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My Investing Philosophy

A Monday Morning Musing from Mickey the Mercenary Geologist

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I'm in the Newark airport on May 14 waiting for the five hour red-eye back to Albuquerque from the New York Hard Assets Investment Conference. New York is always a good time, especially in the spring when the weather is turning nice and the women start dressing for show instead of cold. There were about 150 companies exhibiting plus the usual collection of newsletter writers, analysts, mavens, booth babes, and hangers-on. The mood was a little better than Calgary a month ago as most of the juniors have seen upticks over the past weeks. Money is still extremely tight, most share prices are just above 52 week lows, and it remains a tough market for investors. However, even in these bearish times, value can be found, especially for those with contrarian investing philosophies. Today I will expound on my own investing and trading philosophy.

I am a conservative investor in high risk, speculative, venture capital resource stocks. What exactly do I mean by that? Let me explain.

I've said for years that this is really gambling money. I am a trader and I skew the odds in my favor by invoking a conservative trading philosophy. I take a good portion of the risk out of investing in junior resource stocks by having a disciplined investing approach and protocol. As those who know me personally can attest, I have standard criteria and employ a rigorous methodology to evaluate a company before trading in my hard earned dollars for a fancy piece of paper.

It starts with the three critical components of any public company: Share structure, people, and projects. For me to invest, a company must have a tightly held and well-managed share structure, experienced management and technical teams with previous successful track records in this particular business, and projects in favorable geological, geopolitical, and environmental locations. I am especially interested in those companies that have a flagship property. I define that as an exploration play that can be advanced towards a development or production decision within the half life of a typical junior issuer that is, in two to four years. I am seeking only currently undervalued stocks and I reject ten or more for every one chosen.

Where do I get most of my ideas? That's really simple: I talk with people.

In fact I talk with lots of people. Again those who know me or who have heard me speak know that I like to talk; they'll probably say I like to talk a lot. I am socially gregarious. I get tips from friends, associates, and my peers in the analyst or newsletter business. I constantly ask, "See anything you like?" or "What are you buying lately?" I go to 12-15 investment conferences every year and I present or speak at some of them. I work the exhibit floor of these shows, constantly talking with numerous company presidents, geologists, and investor relations-types. I have a network of fellow investors that I call on a regular basis. I must stay informed and connected to make good investment decisions. I drink in the bars after work where my compatriots in the business discuss the markets and trade news and rumor from both the bush and the street.

Once I have an idea, I go to the Toronto Stock Exchange website to research the share structure and look at the charts. I examine the company's website for management and technical team bios, projects summaries and geological maps and sections, and news releases going back for at least a year. I look at the corporate power point presentation, media coverage, and especially any audio or video with the principals. I examine Sedar filings on the web including the latest management discussion and analysis. In addition, I read several other newsletter and website writers and follow news and opinion on commodities and macroeconomic issues. I am on the mailing list of many companies for press releases and updates.

I try to filter truth from promotion. Part of my ability to do this comes from nearly 30 years experience in geological evaluation. However, some of this is simply learning how promoters successfully market and sell a product and develop the ability to solicit trust within a short period of time. I look presenters in the eye and watch their body language carefully. I don't like to get promoted or B.S'd so I ask tough and probing questions. I dig below the surface. I am persistent in my questioning.

So let's say I've found a company that interests me. It appears to have the requisite share structure, people, and flagship project. What's the next step? Call the broker of course. I use a full service broker in Vancouver. His name is Murray McInnes and he's been at Haywood Securities since it was founded. Murray has been my broker since 1992. I got my start in the junior resource market with 50,000 finder's fee shares of Champion Resources from brokering a deal for his brother, CEO Mike McInnis (yes, their last names are spelled differently, there was a spelling mistake on Murray's birth certificate when he was born!).

Some will ask, why use a full service broker and the associated fees? That's easy, I trust Murray; he is not only my broker but he is also my friend. I ask his advice regarding trading strategies and he willingly gives me an opinion and help in those scenarios. He can make me more money with his advice on one trade than all the brokerage fees I pay Haywood in a year. All three of the brokers I've had in the USA markets over many years of investing have ended up being my friends. I've socialized with all of them. I think it is very important to develop a personal relationship with your broker. After all, a broker handles a big portion of every investor's wealth.

In the junior market I think you must make a large enough buy so that you can play with the stock and not constantly flip one and flit to another. I also want to trade a dollar amount that covers the minimum brokerage fee. Most of my buys are penny stocks so I commonly take down 10's of 1000's or 100,000 or more shares in an issuer.

I am looking only for stocks that have a strong chance of a double within 12 months. It's not that hard to find them. Look at the average Venture Exchange junior: It will have a double or more within any given 52 week period. Many of the high and low share prices correlate with high and low trading volumes. Junior explorers have periods of major activity then periods of dormancy and therefore their share prices fluctuate, often wildly. This is often because of the 6-12 month cycle of equity financing, exploration drilling, assay results, geological interpretation, and resource estimation in the junior resource sector. What I call the "yo-yo effect" leads to many buying and selling opportunities.

I religiously sell one-half of my position when the stock doubles in price plus brokerage fees. It's probably the only religious thing I do. Because of my busy travel schedule, often in remote parts of the Earth, and the resulting periods when I am incommunicado, I have open orders to sell for all the stocks in my portfolio and these orders are renewed on a monthly basis.

So I sell half, take all my money off the table, then play the rest of my position with a zero cost basis to maximize profits. I am now playing with someone else's money—maybe even *your* money. I also have a disciplined approach to this next trading phase with programmed selling on the uptick, again with open orders. I commonly sell in 25 to 50 cent intervals depending on my perceived upside potential of the issuer. This potential is once again based on analysis of share structure, people, and flagship property.

I developed this profit taking philosophy after the post Bre-X bear market of 1997-2000. As stocks fell and continued to slowly go south for three years until there was absolutely no junior resource market left, I discovered how mentally difficult it was to sell as my positions lost value. I kept thinking: XYZ.V will rally, it's hit bottom, but XYZ.V never did and neither did ABC.V or SHT.V or FUC.V. They just went bankrupt, got delisted, and became shells for the inevitable reincarnations which came along in 2003 and 2004 as the next boom commenced. Here's a quote from the King report today: "As we keep warning, most money is lost *buying all the way down* in a secular bear market". So now I sell progressively on the uptick whenever a surging stock allows.

However, this philosophy has a major drawback. I never seem to stay around for the big kill. I don't get many five or ten baggers. I always say I'll keep 10,000 shares for the Big Bonanza. But then I need cash to hit the next 10 or 20 cent no-brainer so I sell my high flyer. After all it's easier for a stock to double from 20 to 40 cents than $3 to $6. Here are two examples of stocks I bought for pennies and sold out too soon in the last two-three years: Aquiline Resources, sold at $1.50, it went to over $12; Aranka Gold, sold at $2.50, it went to $4.50. But here is one where my philosophy worked beautifully: Gateway Gold which hit an all-time high in late 2003 at $5.14. I sold most of my position on the uptick from $1.50 to $4.79. Gateway is now a 25 cent stock and I've recently bought back in. I think it was famous financier J. Paul Getty who said he made a fortune selling too soon.

So that's the gist of my investing philosophy. It's an infallible way to make money in a bull market. Buy a stock, sell half when it doubles, take that money and go buy another stock which has a strong chance of a doubling in 12 months or less. Keep doing that and watch your profits and tax burden soar.

I have not sold a stock at a loss since December 2003 when I cleaned out the last of my dogs from the previous boom-bust cycle. In a future Musing, I will give you my current portfolio so you can track my investments and see how I do in a bear market.

Today was a very good day for me. Amarillo Gold Corporation, AGC.V, a company in which I was a original shareholder in the shell to RTO financing in 2003, hit big in two drill holes at their Lavras do Sul project in southern Brazil: 206 m of 2.16 g/t Au and 227 m of 1.84 g/t Au. Amarillo hit an all-time high of $1.84 today about an hour before market close after being halted most of the day. I program sold at $1.50 and $1.74 and have open sell orders all the way up to $3.00. I expect it to settle in the $1.40 to $1.50 range tomorrow but can't wait to see how it trades. Regardless, I have already taken good profits.

I think you must be diligent, systematic, and consistent in your investing approach. In my opinion, if you want to maximize your chances to be a successful investor, you should do develop your own style of investing, do your own research, talk to company principals, and spread your investments among several companies.

Now let’s go make some moolah!

Ciao for now,

Mickey Fulp
Mercenary Geologist

The **Mercenary Geologist Michael S. “Mickey” Fulp** is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 22 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey’s professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known throughout the mining and exploration community due to his ongoing work as an analyst, newsletter writer, and speaker.

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