%	

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Weightings of Sectors Represented in the Company Charts			
Iron Ore	3	2.1%	
Tin	3	2.1%	
Lithium	5	3.5%	
Silver	3	2.1%	
Diamonds	3	2.1%	
Bauxite	2	1.4%	
Other	13		
Total	144		

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