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Junior Markets Are Frothy and the Summer Doldrums Are Looming

A Monday Morning Musing from Mickey the Mercenary Geologist

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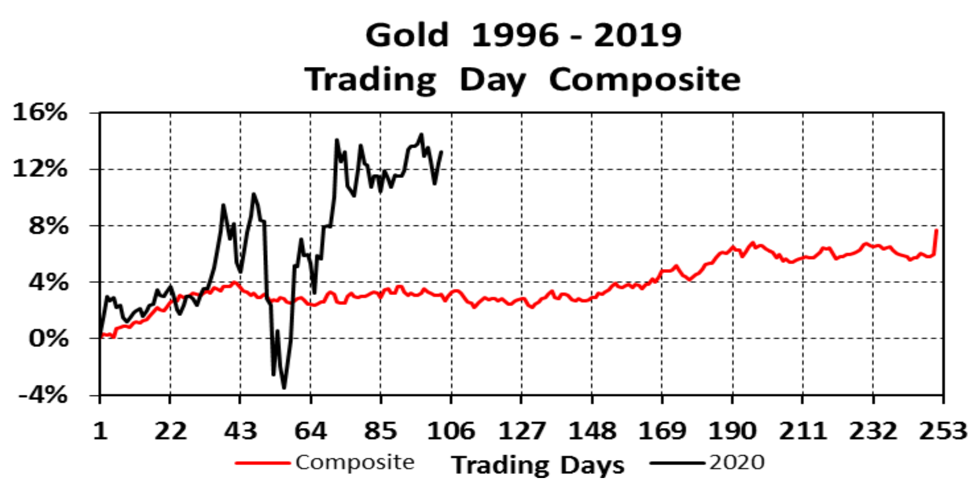
The junior resource market has been booming for the past couple of months. This uptrend has occurred in the midst of a Chinese flu epidemic intentionally exported to the rest of the world, global economic collapse, pending debt defaults, all-time records for the VIX (aka "fear index"), and record US unemployment. Most recently, economic and social turmoil has been exacerbated by riots and violence promulgated by paid anarcho-socialist organizations on the streets of America's largest left wing-governed metropolises.

The big junior stock rally has of course been led by what it is always led by … *gold*. In times of geopolitical and/or economic uncertainty, safe-haven demand for gold soars and so does its price. Then gold equities generally follow suit.

Below is our composite 24-year seasonal gold chart that also shows gold's performance year-to-date (+14%). If we examine the last 50 trading days, gold has gone from a low of $1474 an ounce on March 19 to a close of $1729 on May 29 for a gain of 17%.

Note that our historical gold data is from the daily London pm price fix and sourced from our friends at **Kitco.com**; also recall that 21 trading days equals about one month.



The pronounced V-shaped fall and rise of gold over eight trading days was due to margin calls as the world's major equities markets were melting down.

Luckily, my numbers wonk-dom kicked in a few days before as I recalled a similar event in mid-November of 2008 and a sharp decline in the gold price. I checked our database to confirm the depth of that downturn and its duration. We then lined-up a buying strategy, confirmed bullion availability from a dealer with the lowest markup (although still twice the normal) and fastest delivery (10 days), and bought a tranche on March 18. Say hey, who says you cannot time the market?

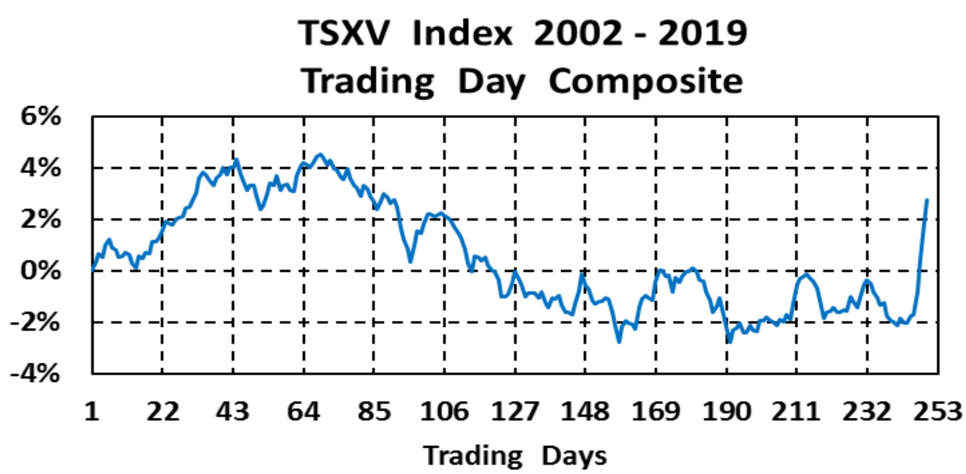
I like to buy gold on the dips regardless of bull or bear market conditions.

Global spread of the Wuhan flu in early March rapidly spawned massive retail gold demand. When combined with temporary mine shutterings, refinery shutdowns, and supply-chain breakdowns, the price of bullion soared with major gold miner valuations soon following. GDX is now at a seven-year high, up a whopping 80% since bottoming on March 19, the same day as gold.

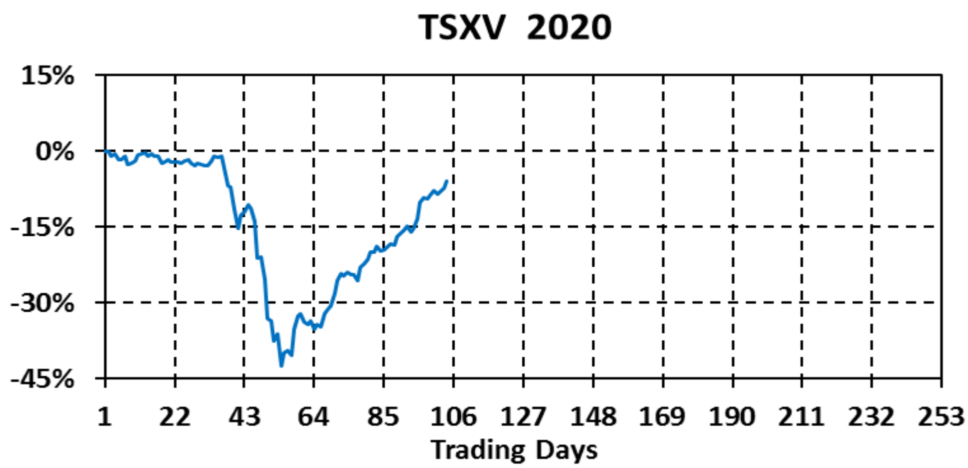
We certainly expected the big gold miners' buoyancy to first trickle down to the small gold miners and then eventually to the best gold junior explorers. But I cannot imagine that any pros thought it would happen so quickly.

The Toronto Venture Exchange Index is our proxy for junior gold stocks and it dropped to an all-time low of 339 on March 18. Its previous low-water mark was 474 during tax-loss selling in mid-December of 2018. So this move to the downside was unprecedented in the 18-year history of the TSXV.

Here is the composite yearly seasonal record since inception of the Venture Exchange in December 2001:



Due to the huge range and extreme volatility of the TSXV Index year-to-date, we cannot overlay its record on the historical pattern. So here is 2020 YTD for comparison; note the tremendous range in the y-axis scale compared to the one above:



With May's close at 554, the TSXV Index has marked a gain of 63% from its low of 339 in just 50 trading days. But in 2020, it still remains in negative territory at -4%.

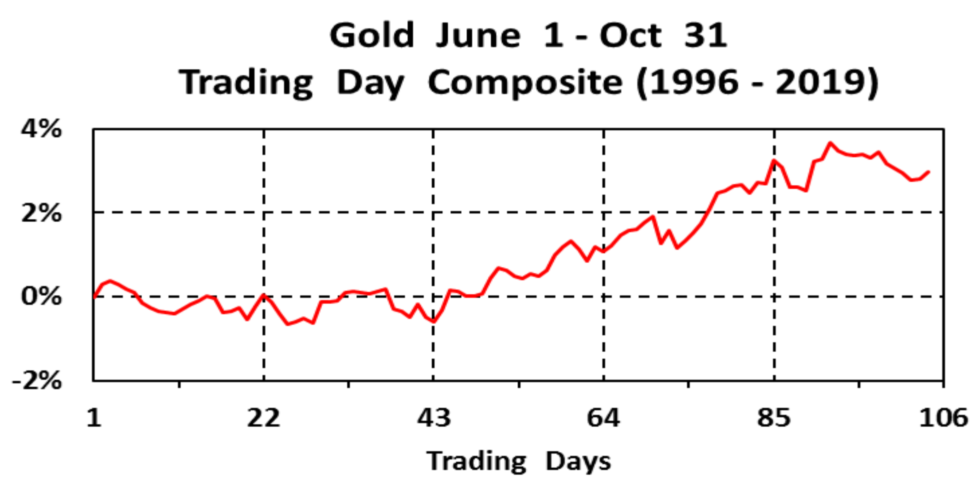
To further illustrate the wide-ranging uptick in junior resource valuations over the past two months, my personal resource portfolio of 30 junior explorers, one NYSE and two junior royalty companies, and three NYSE.AM-listed developers/miners is up 76% since the end of March. Compare this performance to the 38% gain for the TSXV Index and I have doubled the return!

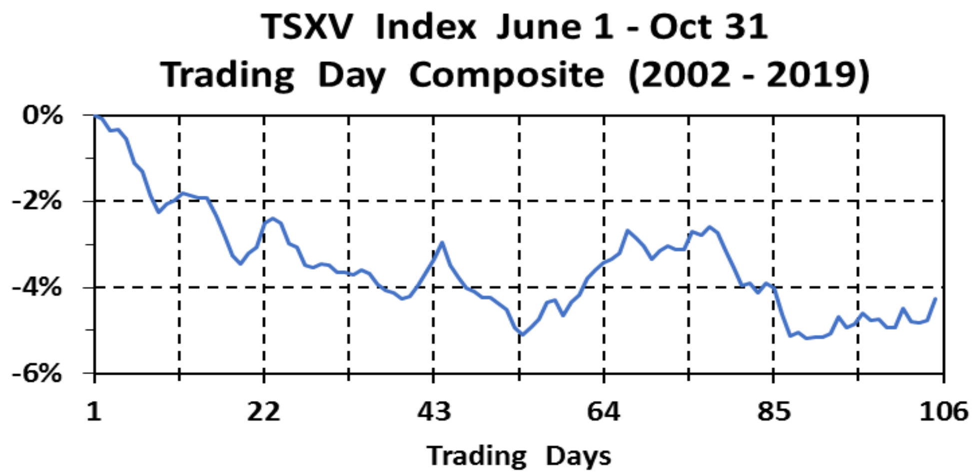
But that's all in the past. Given current market volatility, I must develop a trading strategy going forward.

We are repeatedly warned by brokers, banksters, and other assorted and sundry financial advisors that past performance does not predict future results. This standard disclaimer is a firewall allowing professional money managers to avoid regulatory penalties and client lawsuits when offering bad investment advice.

That said, I submit that past and present must be analyzed to understand and predict future trends.

We are entering the last month of Q2 with the summer doldrums imminent and in general, a time of falling gold and stock prices. Our summer to mid-fall gold and TSXV composite charts are presented below:





So let's assume that past is prologue. Our seasonality charts and my market experience indicate:

- The summer doldrum period from mid-June to Labor Day is a time of flat to down prices for gold; it often reaches its yearly lows in short duration dips over these months.

- Steady downticks occur on the Toronto Venture Exchange because news flow is slow, investors go on vacation, interest wanes, and trading volumes drop. With few bids, prices follow suit to the downside.

Contrast these usual trends with performances so far in 2020:

- Gold is up 17% since the new year began and is vastly outperforming its average seasonal pattern established over the past 24 years.

- There has been a phenomenal run up (+63%) in the TSXV Index over the past 50 trading days, a unique occurrence over its 18-year record.

Economic news for May is guaranteed to be dire. So despite gold's usual summer season trend, I opine that current geopolitical events, pandemic lockdowns, economic recessions, growing government debt loads, rampant increases in money supply, and historically low to negative interest rates are all positive for the near-term price of gold.

That said, if normal patterns hold, there will dips in the price of gold over the next three months and they present buying opportunities.

I surmise that the junior resource sector may be a different matter. Many recent high flyers are overbought. Considering that the summer is a historically slow season for all equity markets, I doubt a longer-term TSXV uptrend is sustainable without an intervening slowdown, correction, bull market dip, and/or retrenchment.

Given the above premises, here is my current plan to play the junior resource market over the next three to four months:

- I intend to sell longer-term stock holdings that have been underwater during the bear market if/when they reach break-even valuations.

- For companies that have current or pending drill programs with good targets on good projects, I will take interim profits as soon as results start to come in.

- For company holdings with current doubles and in one case, a 20-bagger, I will continue to take profits in tranches on the uptick and the downtick as described in my **Power of Two** trading methodology. In fact, I sold another tranche of my biggest winner just a penny off its all-time high on Monday.

- In the mid- to late fall, I will sell holdings that have become mal-investments, management failures, share rollbacks, and/or zombie miners without hope or a prayer of recovery. They will generate losses to reduce my tax burden from robust capital gains taken in January and February and I trust, during the summer months.

- At this juncture, the incipient bull market for junior stocks is spotty and uneven. Therefore, I will continue to seek undervalued plays that have not participated in the recent run up in the gold and other metals sectors. As an example, I bought a good copper-gold explorer last week at its low since the commodities crash of January 2016.

In conclusion, the junior resource market appears frothy to me with the summer doldrums coming in two to three weeks. At this juncture, I urge you to be a rational contrarian, trade without emotion, and most importantly, do not allow greed to rule your trading patterns. You need only recall what occurred during the summer of 2016 and how quickly an incipient bull market evaporated in the fall when gold dropped $90 in 12 days.

In my opinion, major equity markets are shaky, basically ignoring all negative news during recent recoveries. In response to the big flu scare, governments at all levels created new, systemic economic problems that have yet to play out. If the large markets falter and correct again, the junior resource sector will surely follow suit.

Barney Baruch, who made an immense fortune playing the stock market, including some early mining ventures in the Canadian goldfields, said it best: "*I made my money by selling too soon*."

A point well-taken, folks: It is *never* a bad move to take profits.

Ciao for now,

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Acknowledgement: Luke Smith is the research assistant for **MercenaryGeologist.com**.

The **Mercenary Geologist Michael S. "Mickey" Fulp** is a Certified Professional Geologist with a B.Sc. in Earth Sciences with honor from the University of Tulsa, and M.Sc. in Geology from the

University of New Mexico. Mickey has 40 years of 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.

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