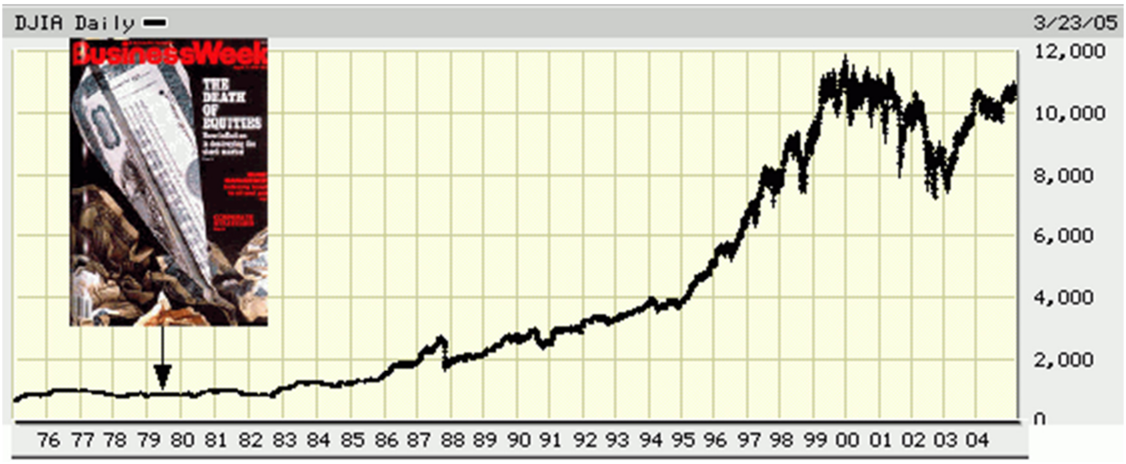
Locantro's Life

Special Edition **4 Mar 2014**

Stupid Cheap or Just Plain Stupid?

"At the start of the bull market we have all the paper and they have all the money. At the end of the bull market we have all the money and they have all the paper".

In August 1979, BusinessWeek on its cover declared "The Death of Equities". As you can see from the Dow Jones chart below it was perhaps with the benefit of hindsight one of the truly great contrarian indicators of stock market history.



The Australian Small Resources Index (XSR) from January 2011 to June 25 2013 lost 72.5% of its value and many other juniors without underlying resources and management to support them have dropped even further with **80-90% falls not uncommon**. In order for a recovery do we now require a high profile market commentator to declare the "End of Mining", The Junior Resource Sector is Dead", or "Tech is now again the new economy, get out of the old"?

XSR 10yr chart: Source Iress

XSR 5yr chart: Source Iress

The speculative end of the stock market is all about risk and reward with share prices driven by fear, greed and an infinite supply of human stupidity. One may be mistaken for assuming the great tulip bubble of the mid 1630's would have been a valuable lesson, but since then we have only seen more rampant bubbles and crazes that have only led to financial oblivion for the majority who are "always wrong in the end".

"The three most expensive words to mankind are "I love you". To get the fourth word you don't simply add "Honey, snookums or cupcake", you change it completely to "This time is different".

The Australian Junior Resource Sector is often cyclical in nature and will undergo a number of booms, busts, fads and during other times only a ballerina will be trending more sideways. After every serious takedown it has always managed to recover and eventually overshoot to the upside, so is this time any different? The answer is a resounding "**NO"**

WHY THE JUNIOR RESOURCE SECTOR WILL RECOVER

- Despite major market crashes, calamities, panics, terrorist attacks and social unrest sentiment has always improved along with the share prices of the quality juniors.
- Punting is firmly entrenched in Australian culture. Whether it a horse, camel, cockroach, the name of the royal baby, poker machine, or a meat tray at a local RSL, Australians love to lose money. You only have to attend a major Gold Coast mining conference to gain a history lesson in long-term market speculation.
- It still takes copper, lead, zinc, nickel, tin and iron ore to build stuff. We still need coal and uranium to create the power so we can continue to build stuff. Where are all the substitutes? Sure the prices of these commodities will never rise in a straight line and will from time to time be subject to conspiracy theories but they are still essential nevertheless.
- Gold came into 2014 as popular as Bernard Tomic. Now look at it around $1512 AUD (at the time of writing). What tapering?
- There is still rampant day trading activity across the board in all sectors. The "hot" money doesn't care if it is a social media play, a biotech or a struggling junior who has just stumbled on some high-grade base metals in Africa. Volume begets volume, and greed always returns well before John Farnham has even read the tour documents.
- **The mid-cap sector is now littered with cashed up companies looking for acquisitions**. There are not enough decent projects around and soon they will have to start lowering their expectations (Just like Australian women), and lifting their prices. Seeing the heavily cashed up Chalice Gold Mines (CHN) announce a share buy-back is testament to this at least in the short-term.
- The last spectacular discovery by an Australian junior was Sirius Resources (SIR) way back in July 2012. Just like Adam Sandler is due to release a *** movie, I believe with some outstanding lead up work **we are now on the cusp of another major mineral discovery**. Not only do these hits drive the share price of the lucky junior, but the gains extend to anyone within the immediate area, along strike, or perhaps in another continent even (as long as it is in the same rocks). **Near-ology** really gets the punters excited and it is always a good opportunity for the stale bulls to "take out their trash".
- The biotech and tech sector will always be there, however the process of clinical trials, FDA approval and taking something to market can be a lengthy one. With the junior resource companies it can be simply a case of raising some money and getting the approval to drill. How Sirius Resources (SIR) went from 5.7c to a high of $5.00 is textbook genius and others will strive to replicate it.
- After three torrid, challenging, and painful years there are many now leaving the industry to take up much safer positions or switch their focus to the so-called blue chips. I vividly remember the same thing happening in 2001/2002 where the hallways of broking offices were temporary cricket pitches, and your commission statement was hilarious.

"During bear markets, stockbrokers wish they were school teachers. After seeing the Wolf Of Wall Street the majority of viewers wish they were stockbrokers"

MY TACTICS HAVEN'T CHANGED

I started my affair with serious stock market speculation in 1994. I have made all the mistakes of falling in love with stocks covered on forums, watching the Dow live at night with two cigarettes burning, purchasing stocks mentioned in the newspaper that had already run, and thinking drawing a line on graph paper would tell me what a resource stock would do tomorrow based on what it did yesterday. Luckily for me the financial lessons were relatively small, yet after becoming a stockbroker in 1998 and having my client explode five-fold it was apparent that despite a high failure rate, you could not dampen the enthusiasm for excessive trading and anything exotic (warrants and options).

"They put historical information at the roulette table because unlike rats, humans are by nature stupid and look for patterns that simply don't exist"

From my twenty years of on-going education on markets and psychology, the only method that works over the longer-term is finding quality juniors with the right people, projects and price and backing them. This involves steadily building sizeable positions where down days on the Dow or gold are welcomed rather than feared. It is the contrarian way where you are buying when market depths are terrible, or selling when you are receiving invites to $1, $5 or even $10 parties and more trains are leaving the station than Spencer Street during peak hour. Remember ***"The majority are always wrong in the end"***

THE "TWITTER" BUBBLE

Based on the Twitter explosion, the next speculative bubble is going to be a major test case for investors/speculators and regulatory authorities struggling to police it. If a misread Tweet about an airstrike that occurred over 40 years ago can add $1 to the oil price, imagine what some utter BS could do to the stock price of a junior? I believe that the spread of too much information far too quickly is going to lead to an increase in anxiety and depression of those trying to catch every major fluctuation. I admit to being part of the information problem and contributing to social media, however we must remember that share prices still rose and fell when we only had newspapers, butchers, hairdressers and taxi drivers to rely on for our hot tips.

As with any major bubble there is only ever a royal commission or changes made once the majority are wiped out in the frenzy. The growth in the Twitter take up from ASX listed companies is growing exponentially, however as the number of "Meetoo's" increases the impact will slowly dissipate. It is the "unofficial" Tweets that are likely to do the most damage. After Dotcom and Uranium we are certainly overdue for some rampant stupidity to the upside.

"Dettol can wipe out 99.9% of germs, market bubbles will do the same thing to speculators"

THE JUNIOR RESOURCE SECTOR IS STUPID CHEAP

During my career at has been a struggle to even get to the bus stop when the Dow has dropped 300-500 points and/or the gold price is down anything over $30 US an ounce. You know your phone is going to ring and the questions and attack from clients are as predictable as a 21st birthday party, CUB wedding, or the next line from a Wiggles Song. Unfortunately if you want to be exposed to a ten or fifty-bagger this is the price you pay for your exposure. There will be days and weeks where you are ashamed to tell your wife or family about how your portfolio has been poleaxed, yet when the market is booming and the new car arrives they will complain about the colour.

If you have purchased a grab bag of overhyped low quality stocks then you have a problem, however the slow and steady speculators should stick to their niche and if possible use the market weakness to strengthen their positions. It takes years to be able to successfully deal with the emotional pull to buy at the top and sell at the bottom, yet once you can control it the market actually becomes enjoyable and almost second nature.

Whilst some company Directors I have met with claim that 1991/1992 was the toughest junior resource market they have endured, it is extremely rare to have had consecutive shockers in 2011, 2012 and 2013.

Looking at the 5 and 10 year XSR charts it is apparent that the next upleg (I.e. recovery) is going to be a spectacular event driven again by fear, greed, stupidity and on this occasion with the help of a little blue bird.

Tony J Locantro

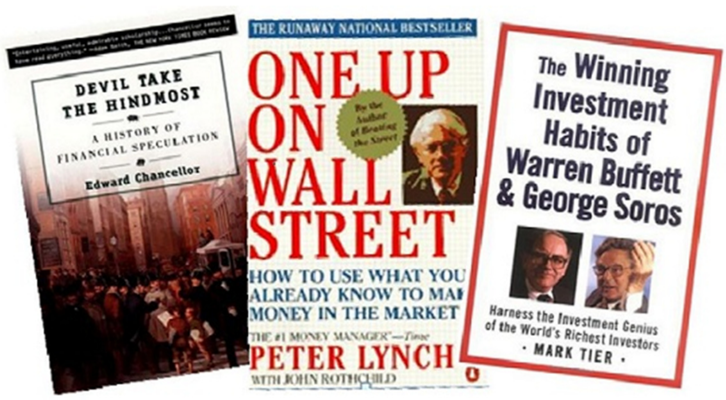
Email: tony@locantro.com
Website: http://locantro.com
For a free trial without obligation to Locantro's Life please visit www.locantro.com

TOP THREE BOOK SELECTIONS FOR INVESTORS

1: One Up On Wall Street, Peter Lynch

2: The Winning Habits of Warren Buffett & George Soros, Mark Tier

3: Devil Take The Hindmost A History Of Financial Speculation, Edward Chancellor



The three books at www.bookdepository.co.uk on 4th March 2014 cost a total of $56.57 (with free postage)

About the Author: Tony Locantro is the Managing Director of Locantro Capital Pty Ltd, Locantro Asset Management Pty Ltd and Gold Australia Pty Ltd. He entered the stockbroking industry in 1998 and was an Associate Director at Patersons Securities Limited until 2010. In 2001 he authored The Green Room: A Guide to Speculating on the Australian Stock Market and is the current author of the newsletter, Locantro's Life. He has been quoted extensively in the financial press, hosts and is a keynote speaker at a number of industry events, has written articles for Kitco and other websites and also appears as a regular panellist on Your Money Your Call (Sky Business News). He is known as a passionate and respected supporter of the junior resource industry.

Disclosure of Interest: Tony Locantro, his companies, employees and associates may have personal interests in the majority of the companies or sectors covered in this article.

Analyst

Tony J Locantro
Managing Director

http://locantro.com

Phone: (08) 6142 6724

Gold Australia Pty Ltd

Fax: (08) 9470 3051

PO Box 635

Mobile: 0402 604 862

Victoria Park WA 6979

Int'l: +61 8 6142 6724

http://locantro.com

Disclaimers

Locantro's Life is designed for speculative investors. Subscribers should ensure they consider their risk profile as speculation is the highest risk investment.

Please note

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without prior approval.

Disclaimer

Locantro's Life is a publication issued by Gold Australia Pty Ltd (ACN 131 793 416) who is an authorised representative of AustAsia Financial Planning Pty Ltd AFSL 229 454.

Gold Australia Pty Ltd has made every effort to ensure the reliability of the views and recommendations expressed in Locantro's Life. Gold Australia Pty Ltd research is based upon information known to us or which was obtained from sources which we believe to be reliable and accurate at time of publication. However, like the markets, we are not perfect. Locantro's Life is prepared for general information only, and as such, the specific needs, investment objectives or financial situation of any particular reader have not been taken into consideration. Individuals should therefore discuss, with their financial planner or adviser, the merits of each recommendation for their own specific circumstances and realise that not all investments will be appropriate for all subscribers. To the extent permitted by law, Gold Australia Pty Ltd and its employees, agents and authorised representatives excluded all liability for any loss or damage (including indirect, consequential or special loss or damage) arising from the use of, or reliance on, any information with Locantro's Life whether or not caused by any negligent act or omission. If the law prohibits the exclusion of such liability, Gold Australia Pty Ltd and AustAsia Financial Planning Pty Ltd hereby limits their liability, to the extent permitted by law, to the resupply of the said information or the cost of the said resupply.

Disclosure of Interest

Gold Australia Pty Ltd, AustAsia Financial Planning Pty Ltd, its Directors, employees and consultants may have personal interests in the majority of the companies covered in this report (both direct and indirect).

AustAsia Financial Planning Pty Ltd (AFSL 229454) Level 1 AustAsia House, 412-414 Newcastle Street, West Perth WA 6005 Phone: (08) 9227 6300, Fax: (08) 9227 6400