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PRECIOUS METALS

How to pick a winning junior gold miner

It's a notoriously volatile sector, but one that's been on a tear in recent months. Some tips to help guide your search

MARTIN MITTELSTAEDT

Continental Gold Ltd. shares have more than doubled in the last six months, as have the shares of **Ventana Gold Corp.** **Timmins Gold Corp.** has done almost as well, nearly doubling.

The superlative performances aren't restricted to just a few names in the sector. Junior gold exploration companies are on a tear, and have become one of the hottest sectors of the Canadian market.

But the problem for investors is how to play the sector, without getting burned. Small mining stocks, which often trade for under \$1 and are notoriously volatile, have a habit of blowing up if drill bits yield disappointing results.

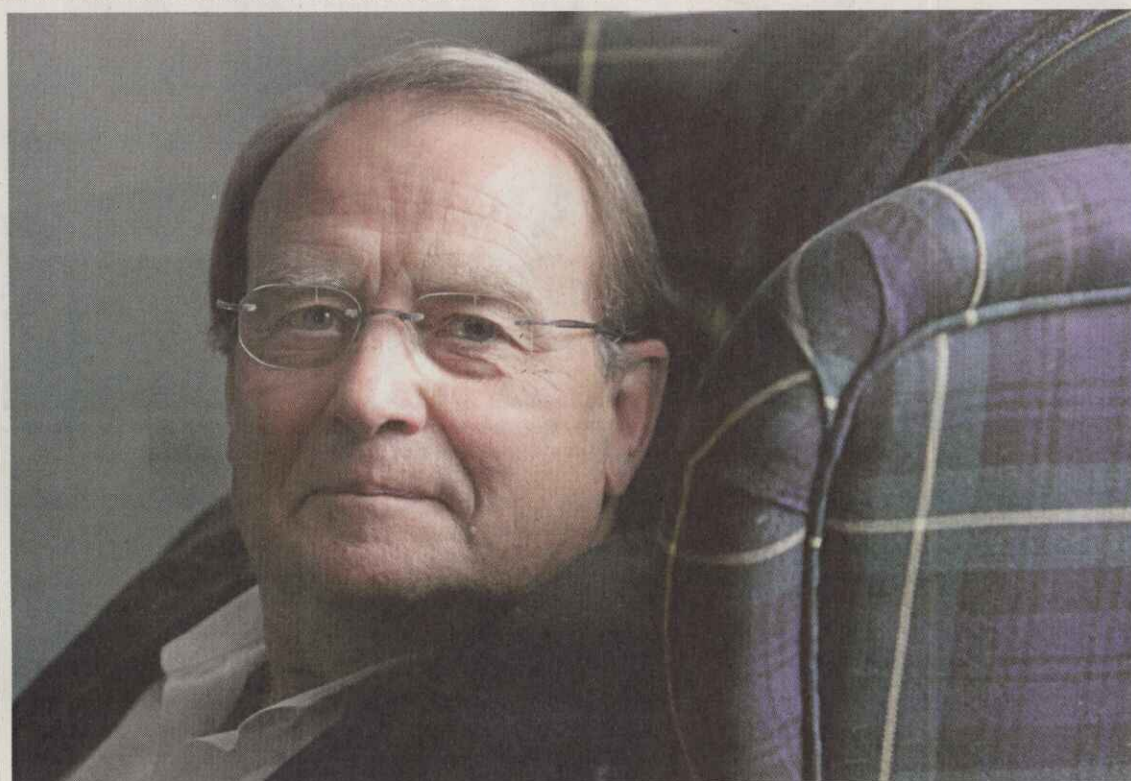
Here are some simple, common sense tips to help pick likely winners in the sector, courtesy of newsletter writer Ian Gordon at British Columbia-based Longwave Group, who outlined 25 rules for selecting junior miners in a recent missive to clients.

Among his ideas: He says investors should try to focus on companies that have land positions around existing or former mines, under the theory that this is probably where more gold can be found at the lowest risk. He also advises seeking out juniors with minority stakes held by senior producers, a sign that deposits are promising. Another indication of a worthwhile buy is when top performing gold fund managers take a liking to a company.

The rules seem to work. Mr. Gordon has been dabbling in junior gold miners for the past 11 years, a period during which he's had exceptional results. He says he's had annual compounded returns in his RRSP over the period of about 70 per cent, a pace that would have turned each \$1,000 invested at the beginning of 2000 into \$321,000 by the end of last year.

The eye-popping figures haven't been independently verified, but were published in Mr. Gordon's report on how to buy juniors.

To be sure, such results were aided by a few special factors. In 2002, Mr. Gordon said he got a so-



Ian Gordon has dabbled in junior gold miners for 11 years – with some big results. LAURA LEYSHON FOR THE GLOBE AND MAIL

PANNING FOR JUNIORS

Some of Ian Gordon's tips for selecting junior gold mining stocks:

Look for what the big companies are doing

If a major producer buys into a small exploration company, it's a good sign that the junior is onto something. Under securities law in Canada companies have to publicly divulge their holdings once they exceed 10 per cent of the stock.

Follow the leaders

Check out what savvy precious metal or mining mutual fund managers are buying or holding in the junior mining sector.

Location, location, location

Pick junior companies looking for ore around existing mining camps, under the theory that economic deposits are most often found near previous exploration successes.

Martin Mittelstaedt

called 10 bagger – a stock that rose tenfold over the following year – when he bought **Nevsun Resources**. Mr. Gordon also invested his RRSP 100 per cent in junior gold stocks, a step few investment advisers would recommend because it placed all his eggs in one basket.

Still, Mr. Gordon says this superlative performance didn't depend on a few lucky picks. He says he made an 85-per-cent return last year as bullion prices rallied, and he believes the fun in the junior sector will continue for some time. "There are still a lot, in my opinion, lots of companies that have great assets that aren't being recognized yet by the market," he says.

Among mining camps that look attractive, according to Mr. Gordon, are the Abitibi Greenstone belt across northern parts of Ontario and Quebec; Alaska and the Yukon; Chile; Nevada; and Mexico's Sierra Madre – all places where gold has previously been found.

Typical of the approach of pick-

ing a stock in an existing goldfield is **Detour Gold**, which is developing a highly regarded deposit in Ontario in the Abitibi Greenstone belt.

Sometimes investors can twig to an opportunity when a major gets involved with a junior. **Golden Goliath Resources Ltd.** is exploring Mexican properties, in which senior producer Agnico-Eagle Mines Ltd. has announced an option agreement.

Another place to begin sleuthing for juniors with above average potential is in the holdings of fund managers with gold mining acumen. Mr. Gordon says these include Pinetree Capital, Sprott Asset Management, Van Eck Global and Tocqueville Funds. The money managers often publish their holdings online, making it possible for outsiders to peer into their portfolios.

For stocks trading under \$1.50, Mr. Gordon also restricts purchases to companies whose prospects are so exciting that their stocks could plausibly double in 10 months. The shares don't necessarily have to rise by that much, but should have potential catalysts, such as great exploration results, that would cause sharp upward moves. Once shares exceed \$1.50 he looks for those with the potential to rise 50 per cent.

The huge run in junior gold stocks over the past decade may be a sign that the bull market in the securities is about over, but Mr. Gordon, who believes deflation will drive investors into bullion, doesn't think so.

The upward run is "still in its early stages," he contends.

Among companies Mr. Gordon has found that follow his rules are **Trelawney Mining and Exploration Inc.** It's exploring for gold in areas of Northern Ontario noted for previous finds. A major shareholder, according to Bloomberg, is money manager Goodman & Co. Other picks: **Evolving Gold Corp.**, which is exploring for gold in Nevada, and has Goldcorp as a 15-per-cent owner, and **PC Gold**, which is looking around the former Pickle Lake mine in Ontario for gold and has Sprott Asset Management with a 10-per-cent stake.