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Risky Business or Leavin' Las Vegas

A Monday Morning Musing from Mickey the Mercenary Geologist

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September 15, 2008

One of my all time favorite movies is ***Risky Business*** with Tom Cruise and the beautiful Rebecca DeMornay. It's the perfect coming of age movie for the early 1980's and nowhere is the entrepreneurial spirit of the Reagonomics trickle-down decade so authentically captured as by Joel Goodsen with his hot hooker girlfriend-for-awhile Lana and a flawed but ultimately successful attempt to get into business school at Princeton.

Now that I am ***Leavin' Las Vegas*** after five days of work and play, I am struck by investors who are out of touch with the real world of stock market psychology, finance, and junior resource stocks.

This has been a brutal week for gold and especially for the Toronto Venture Exchange, which lost nearly 25% of its value in three days. My broker Murray at Haywood says it resembles the infamous crash of October 1987. I hope that you were not one those who participated in the panic run to the exits with the Sheeple. Emotional reactions will work in markets *when pigs fly*.

Folks, it makes little sense to sell off when there are no bids and no buyers except at low, lower, and lowest prices. Markets always bounce off of bottoms, even if it is a so-called dead cat bounce.

One well known newsletter evidently told you to sell half of your junior resource stocks but you can bet your depreciating dollars that the smart money in this sector did nothing of the sort.

Not that I am always that smart, but I made one small sale this week: an open order that had been left unfilled for over one month. In other words, I sold it on the *uptick* and still retain over 40% of my holdings in that issuer. It was announced that a major player in our business has taken a 10% equity interest in the company.

I predicted a post-Olympics commodities slump in late July (Another Bout of the Asian Flu, July 28) but still think we are in a secular bull market for commodities. So I'm out there with a pack of hungry hyenas looking for the weak and walking wounded and expect a few stocks on my watch list to trigger buys in the next week or month or before year's end when tax-loss selling will again brutalize the infirm.

Natural resources exploration and mining is a ***Risky Business***. Creating wealth by extracting *stuff,* whether metals, industrial minerals, coal, oil, gas, or water from the ground, is perhaps the riskiest business on the Earth.

For some reason, I was drawn into the riskiest part of this risky business, the junior resource sector, after getting a pink slip six years into the only real job of my career, when I worked for the exploration subsidiary of a 115 year old stodgy, bloated, legacy railroad.

Why in 1987 did I choose to contract to junior companies as a Consulting Geologist? Why have I never even considered applying for another company staff job?

Because, like my old man, I was born and bred a bit of a gambler with an entrepreneurial streak.

My brother and I had stock market accounts with my dad's broker at A.G. Edwards in Joplin, Missouri from the time I was about ten years old. Dad managed them but I can remember looking at the statements and talking to him about the stocks he bought and sold for our accounts. He invested in lots of US OTC technology companies which were probably about as speculative as the Venture Exchange is today. But Dad knew how to play the ebb and flow and cyclical nature of these stocks and often did quite well. However, he always seemed to hold on too long in a bear market. We all know how easy that is to do. I've used this Bill King quote before: *"Most money is lost buying all the way down in a secular bear market".*

Dad also liked the horse races. The monthly summer ritual was to get in his red1961 Buick LeSabre (which I still own and is a story in itself) and drive four hours from our place nestled in the Ozarks to the big city of St. Louis. These were long weekends focused on the very best front row box seats behind the Cardinals dugout at Busch Stadium and dinners at the city's premier steakhouse, Stan (as in Musial) and Biggie's, both courtesy of my dad's suppliers. They also included trips across the Big Muddy to watch the ponies run on the Illinois side.

Dad looked at the racetrack as good, wholesome, family fun. He would buy the racing forms and tip sheets on the bad, down and out ghetto streets of East St. Louis in route to the track at Cahokia Downs or Fairmount Park. I caught the track bug by age eight or nine and would read the forms, look at records, times, track conditions, and jockeys, and use both logic and my young hubris of intuition to pick horses.

We would make a few notes, go down to look at the horses and jockeys coming out of the paddocks before the race, and decide on the final bets. Dad would go to the window because kids weren't allowed there and put down one or two or three $2 bets, and then come back and join my mom, my brother, and me in the grandstand to watch the race. We would yell and scream and jump up and down and go crazy if we won six or eight or ten bucks, or go quickly silent if we lost.

If you've been to the track, you know how exciting that can be nine times in a night. Dad never bet much and never won or lost much, but all in all, it was cheap evening entertainment for the whole family three or four times during the summer.

I also remember when my Dad went to the casino in Las Vegas in 1960. We were on vacation and traveling back from California. He put silver dimes and quarters into a one-armed bandit and his winnings were paid in Morgan silver dollars.

Me oh my oh, how times have changed!

In mid August I paid $9570 for a bag of those very same silver dimes and quarters, face value $1000. Way back when, all US circulating coins were single metal or metal alloys: silver, nickel, copper. Silver hasn't been used for coinage of dimes and quarters since 1965. Pennies have not been made with more than a copper coating since1982 and it now costs more to make the sandwich zinc-copper coins than they are worth. The same goes for nickels, actually a mostly copper plus nickel alloy, as coinage. Soon we may revisit 1943 and WWII and have pennies made of zinc-coated steel and manganese (certainly without the silver) in our nickels.

My dad always had a scheme to make extra money on the side. Whether it was buying a purebred Hereford bull, a few cows, and selling calves, breeding bird dogs, growing strawberries, planting an orchard and selling apples and walnuts, going to farm auctions for bargains, or buying and selling antiques, he was always trying something to make more money besides the old 9 to 5.

His schemes all failed to make it except the last one, the antique gig. Along with my mom's tax consulting business from January to April over 40 years, my parents had their millions. Dad was able to semi-retire at 55 and walk away from his career job at 61. Mom did her 3 ½ month a year gig about ten more years and socked away a nice nest egg. Luckily Dad's always risky ventures were tempered by Mom's slow and steady investing approach. It has served them well and they are comfortable for life (thanks mostly to Mom).

But Dad has instilled a bit of the gambling bug and entrepreneurial spirit in me.

By age fourteen, I was playing poker on weekend nights two or three times a month with my high school friends. The rules were simple for these late night games: dealer calls the game and ante, the deal rotates, no wild cards, 10c limit on bumps and three bumps per card, and no cheating. We had a crew of three or four regulars that played nearly every session and would usually ask a "guppy" (Ozark slang for a mark) or two to sit in. Beers were often involved and I learned quickly to sip slowly while others guzzled. Cards were how I made my spending money thru high school.

I still enjoy a friendly poker game. Next time we meet, let's sit down with a deck, play a few hands, and you can try to read my poker face.

From my dad I learned if you were smart and did your homework, had a little flair for long shots and dark horses, and occasionally got lucky, you sometimes win at gambling games, you won't lose much, and you'll always be entertained.

I like games of chance where combinations of skill, logic, and luck are involved; i.e., where I can stack the odds in my favor.

You won't see me at a slot machine or a keno board or holding a lottery ticket. I'll play you in Scrabble for a dollar a point or shoot a few games of nine-ball for beers if you want or drink pisco sours and play sapo all Sunday afternoon with the loser buying *bebidas* and *pachamanca.* Upon pledging Kappa Sigma before my first day in college, I placed NFL bets on a tout sheet with our in-house frat brother bookie.

And this St. Louis Cardinal fan will bet you a $100 bottle of wine that the cubbies won't win the World Series for the 100th year in a row. Hey cub fan, any takers out there?

Investing in the stock markets is also a gamble where we can, thru research and due diligence, skew the chances to our side of the coin.

With my Mercenary Musings, I am attempting to educate the lay investor on my philosophy, methodologies, criteria, and research procedures for investments (My Investing Philosophy, May 19; Goin' Down, June 8), give my current thoughts and ideas on commodities, supply and demand, markets, trends, and undervalued sectors (Chicago Resource Expo, May 5; Mercenary Musings on the Markets, June 30; Busted Deals, Broken Markets, and the Biggest Guns, August 18), and explain the technical side of the business (Resources and Reserves: A Primer for the Lay Investor, August 25).

My latest Musings have evidently struck a chord with the lay investing public. I'm getting numerous emails with such questions as:

"Why have I lost 60% of my portfolio value in the past 10 months and should I hold on or get out now?"; or,

"BS.V is now back to the same value as when I bought it four years ago, what should I do?"; or,

"PIS.V has *proven up* a 1.3 million ounce *resource* in a Third World socialistic dictatorship; the market doesn't understand its value, should I sell it now or wait?"; or

"I'm done with such and such a newsletter writer or this website writer or that analyst; they failed me over the past year; can you tell me what I should sell and what I should keep in my portfolio?".

Sorry folks, but I can't give you advice on what to buy or sell or hold and when to invest or divest. It's simple: I am not a certified financial analyst, broker, or professional qualified to offer investment advice. It says so in the Disclaimer at the end of all my Mercenary Musings and Technical Reports.

However, I will tell you what I bought and am accumulating or following. I'll tell you what sectors I am selling or have sold but I won't give you names of specific companies that I am selling unless they have done something fraudulent or blatantly against the best interest of their share holders.

I know the principals of 16 of the17 companies currently held in my portfolio. A couple of them I met only after researching and buying their stocks. Some I have known for years. Naming company names will only serve to hurt or embarrass my colleagues, peers, friends, compatriots, and bar buddies and could further affect their companies' currently downtrodden market caps.

I can give you a researched opinion about a stock if you want to pay my hourly rate. It takes me about four or five hours to do a quick research report. An example is posted on my website (RGC.V, August 4, 2007; recommended at 19c, went to 49c in eight months, now trading at 9c; hmm…). Be forewarned though, my opinions don't come cheap.

A full-blown technical evaluation report, such as my recent work on AVL.T, takes a week or more of work and costs many times more. These generally are bought by the companies, investment funds, venture capital groups, or investment bankers. This is one of the ways, along with geological evaluation, mapping and prospecting, and investing, that I make a living.

I actually prefer to give you the People (not the Sheeple) the ways and means of doing your own research for your own investment portfolios. It takes some thought and effort on your part but it's a hell of a lot more gratifying to pick a winner from one's own hard work.

I encourage you to read and listen to the newsletter and website writers. We do this for a living and have well-founded ideas about macroeconomics and markets and what makes a company undervalued and worthy of consideration for investment. For some insight into this idea, read my friend Brian Fagan's home page: www.stocksandspeculations.com.

But I hope you realize that we are just investors like you; we probably just work at it longer and harder and have the requisite education and experience that may give us an edge.

None of us are gurus, oracles, savants, wizards, or messiahs who have crystal balls or Ouija boards or can make a local call to George Carlin's *invisible man who lives in the sky* to tell us where to put our hard earned dollars.

I think that blaming a former favorite analyst or newsletter writer for the current state of your investment portfolio is somewhat unfair. These guys are as far down as you are since most, like me, put their money where their mouths are.

Folks, we're all in the same cook tent this September morning along with a hungry bear foraging for the upcoming winter.

The recent 4 ½ years of high and higher and highest commodity prices combined with a seemingly never ending supply of delirious has-to-be-spent today risk capital was simply an aberrant, *irrationally exuberant* bull market.

The old saying is apropos: *Do not confuse brains with a bull market.*

In current news speak, we participated, quite handsomely for several years, in a junior resource sector bull market which became a bubble and this bubble started leaking badly in late November and burst this week.

I encourage you to not be a bubblehead and rush into the next best thing like Saskatchewan coal or an overvalued potash play or a shale gas deal 1000 kilometers from the nearest pipeline. Those sorts of things only work when you get in on an area play very early. By the time most of us catch on, we become the "guppies". I did that with a uranium stock last June that will never see the light of day again. In fact it is no longer a uranium company, it's in the toilet.

This is now a full blown bear market that has been exacerbated by the summer doldrums. There are no bids. Stocks go down on fantastic drill intercepts: 120 meters of 3.52 g/t gold in a shallow intercept and the stock drops 2c on light volume. One issuer after another capitulates and its chart breaks down.

But even in the darkest days, every cloud has a proverbial silver lining. There are very good values in the junior marketplace right now. Check out my recent evaluation report on rare metals explorer Avalon Ventures (AVL.T, September 1). This is an interesting company which last week was trading at 167% of its yearly low of 90c. It closed today at $1.05. It could double or triple in the next 12 months.

Some of us are traders and like to buy and sell, take profits, and move on to the next undervalued deal. We are arguably better off in a bear market because we will sell losers systematically and without emotion and take profits off the table. We don't wait for the five and ten baggers, and we never *believe* in any story. In my opinion, *"belief"* is for religious fanatics not savvy market investors.

I personally think that junior resource stocks should be bought and sold like a Mercenary. Paul Van Eeden says, "*You can only make money on a successful bet if you cash in your chips and go home; if you stay at the table too long you're likely to give it all back.*"

Remember that gains and losses are not recorded on paper; they occur only when fiat money changes hands. You don't win or lose unless you trade.

Paul started getting out of this market about two years ago. He is the first to admit that he got out too soon but note that his profits and capital were preserved.

I too made most of my money in the bull market by *selling too soon*. But I am still in, selling select exploration stocks rationally and picking up bargains in the panic.

The buy and hold guy who fills his IRA with junior resource stocks in a bull market is the guy who will soon be departed from his retirement nest egg when the inevitable bear market comes. In my opinion, an IRA is not the proper investment vehicle in which to put junior resource stocks. Buy and hold does not work in the junior resource sector. That philosophy should be reserved for blue chip stocks and bonds that spit out dividends year after year.

Investing in exploration and mining stocks is a ***Risky Business***. You can't get always get lucky like teenage entrepreneur Joel did in the movies. That's a Hollywood fairy tale. Wall Street and Bay Street are not Hollywood and Vine.

The investing game is a calculated gamble. With hard work, careful research, reading the opinions of newsletter and website writers, and making informed versus fly-by-the-seat-of-your-pants decisions, you *can* turn the odds in your favor and consistently pick the eventual winners even in a bear market.

I think it works to buck the crowd and be a contrarian. Buy during the bad times and low volume; sell into the uptick and high volume.

In my opinion, the junior resource sector should be reserved for a specific segment of your net assets: Your high risk gambling money; i.e., the money you can afford and are willing to lose.

I'll always be a bit of a gambler even though I'm ***Leavin' Las Vegas*** this morning.

The question I must always ask of those who invest in the junior resource sector: Are you?

If so, there will be some *fantastic* bargain basement buys in this market in the months to come.

Stay tuned.

Ciao for now,

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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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