How To Profit From Buying Mining Stocks

The absolute best time to buy a mining stock is just prior to the drilling of the 'discovery' drill hole which makes the nightly news and sends the penny stock soaring to extraordinary highs! (see Fig 1, Item 1-3, Discovery hole) This is a difficult task as statistics show that over 600 properties have to be drilled for each ore body that is discovered and subsequently made into a mine. It can be a daunting and expensive proposition trying to cover your bets by speculating in many penny mining stocks that can end up diminishing your original investment.

The experienced stock mining investor that has invested over the past 30 years understands that there is a second best time to buy mining equities. That is when a qualified management team is preparing to convert or construct a single 'ore body' mining company into a producing mine. A purchase of mining stocks during this development/construction period can produce significant gains with a favorable risk/reward ratio.

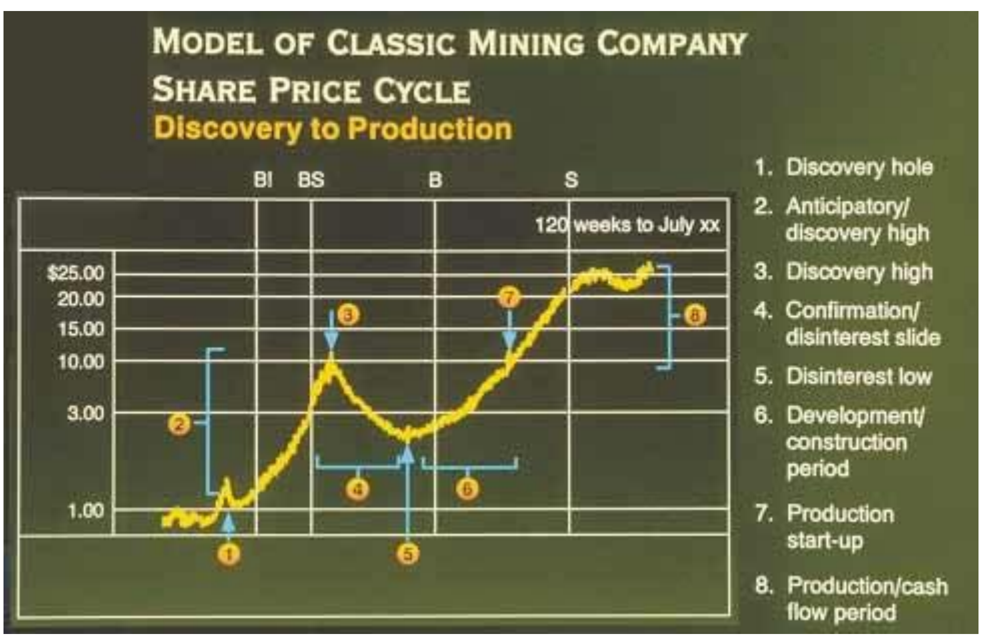
Mines are Not Discovered, They are Made!

Ore bodies are usually "discovered" during an "up-cycle" in metal prices as the mining industry and the speculative public enthusiastically spends money on exploratory drilling. One or two discoveries are made and the enthusiasm spills over into all the penny exploration companies. It can take two to four years to fully "prove" a discovery while the short-term "up-cycles" in metals prices are often as brief as one to three years. Thus discoveries are often brought into production (made into mines) in the following (or possibly later) up-cycle in metals prices.

The difference between the real discoveries and the promotional clones is not always signaled by their price action in the stock market. They both go up during the general enthusiasm for the shares of any companies nearby the 'discovery' (Fig 1, Item 2, Anticipatory/discovery rise) and down when metal prices recede (Fig 1, Item 4, Confirmation/disinterest slide).

Model of Classic Mining Company Share Price Cycle

Figure 1



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Companies with bona fide discoveries (those that will ultimately be 'made' into mines) identify themselves by continuing to spend money on their property when metal prices are cyclically weak, (Fig 1, Item 6, Development/construction period) and when funds are not as readily available from a now less-enthusiastic public, but rather largely from management and longer-term investors.

Buying discoveries can be fun and profitable, and is largely speculative. Buying qualified 'mine making' is investing that can yield significant returns with a favorable risk/reward ratio.

Investing in a 'single' ore body mining stock when it is being readied to go into production (Fig 1, Item 6) provides some of the lowest risk/highest reward mining industry investment opportunities. Results are even better if this period of pre-production/construction coincides with the trough in a market cycle for the stocks of the particular metal.

Low metal prices and disinterest from the speculator community (who often drive the prices of stocks to excess during the discovery period) combine to produce a very depressed price for a mining stock during the confirmation/disinterest slide (Fig 1, Item 4). This is precisely when a good ore body, financed by knowledgeable long-term investors and operated by qualified management, can be bought in anticipation of substantial gains during the pre-production and production period, compounded when metal prices recover from cyclical weakness.

The Big Payoff

There is significant capital gain potential as the market begins to anticipate and discount the production of metal and the consequent earnings (Figure 1, Items 6 through 8). The maximum appreciation is recorded if the mine is being readied for production during a period of metal prices weakness, and when they begin pouring metal, generating earnings, as prices begin to trend up again.

Over the past thirty years, according to an investing source within the Oxford Club, upon identifying ten such companies, all but one had equaled or exceeded their discovery highs by more than 100%! The price rises from their confirmation/disinterest lows to their production/cash flow highs had produced 300-1000% gains.

Conclusion

One of the best times to invest in a mining stock is during the construction/pre-production period when a qualified 'single' ore body mining management team is going about the work of **'making mines'**.

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