Adrian Day's

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*Our second recommended gold stock sell, for **Barrick Gold**, filled at our limit of $41.77, for a four-month return of 14%. We have now sold two of our major gold companies (Royal Gold filled earlier, for a return of 181%). We may have one more sell shortly. No-one should read in this that we have changed our view on gold, or that the gold stocks do not remain undervalued relative to bullion. We are selling following a very strong rally in August and September that took the gold producers to their highest valuations and highest prices for some time, as well as for the specific reasons mentioned in our recommendations. October and early November often see sharp declines in gold stocks; already Royal Gold, which we sold at the beginning of the month, is down $12 from where we sold. Our list of Current Positions is still dominated by gold companies, however, a reflection of our bullishness. If stocks fall enough, we will be buying more.*

SOME BUYS AS COMPANIES RAISE MONEY

Several of the companies on our list, particularly the junior resource companies, have raised new equity or will likely do so soon. In many cases, the companies do not need the funds yet, but they are raising money while they can, although unfortunately, in most cases they are doing so at weak prices, adding to the dilution we abhor and which is the bane of the junior resource sector. For the larger companies, with quarterly earnings announcements in the offing, there have been few news releases.

Sunridge Gold (SGC, Toronto, .20-.21) has raised $10.5 million (approximately 40% of its current market cap). Sunridge needed the money, but this provides enough to complete the feasibility study on its Asmara Project in Eritrea, expected early in the second quarter of 2013. The copper-gold project, consisting of four mineral deposits, is not huge, but, based on pre-feasibility and a full feasibility on one of the deposits, has a high return on equity and a relatively low capex and fast payback. With a market cap (after the private placement, of $35 million, the stock grossly undervalues the project. We are hopeful that it will attract the interest of larger companies once the feasibility is published. Sunridge is a buy for speculative investors at the current price.

There must be a good reason!

Gladstone Investment (GAIN, Nasdaq, 7.44) also raised equity, 4 million shares at $7.50, with the stock trading at $7.80 just before the financing was announced. Given that $7.50 represents an 18% discount to Net Asset Value, we were somewhat surprised by this offering; indeed, we had thought a raise more likely to Gladstone Capital, trading at NAV. We respect management and expect there is a good reason to raise money now, when it is not obviously needed. The company has been investing more and has said its pipeline is strong. We expect some clarity on this at the next conference call following 3rd quarter earnings (October 30th). Given that net operating income has been running higher than the dividend payout, the extra equity does not mean the dividend will need to be cut (or paid out of capital).

The stock did fall under $7.30 initially on the announcement, but has since recovered to $7.44, where the dividend is just over 8%. Buy here on or on any weakness.

Huge potential, though still early days

Reservoir Minerals (RMC. Toronto, 3.04-3.06) is awaiting further assay results on its Timok copper discovery in Serbia, with partner Freeport. Following the release of two spectacular holes, the first the discovery hole and the second even higher grade—called by some of my geologist friends "the best hole" they have ever seen—the next batch of holes is drilling a larger area, testing the limits of the initial target. Around 12 further drill holes have been completed or will be soon..

Given that Freeport is testing the limits, we can expect some of these holes to be duds, and even the good results won't be as good as the first two. Before all these holes are released, we could next see the assays from the bottom of the discovery hole. Given that they continued to drill for some time after releasing the initial assays, one can infer they were continuing to find mineralization, but again, we would not expect these results to be as uniformly good as the initial results.

Freeport is probably looking for a large porphyry at depth; with similar geology to the nearby Bor mine, this is a possibility, as are more smaller deposits. Freeport, which has already elected to fund all exploration for 55%, can earn 75% if it elects to deliver a bankable feasibility. (That's years into the future; should the project look large enough for Freeport, in all likelihood, it would acquire Reservoir or its interest long before that.)

Look to buy more on "weak" results

Given that the next round (or rounds) or results may be perceived as weak by the market, the stock could sell off, which would give you another change to buy. Of course, many informed observers are also look for "weak" results and a resultant sell off to buy more, so it may not be deep or long lasting. The last sell-off took the stock from $3.45 to $2.61 over six trading days, before it bounced back over $3 the next day. So I would suggest placing orders from $2.40 to $2.90 depending on how much stock you own, and your appetite for more, and hope that some get filled.

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A SUBSCRIBER wants to know if we have **target selling prices** for our stocks. We have "soft" targets for our stocks, but targets can and do change. Our sell discipline is usually based not on a price but on events and developments.

Consider a company like Nestle. A static Nestle would be overvalued at around Sfr66, when its p/e would be over 20 and its yield under 3%. But I can guarantee you that when the stock reaches Sfr 66, Nestle will not be the same. If its earnings have grown 10-12% and it increases its payout (as expected), then Nestle would be *worth* precisely the same at Sfr66 as it is today.

Or at the other end of the spectrum, consider a company such as Reservoir Minerals (discussed above). One can only put a vague range of valuations (and therefor prices) that are possible, but one cannot do so with any degree of accuracy without further drill results. So much is unknown. To put a target of, say $5, on Reservoir might mean—if every possible thing goes bad from here—that the target is never met—and that would be a huge disappointment for me—but (and more likely in my view) it could also mean that at $5 the stock is even better value than it is today and going much higher.

Not always clear cut

At best, one can put a short-term price target on a stock, but that target would not mean the stock should be sold if it reaches the target. One could say, for example, that were American Capital to trade up to $12.60 today, that might be an area where one might sell. It would be trading at a discount of 15% to its NAV, which, while high, might be considered reasonable relative to the BDC universe which pays a dividend. But if ACAS hits $12.60 in the future, its Net Asset Value may well have increased by then, so the discount would be narrower, and there might be more clarity on plans to reinstate a dividend. So one cannot say, "our target selling price for American Capital is $12.60."

Sometimes, a sell decision is clear cut and definitive, perhaps based on developments that negate the reason for owning. More often, it is more nebulous, based partly on price and value. In your portfolios I am sure, as well as in our money management, sells might depend partly on what else one owns. If you own stock in four Asian banks, for example, you might be more ready to sell one on a rally than if you only owned that one stock. We often sell part of a position, or sell for some clients and not for others. For a newsletter portfolio, buy and sell advice needs to be more definitive.

I hope that this discussion answers the question and also provides more insight to how we look at valuations and selling prices.

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BEST BUYS right now among stocks on our list include **Sprott Resource** (SCP, Toronto, 3.86), **Sprott Resource Lending** (SILU, NY, 1.41), **Altius Minerals** (ALS, Toronto, 10.50), and **Midland Exploration** (MD, Toronto, 1.24). Others would be buys on modest pullbacks (see list October 2nd).

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