Michael S. (Mickey) Fulp
M.Sc., C.P.G.

MercenaryGeologist.com
contact@mercenarygeologist.com

The 14-Year Record for the Toronto Venture Exchange

A Monday Morning Musing from Mickey the Mercenary Geologist

Contact@MercenaryGeologist.com

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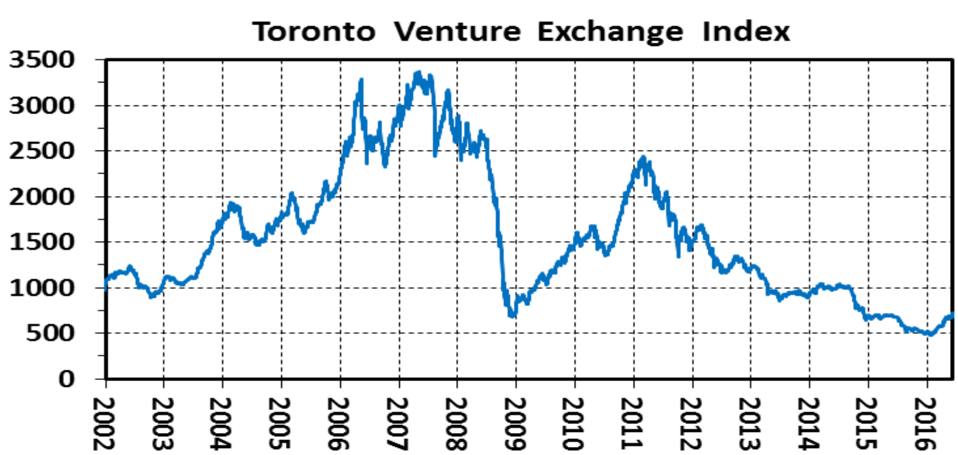
I have documented seasonal moves in the prices of gold and oil over the past 20 years and copper over 13 years (**Mercenary Musings: January 4**; **March 28**; **April 11**). Now I present our research on the seasonality of the Toronto Venture Exchange.

In a series of normalized charts, I will show that for overall, bull, and bear market conditions, there are predictable intra-year trends in the capitalization of the Toronto Venture Exchange (TSXV).

This microcap stock exchange was created with the merger of the Vancouver Stock Exchange, the Alberta Stock Exchange, and the Montreal Stock Exchange and upon its purchase by the TMX Money Group in late 2001. The Toronto Venture Exchange Index, a weighted average of about 400 of the largest companies, serves as a proxy for performance of the overall market.

The market is dominated by junior resource exploration companies with a few small miners in the mix. Of 1773 current listings, 1031 (58%) are classified as "mining" companies. In actuality, few mine anything other than the stock market. Energy companies comprise another 10% of the listings. Minor sectors include diversified industries, technology, life sciences, real estate, and clean technology.

Here is the record of the TSXV Index from the beginning of 2002 thru June 9, 2016:

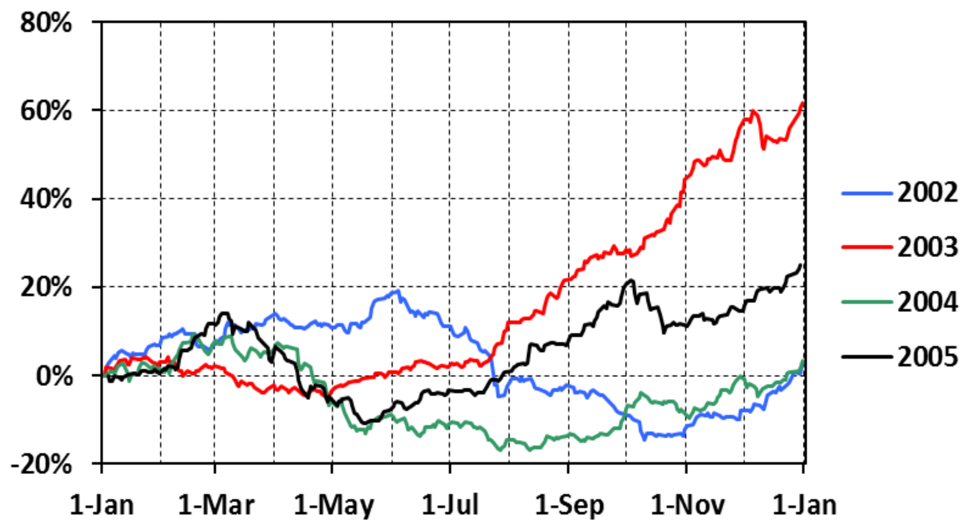


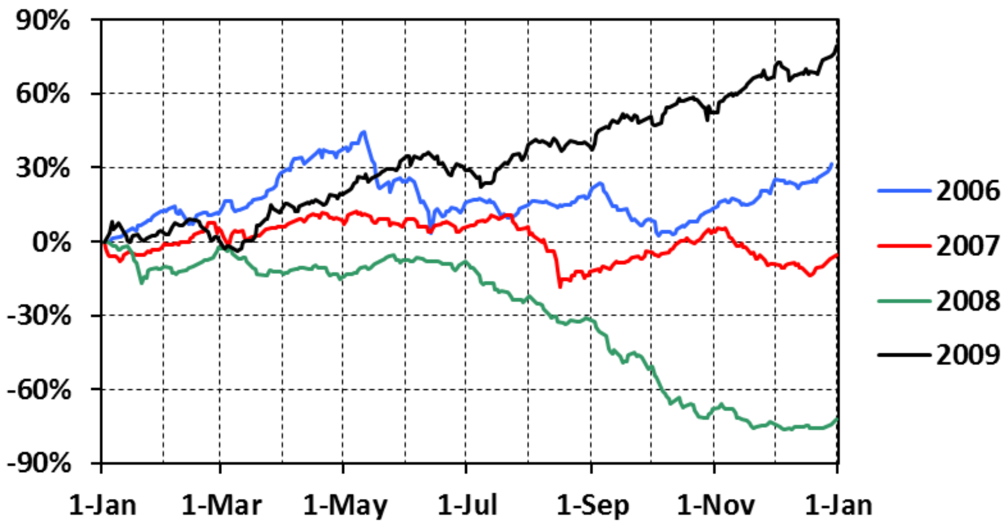
Over the past 14+ years, the Index has exhibited significant volatility. Its rises and falls broadly correspond to bull and bear markets for gold.

Although the market valuation of equities in this resource-heavy stock market is strongly influenced by the price of gold, there are other inputs that directly influence the composite value of the TSXV. They can include:

- Supply-demand fundamentals and prices of other hard commodities.
- General health of the world's economy.
- Performance of major US markets; bull markets generate investor profits that often trickle down to riskier speculations.
- Geopolitical events in resource-rich countries including elections, civil wars, coups, and terrorism.
- Resource nationalism, environmental opposition, and restrictive regulatory policies on mine development.
- Advent of new technologies for exploration, development, and recovery of the hard commodities.
- Discovery of new mineral deposits, particularly in underexplored frontier regions.

The following series of four charts shows the percent change in the daily value of the TSXV Index normalized to January 1 for each year:




90%
60%
30%
0%
-30%
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-90%
1-Jan
1-Mar
1-May
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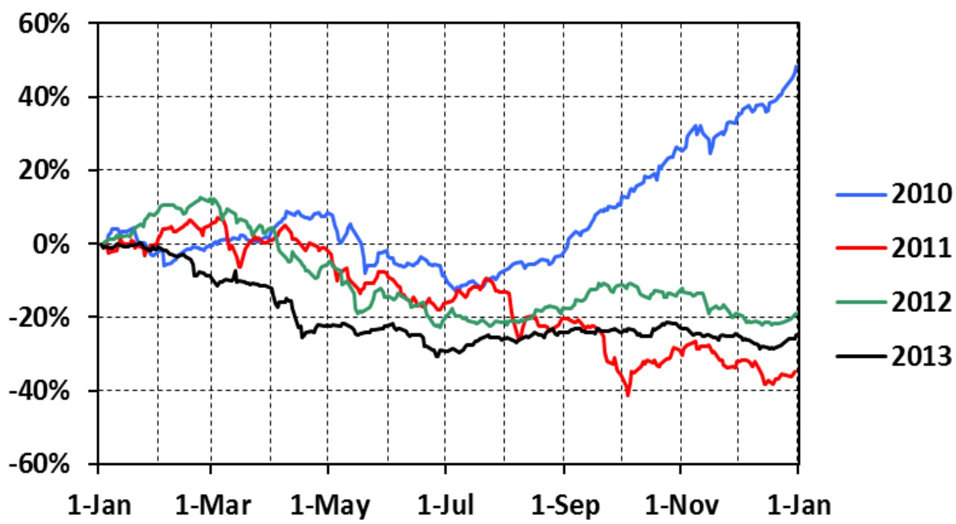
1-Jan
2006
2007
2008
2009


60%
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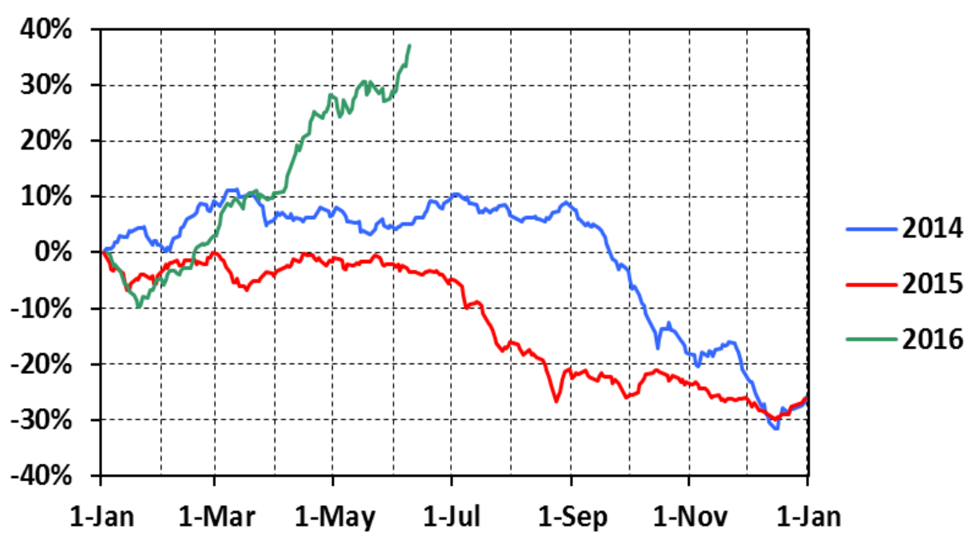
2010
2011
2012
2013


40%
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1-Jan
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1-Sep
1-Nov
1-Jan
2014
2015
2016

Based on annual opening and closing values, we define bull years for the Toronto Venture Exchange Index (**green**) as those in which the price closed the year > 10% higher than it opened; bear market years (**red**) as those in which the price closed the year >10% lower than it opened; and neutral years (**black)** as those in which the percentage change was less than 10%:

Year	Jan Open	Dec Close	% Change
2002	1043	1074	3.0
2003	1083	1751	61.7
2004	1766	1825	3.4
2005	1788	2237	25.1
2006	2274	2987	31.3
2007	3008	2840	-5.6
2008	2870	797	-72.2
2009	847	1521	79.6
2010	1544	2288	48.2
2011	2275	1485	-34.7
2012	1506	1221	-18.9
2013	1240	932	-24.8
2014	939	696	-25.9
2015	707	521	-26.3
2016	526	720*	37.0*

***thru June 9, 2016**

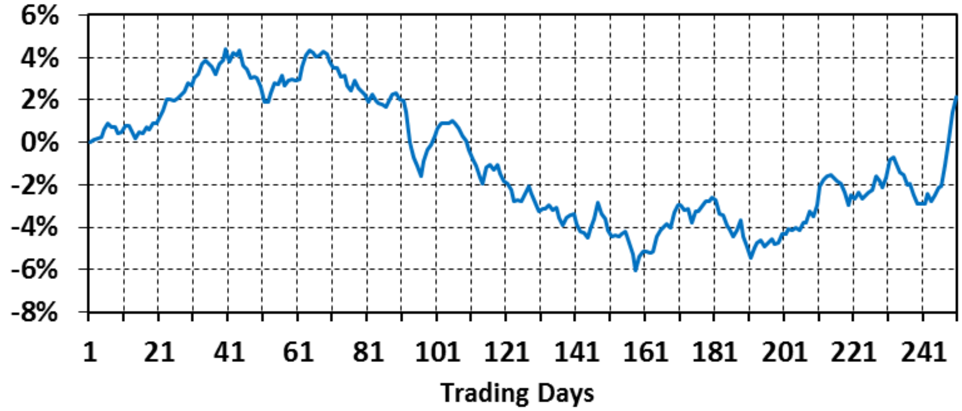
The volatility of the Toronto Venture Exchange Index from annual beginning to end has averaged 33% over its 14-year existence. Note that the Venture Exchange is exactly that, a *venture capital* market where few listed companies generate any revenue and most are funded by serial equity raises. It is undoubtedly the most volatile capital market in North America and one of the most volatile in the world.

The following three charts present composite yearly trends from January 1 to December 31 for the entire 14-year period, six bear years (2008; 2011-2015), and five bull years (2003; 2005-2006; 2009-2010).

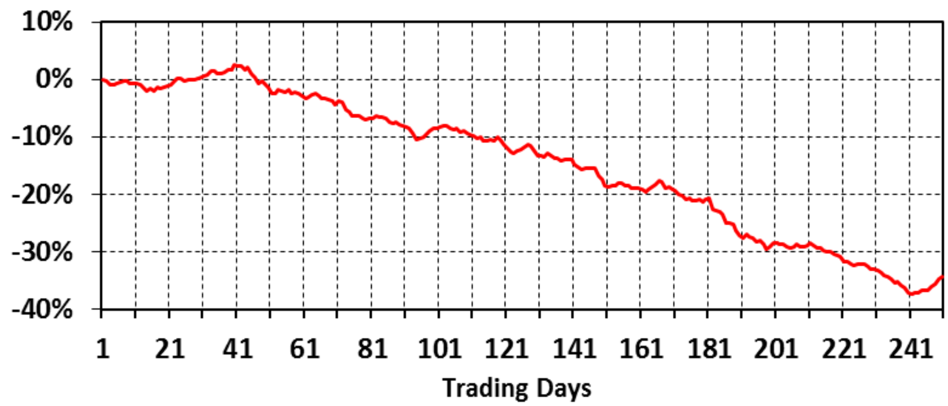
We have chosen to disregard the three neutral years (2002; 2004; 2007) as a separate data set because of small sample size, low volatility, and inconsistent patterns.

Please note the significant change in y-axis scale for the 14-year composite chart; its data range is slightly more than 10% as opposed to nearly 40% for bear years and 50% for bull years:

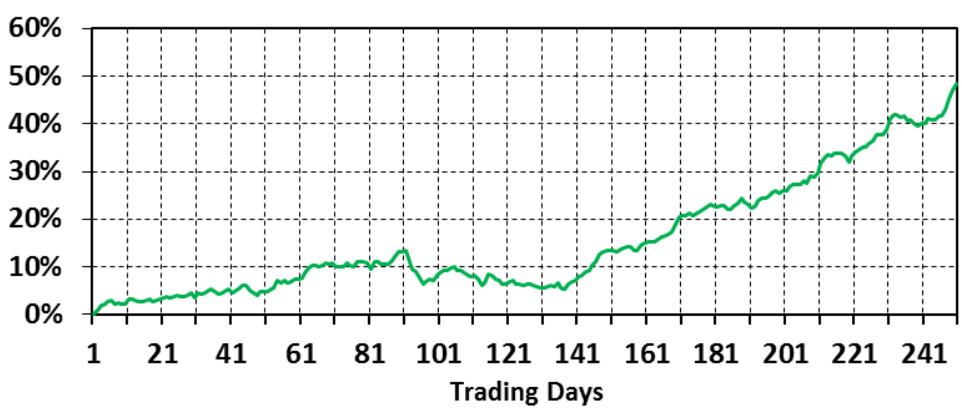
TSXV Index
14 - Year Composite



TSXV Index
Bear Year Composite



TSXV Index
Bull Year Composite



The composite charts illustrate prominent seasonal trends for the Toronto Venture Exchange Index:

- There is a general rise from early January to early March. It is prominent in bull market years but subdued in bear market years.
- There is a sell-off in early to mid-March.
- In bull years, this is a downward pause and the Index soon continues upward until mid-May. In bear years, the downtick continues with little respite until mid-December.
- There is a pronounced dip in mid-May.
- The market reaches its yearly low between mid-May and late July in bull years. From that juncture, it rises consistently until late November.
- The composite yearly chart shows the summer down time extends into late August and illustrates the worsening performance in bear markets as the year advances.
- For all markets, there is a downtrend from early to mid-December and then a very strong uptick thru year's end.

Now let's explore some factors that account for these well-defined seasonal trends in the Toronto Venture Exchange:

- The early to mid Q1 rise is attributable to recovery from tax-loss selling late in the previous year.
- In addition, many junior companies are raising money for the coming year's activities and promoting at the two largest annual investment conferences for microcap resource stocks.
- The downtick in mid-March is the so-called "post PDAC curse" that often occurs immediately after the giant mining show in Toronto. Savvy speculators know this is an ideal time to take profits regardless of overall market conditions.
- The mid-May drop is the well-known "sell in May, go away" strategy that foreshadows the summer months when many speculators forego the equity markets for vacations.
- The summer doldrums occur even in bull market years but are over by late July; in bear years, the market malaise is a harbinger of worse times to come.
- In bull years, tax-loss selling first becomes evident with a market downturn in late November and is largely over by mid-December. There is a strong uptick thru the end of the year as bargain hunters pick up oversold but fundamentally-strong stocks.
- In bear years, tax-loss selling is much less a factor; still there is a significant rally from mid-December to year end.

Our research indicates there is a pronounced seasonality in the Toronto Venture Exchange Index over its 14-year history regardless of market conditions. The documented seasonality both reflects and affects the movement of speculative money in and out of this high risk-high reward venture capital market.

Speculators, brokers, day traders, equity funds, investment banks, and increasingly, programmed algorithm traders are major participants in the market.

Unlike major North American markets with small, medium, and/or large capital listings, “investment”, i.e., an allocation of capital with expectation of consistent returns, is not a successful strategy for the TSXV.

Venture Exchange equities are strictly speculations and should be bought and sold using discretionary capital. We have shown that they trade in seasonal and cyclical patterns with very high volatility. As such, these stocks are not conducive to buy-and-hold strategies. In fact, they nearly all double from lows to highs in any given 52-week period. Thus they present periodic entry and exit points that can be exploited for profit.

This is gambling, folks. But like a good card player at the table, it is feasible for a savvy speculator to skew the odds in his favor. I trust we have provided some insight into the timing of this game.

In my opinion, it is best for the lay investor to entertain professional advice when speculating in the junior resource market.

I will provide additional details on short-term trading opportunities as we progress thru 2016, which is shaping up to be a promising bull year for the junior resource sector.

May all your trades be to the upside.

Ciao for now,

Mickey Fulp
Mercenary Geologist

Acknowledgment: Steve Sweeney is the research assistant for **[MercenaryGeologist.com]**.

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 35 years experience as an exploration geologist and analyst 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 worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 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 and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

Contact: **Contact@MercenaryGeologist.com**