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Goin' Down

A Monday Morning Musing from Mickey the Mercenary Geologist

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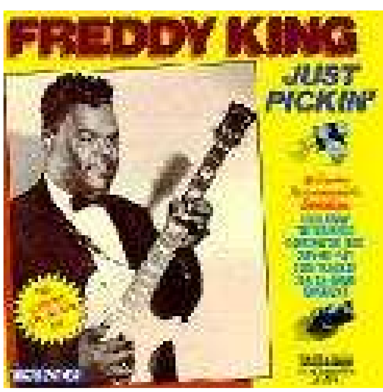
Like most of us, I am a product of my youth: I love the blues and *hard rock*, from Muddy Waters to Led Zeppelin, from Metallica to Joe Bonamassa. Music has been an important part of my life since the 6th grade when the British Invasion hit USA shores.

One of my all-time favorite blues artists is Freddie King, the Texas Cannonball.

Guitar god Eric Clapton says that Fat Freddie influenced his playing more than any other guitarist, live or dead. Unfortunately Freddie is long dead; his death came three days too soon for me to witness one of his legendary live performances. The story follows:



I went to undergraduate school at the University of Tulsa, started as a petroleum engineering major, ended up as a *hard rock* geologist (that seems logical, no?). In the early '70's, T-Town, as it is called, was a hotbed of contemporary music, led by Leon Russell and the Shelter People, often recording at his local 3rd Street Church Recording studio. The Shelter People entourage included local musicians such as Elvin Bishop, Gary Busey, J.J. Cale, Carl Radle, Jim Keltner, Jesse Ed Davis, and the Gap Band. Fat Freddie recorded three albums for Shelter and was a session musician on many others. Clapton occasionally sat-in and covered Freddie's original 1960 recording of *Have You Ever Loved a Woman* as a then unrequited love ode to George Harrison's wife Patty on the infamous Derek and the Dominos' *Layla* album.

At the time, Tulsa had a progressive blues/rock/country fusion scene second only to Austin, Texas. T-Town's preferred live venue was an old roadhouse, the Cain's Ballroom, dating from 1934 and original home of Western Swing luminaries, Bob Wills and the Texas Playboys. The venerable Cain's is still hosting concerts in Tulsa.

In college, we were all living on *Tulsa Time* and mainly *After Midnight*. For Christmas break in 1976, my brother Terry and I meandered back to our college scene for a little R & R from grad school studies in Albuquerque and Palo Alto. We, along with the requisite left-behind but not forgotten T-Town girlfriends

(Love the One You're With), scored tickets to Freddie King's 1976 New Year's Eve concert at the Cain's. But alas, Freddie died of a massive heart attack on December 28 at age 42. *Que lastima!* I still have the unused ticket.

So this Musing is dedicated to Fat Ass Freddie's memory and his rousing rumbling rump-rubbin' recording of (I'm) *Goin' Down* (Down, Down, Down, Down, Down….).

Goin' Down

I've told you before that I haven't sold a stock at a loss since tax-loss selling in late 2003. It was a great four year run. During this period of time, I more or less doubled the value of my Vancouver brokerage account on a yearly basis. But, that was a raging bull market. *Don't ever confuse a bull market for brains*.

Please understand that I hate selling stocks at a loss so in several instances I held underperformers or those that were simply bad choices for six or twelve or, in one case, eighteen months before taking my money out at break even or a negligible profit.

So you may ask, what has happened to my portfolio since the market turned sour last July? You'll learn I speak my mind and am brutally honest. I will not B.S. you. I presently hold 20 stocks in my portfolio and I'm *Goin' Down* in six issuers as this is being written.

Do you know the most curious thing about those stocks in which I'm severely underwater? There's no use speculating because I don't think you would ever guess:

Four of the six were "special private placements by invitation only"; i.e., carved out for junior resource sector newsletter writers, website writers, analysts, brokers, and selected preferred investors. I did not solicit these investments; I was contacted as an analyst and they were *offered* to me. My compatriots in these private placements are a literal "who's who" of venture capital media and the money-raising and money-supplying fraternity. These are some heavy metal hitters and, right now, we are all *Goin' Down* with the ship.

In only two instances did I buy a current loser on the open market; one was and still is my favorite uranium stock, Strathmore Minerals Corp (STM.V). I bought it last May near the all-time high in uranium stocks and before the major uranium price correction. I've averaged down on it twice in the past six months and still am bullish on their projects and management. The other company is a bottom feeder I bought as a 9c stock with a couple of nice projects. I did not realize at the time that management had few marketing skills. There is little additional downside at its present 7c price. A clean shell could cost ½ as much as its current market cap.

And that in a round-about way brings us to our lesson for today:

"Averaging down" (that's too many syllables, let's call it *Goin' Down*) in a logical and efficient manner. And when you *Go Down*, I'll throw out a few ideas so you won't get caught with your *pants down*.

Goin' Down is designed simply to lower the cost basis per share of a stock you purchased previously at too high a price. There are a myriad of reasons that stocks go down. Very few of those reasons warrant averaging down in a stock. A couple of weeks ago, I quoted from the daily King Report: "Most money is lost *buying all the way down* in a secular bear market." I must re-emphasize this warning: *Don't throw good money after bad*. As an aside, is there really any good fiat money?

A candidate for *Goin' Down* must have even more exacting criteria than my standard to initially invest. Let's review those company characteristics: A tightly held and efficient share structure; trustworthy, experienced, and talented management and technical teams; a flagship property in favorable geological terrane; and located within geopolitically stable and environmentally friendly areas that are permissive to develop a profitable mine. However, I obviously thought the company had all of these characteristics at the time I bought it. Now I must look at what has changed since I purchased the stock or where my reasoning was flawed.

Reasons for a substantial drop in share price are numerous but can include: Management incompetency or lack of commitment, management changes, insider problems, share dilution, poor marketing and promotion, lack of working capital, poor drill results, lower than anticipated resource estimate or delays in delivering the estimate, failure of the flagship property at a critical decision point, unforeseen changes in capital expenditures and/or operating costs, delays or failure in permitting, change in geopolitical or environmental conditions, engineering mistakes, mining or metallurgical problems, lower metal prices, or simply general market malaise. Lately the overriding factor for drop in share prices and market capitalization of junior resource stocks is a general bear market, concomitant lack of venture capital, and a decoupling of resource stock prices and all time high commodity prices.

The following are absolutely reasons for **not** *Goin' Down*: Management incompetency, internal problems with company insiders, share mismanagement and dilution, and negative changes in economic, engineering, geopolitical, or environmental conditions. For the most part, these factors cannot be remedied and the company is on the slow road to failure and bankruptcy, or, at best, the dreaded *rollback*. Very seldom does anyone except company management and insiders benefit from a rollback. Retail shareholders just take it in the shorts.

However, there are permissive developments that may lead me to decide to *Go Down* in an issuer: change and upgrading of management or change of company control, new flagship property, and/or recently announced private placement at or below current trading price with a full warrant for 18-24 months. The latter is especially a good way out of the quagmire. I prefer to see at least two of the above three criteria to consider another investment.

When I 'm *Goin' Down*, I want my new investment to lower my cost basis to about the price of the new private placement. Here's a scenario of one stock I recently *Went Down On* (the company will remain anonymous at this particular time):

I bought 100,000 shares of HCFU.V at 35c in a private placement more than a year ago, an initial investment of $35,000. It is currently trading in the range of at 10-13c so I've lost two-thirds of my initial investment on paper. I want to find a way to get my money out.

I talk with company management (Get off your arse and call them! If they are legitimate then they are concerned about their shareholders and shareholder value and want to maintain *you* as an investor). Find out who is buying and selling at that low price. Ask directly: Is it them? Are they supporting their market by buying or are the captain and first mate running for the lifeboats as the ship *Goes Down*?

They inform me that they have been buying while trying to support the stock but are getting hammered by an unknown seller. They don't know who is selling as no crosses have been solicited. It's all open market stuff and the offers are jitneyed thru one or two houses or are anonymous. They haven't been able to stop the bleeding as the stock drifts lower. But they are working on a major financing that will bring in a new financier and partner with a strong track record in the remote corner of the world where their properties are located.

Based on this information, I buy 100,000 shares on the open market at 12c; my cost basis is now 24c. A day or two later, I call them again and say, "I am a loyal shareholder; I just bought another large tranche of your stock, check your trades yesterday, those Haywood buys were mine. Therefore, I want you to reserve a piece of your upcoming private placement for me. They are nearly obligated to take me on; otherwise, I'll sell as soon as the stock makes an upward move or for a tax loss to the detriment of their market in November.

Let's assume the private placement is at 10c with a 20c warrant for 24 months. I take down another 100,000 shares; my cost basis is now 19c (includes brokerage fees upon selling). Therefore, I can now take some or all of my money off the table if it reaches the warrant price within the next two years. If the company has upside, I can always get back in by buying the warrant at essentially my present cost basis.

It's still a risky proposition: Now I have $57,000 versus $35,000 invested in the company. But instead of 100,000 shares I own 300,000. That gives me more room to maneuver and play the market. My biggest concern is the number of shares outstanding, well over 100,000,000 now. I'm banking that they won't roll it back or if they do, not drastically. A 2:1 or 2.5:1 rollback would be okay if management feels it is necessary. That would give me a cost basis of 38c or 48c. However, the key is this: We are all in the same boat. After all, they too have been buying in the open market and are in the new private placement. They will float that boat or we'll all be *Goin' Down* together.

I'm also banking that the gold price will stay high over the next two years. If it does and the USA economy does not collapse and take the world with it, I'm predicting the junior resource market will improve by the first quarter of 2009.

I know this sounds like lots of "ifs", but I've told you before and I'll tell you once again: Investing in the venture capital business is not for the faint of heart. This is *gambling* money. All we strive to do is consistently turn the odds in our favor.

Of the six companies that have put a major paper hurt on me over the past year, I have *Gone Down* on three so far: the one I just told you about; Strathmore Minerals which is now up after I twice *Went Down*; and one company which is again well below my initial *Goin' Down* price. It's now a shell but with a strong working capital position. I am waiting for more positive factors to surface before I'll consider averaging down on it once again. Note that I have strong confidence in management of all three of these companies so I'll continue to my strategy to at least break even on all of them.

Now you ask: What about the other three losing issuers?

One company, Copper Canyon Resources (CPY.V), has a flagship property in northwest British Columbia. It was a spin-out that I initially made a two for one profit on. I bought back in at lows during the winter dormancy period and again took good profits during the late summer as news and rumor trickled in from the bush. When I initiated coverage in the early fall the stock was at 90c; it ran to over $1.60 based on a good marketing plan, timely promotion, and anticipation of positive drill results. But my 85c private placement was not free-trading during this run; in fact it hadn't even closed. Our entire business was then blindsided by the Nova Gold-Teck Cominco debacle at Galore Creek and the company lost 70% of its market cap upon resumption of trading. Management is strong, shares are well-managed, and the drill campaign returned very good results. But it is in a remote and difficult part of the world. I'm down 50% but am holding with a wait-and-see attitude. Unfortunately CPY does not control its own destiny as Galore Creek developments are key to the future viability of the company.

Another stock, the aforementioned bottom-feeder is a strong candidate for tax-loss selling near year's end to balance the strong profits I have taken in the first six months of 2008.

The final company has been a huge disappointment. They made the transition from a gold company to a uranium company about a year ago and did a private placement into which I thankfully put in a relatively small amount of cash. Lately, I was told they might be considering getting out of the uranium game, coincidentally at the same time that Dines is saying uranium has hit bottom and can only go up and up. The one year chart looks like a ski jump hill with a landing spot still in the air and off the right edge of the page. I've lost nearly 80% of my investment and not sure what I'll do on this one. I'll meet with management in Vancouver next week, find out their plans, and make a decision.

Let's review my six current losers: *Went Down* on three, two of those three will probably succeed; waiting for one to get gussied up before I ask her to the dance again; two are probably so coyote-ugly they will be long gone dawgs by year end if I don't chew my arm off first. So with a well thought-out plan and a little luck, I may come away unscathed in two or three of the six. That's as good as I think you can expect.

Sometimes you just have to say, "I'll never *Go' Down* on this bitch again." Three strikes and your out; take the loss, and walk to the dugout. Losing half…hmmm… that sounds like the average divorce. But at least you didn't lose the goddam house. I'll keep you posted about *Goin' Down* and whether I wake up feeling good or bad about my Mercenary escapades.

I hope this Musing gives you some insight into a less savory but necessary aspect of My Investing Philosophy in a bear market. Remember: you never win or lose on paper. You can only book profits and losses by trading. And I will always trade like the Mercenary that my moniker demands.

That's enough freaking negativity! I have 20 stocks, six of those I long ago took my money off the table and are pure gravy, two are spin-outs and on a cost basis are freebies, and the others are mostly recent buys with paper profits or at break even. That's more than a glass half-full! And here's some more good news:

I bought Hathor Exploration (HAT.V) on the down tick this week and below the recently announced $12 million bought deal at $3.00. They have a red-hot uranium discovery in the Athabasca Basin. You wouldn't want to carry this rock around in your front pocket. Junior resource stocks at this price have major downside risk but I've met with company management three times in three months to discuss the geology and current exploration plans; this one looks like the real deal. FYI, I'm also a shareholder in Fission Energy (FIS.V) which holds the adjoining ground. My thanks go to Michael Halvorson, a Fission director, for the introduction to Dale Wallster, prospector-geologist who supplied the land package and the brains behind Hathor's discovery. I met Dale at the PDAC little more than an hour after the discovery announcement and we hit it off immediately. Both of these uranium companies are currently drilling and I'll be stopping by their booths in Vancouver at the World Resource Expo to get in-person updates and meet with their geologists. Rest assured I will report on my findings.

Check out this exciting new play in the Basin and see what you think.

Ciao for now,

Mickey Fulp
Mercenary Geologist

P.S. I did my civic duty on Tuesday and voted for my true libertarian hero, **Dr. Ron Paul,** as the Republican nominee for President of these United States of America. The Congressman got 14% of the primary vote in New Mexico. I am proud to be a part of this minority.

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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