# Taking the Small Cap Secret to the Street.

Whispers on Bay St, C-level managers maintain strong composure, but behind closed doors the consensus is the same: **the small cap industry is in trouble.** Furthermore, we will need to collaborate towards addressing the real issues with creative solutions on how to build a stronger market where true entrepreneurs flourish.

With Canada's main stock index hitting a new high on Thursday and the S&P/TSX composite index hitting an all-time high of 17,120.90 in earlier trading last week, why are the breadcrumbs from this financial feast not making it down the food chain to the hard working small cap teams?

A particularly astute market consultant from Montreal, Jerome Cliché replies to my requests for feedback on this issue matter of fact, with "**This is the worst I have seen the small cap market in 25 years.**"

He then goes on to add, "Warning signs that the TSX Venture was ready to capitulate have been all around us for some time as the volume and value of shares traded continue to crater." Leaning in closer to home, we published a story last week titled, Are small cap stocks on the TSX-V set for a holiday rally? as we monitor stocks flatlining despite achieving relevant milestones.

Attempting to posture optimism I enjoyed MI3's Mario Drolet's take in Matt Bohlsen's story with **"…remember the junior market is a catch up market.….I am expecting a Christmas rally and we should start seeing some inflows of money into the market soon.."** Unfortunately, he also goes on to confirm market indicators for concern when he adds: "we are all seeing the TSX-V and CSE Index near their all-time lows."

18-years in the small cap industry myself, I am sorry to say that this is indeed the worst year I have seen, 2019 is starting to make 2008 look like a joy ride. In my opinion, our portfolio managers are now directing their clients into only top performance stocks in the market with the angle being to minimize any risk for Baby Boomers to lose money.

Okay that makes cents, but what about the illustrious and rarely covered Generation X's to which I am a part of? Where are we hiding? Bruised from blockchain, fintech and cannabis market highs and lows, how do we rectify these parallel realities without an inevitable market crash, as these small caps cannot sustain their dream on air.

I reach out to Peter Clausi, a public market consultant that we often call for questions on compliance, and when we need to refer a company seeking either to list or would do an RTO, he responds quickly with: "Some of the blame can be directed at the portfolio robo managers. Their goal is not to outperform, but rather not to underperform. As long as the return is not below its index, the robo manager has done its job, even though this may be a real loss when measured against inflation. **Mediocrity is being rewarded. it's like the old saying, nobody ever got fired for buying IBM**."

Speaking to dozens of small cap CEOs weekly, one tech principal tells me – "I haven't paid myself in over a year", another junior gold CEO explains how he no longer even watches his trades as he finds it too demoralizing. One of my favorite IR firms in Vancouver sends me a note on Friday that reads, "Hope all is well there, **its s**t town here – and by that, I mean the markets…"**

I respond with it's too everyone's benefit to see performance rewarded through effective market valuation. *But are we optimists living in a false reality?*

Jerome Cliché hits back hard with some year-over-year data

(June 30th data) starting with the volume trading for small caps down -27%, value traded down -40% and number of trades down -31% for the year.

**What do I think?** Obviously moving forward believing that this is an M&A smorgasbord for a practical investor ripe to make a deal, a banker from Zurich confirms my perspective. What's the ole rule of forecasting – make as many forecasts as possible and publicize the ones you get right? Not making a forecast here but reminding our readers of our trending section that monitors what are readers are reviewing most over the last 30-days. And based on this list, which Sharron Clayton tweets out weekly, we seem to have an increasing interest in electric vehicles and everything in them (lithium, graphite, cobalt); we continue to wait for the President's Nuclear Fuel Working Group on how we plan on responding to our uranium market as that is a market over ripe for rewards.

And holy heavens, if you're not into rare earths, I agree with Greg Andrews of Search Minerals Inc. (TSXV: SMY) that I spoke with earlier today – if you're a market timed investor, and if you don't have a rare earths company in your portfolio, your going to wake up one morning, see a Trump tweet – blink, and you will have missed another hockey stick this niche sector is known for.

We have industry expert Jack Lifton, the Godfather of Rare Earths, the man who coined the term "technology metals" doing interviews, backed by industry expert Alastair Neil – we are leading the market for coverage here on InvestorIntel for critical materials, expect some surprises this week.

On Monday and Tuesday of this week, Matt Bohlsen is going to do a part I and II on some gold companies we are watching. All presently trading at market valuation discounts, I continue to love this sector and agree with Mario Drolet who writes "lookout for a rebound on precious (gold) and base metals (copper, nickel) and strategic metals like rare earths." He is not the only one anticipating a rally, so enjoy this time to do your due diligence and see what producers are eyeing what.

And then of course there are esports, and Ben Feferman's columns continue to drive into the top 10 as we all seek millennial generation guidance on what to watch…and play. Speaking of learning more about this sector or catching up! [The Business of Esports Investor Conference] is on Monday, December 2nd from 1230-530 and while we know its last minute – if you can make it, [click here to register], Ben and AMUKA Esports will be hosting this informative business and technology seminar and the 1st 3 people who email me at info@investorintel.com, will receive a complimentary pass!

Then there's AI and technology (see our Top 10 below, or [click here to access our Trending section]) and we are working with Chris Thompson of eResearch who is sharing his valuable insight with our audience. Obviously, we welcome your comments, your tweets and ideas. After all, we all thrive in a market where entrepreneurs are rewarded for taking a vision for the future forward and making our lives better! Stay tuned, we are following the small cap market challenges closely –.

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# Taking Tesla head on.

Elon Musk must be hearing the sounds of horsepower of the big boys in the automotive industry in his dreams or possible nightmares. Ford has announced the Mustang MACH-E. Porsche has announced its entry level Taycan 4S and VW, among other German producers are actively moving into the EV space. VW has indicated it plans to sell 3 million units a year. This compares to Tesla’s total sales of 816,155 since its start of production in early 2013 until the end of Q3, 2019. Recent sales are close to 100,000 units per quarter. (1). In addition, the Japanese and other North American producers are actively entering the EV market.

Now granted Porsche is just entering the EV space and at a much higher price than the Tesla S, but then again Porsche has not tried to sell to everyone. The Tesla S has a better range but at the end of the day when one is putting out 6 figures for a car, a Porsche is still a Porsche and a history of producing cars that people dream about.

On the other end of the scale is the Tesla Y, to be released next year based on the Tesla 3 platform, and Ford’s new entry, the Mustang MACH-E. Projected horsepower is 332 for the Ford and just over 400 for the Tesla Y. The Ford is expected to be just under $44,000 compared to an expected price of $48,000 for the Tesla Y base model. However, the Mustang will have a tax credit of $7,500 for the first 200,000 units. We will have to see if the Mustang brand will carry weight going forward since the vehicle does not carry any of Mustang history or cache, other than the name.

It will be interesting to see how the EV market evolves as more and more options enter the game. The difference is That Tesla is a ground-breaking, visionary startup but some of the fit and finish issues as shown on YouTube may be an Achilles heel. The new entrants have a long history in automotive manufacturing and name recognition.

But wait. Elon Musk has just made a foray into the heart of American vehicles. The pickup. Just revealed is an eye-popping, radical design that looks like a pyramid on wheels. A stainless-steel body that claims to stop some small arms fire and unbreakable glass that cracked during the reveal. Ooops.

But then Apple had some glitches on a launch. The pricing is competitive to a Ford-150. It is a question if the radical design will be accepted in the market. Elon has said that a more traditional design may be possible but remember when a Hummer was seen as a status symbol. Time will tell if this leap into the future (aka “the DeLorean”) is a flash in the pan or a visionary move.

Tesla has announced gigafactories in Berlin and Shanghai so getting into the backyard of two significant markets and home of major competitors like BYD, Porsche, BMW among others. So, what is the future of Tesla? To build the new factories will take a lot of capital. That will mean raising long term debt which will reduce the earnings per share of the company. Obviously, Elon has a lot of balls in the air, including his space ventures. One option would be to leave the making of vehicle platforms to those who have been doing it for decades and focus on what they do well. Batteries and drivetrains. Then again this does not take into effect the Trump-factor, but we will see what the future holds.

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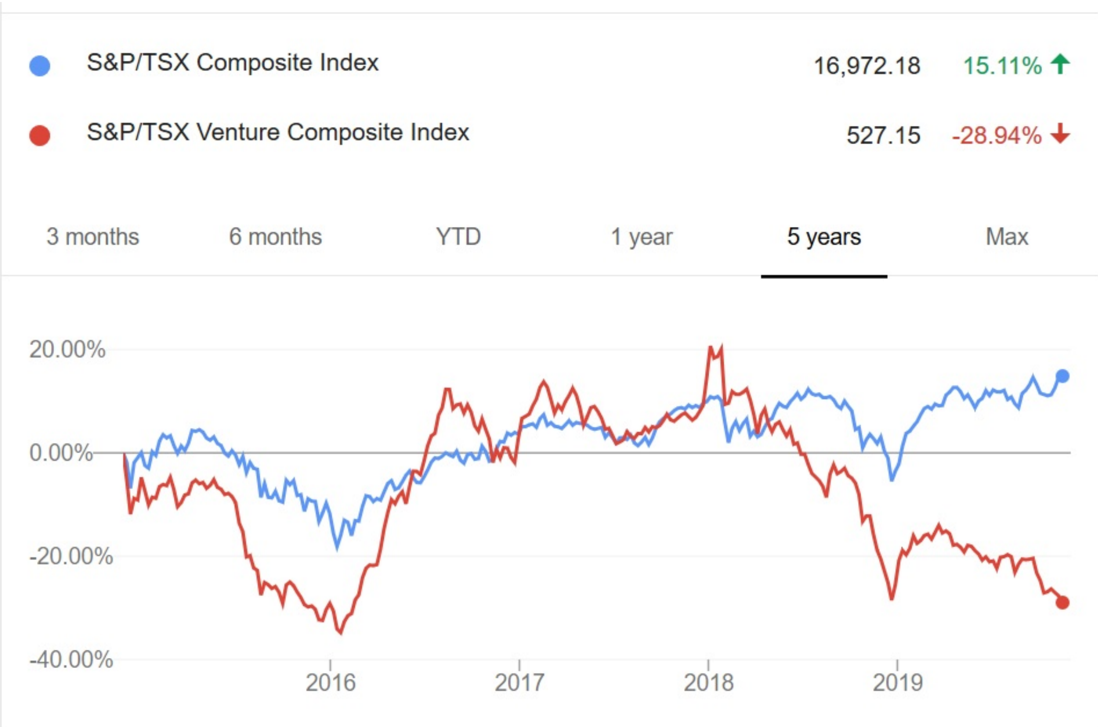
# Are small cap stocks on the TSX-V set for a holiday rally?

Canadian small caps, represented by the TSX Venture (TSX-V) exchange, have had a very tough past two years and are way under-performing the Canadian large caps (TSX exchange). We ask the question why? And does this make Canadian small caps on the TSX-V a contrarian recovery play?

Comparing the two main Canadian indexes below we see the 5 year cumulative returns shown on the charts below. Clearly the TSX Composite Index (TSX large caps) has outperformed returning 15.11%. The TSX-Venture Composite Index (TSX-V small caps) has performed very poorly, especially since January 2018, returning a negative 28.94%. The chart below also shows last time the TSX-V fell heavily we saw a large recovery rally in 2016.

**TSX large caps (blue) versus TSX-V small caps (red) – 5 year price chart**




[Source]

**What are the main differences between the TSX and the TSX-V?**

The most obvious is size, with the TSX stocks having a bigger market capitalization. The next key difference is the TSX is heavily weighted to [financials and energy], whereas the TSX-V is heavily weighted to the materials (mining) sector (29.15%).

**TSX-V sector weightings and Top 10 holdings**

**Sector Breakdown**

| Sector | Weight % |
|---|---|
| Materials | 29.15 |
| Energy | 10.07 |
| Industrials | 8.71 |
| Health Care | 5.11 |
| Financials | 5.06 |
| Information Technology | 4.96 |
| Consumer Discretionary | 0.81 |
| Consumer Staples | 0.43 |
| Utilities | 0.19 |

**Top 10 Constituents by Market Cap**

| Constituents |
|---|
| Equinox Gold Corp |
| StorageVault Canada Inc. |
| Jadestone Energy Inc. |
| People Corporation |
| K92 Mining Inc. |
| The Westaim Corporation |
| Auxly Cannabis Group Inc. |
| Novo Resources Corp. |
| Pharmacielo Ltd. |
| Great Bear Resources Ltd. |

**Why are the TSX-V (small caps) under-performing, especially in the past 2 years?**

There are a number of reasons for the under-performance. First and foremost is the under-performance of the materials (mining) sector. Incidentally, the trade war started about 2 years ago, and the electric vehicle (EV) metals boom peaked ~2 years ago (January 2018). We have also seen a slowdown in global growth in 2019, which is a negative for much of the mining sector. Gold is the exception, and palladium has been another exception due to tougher emission standards arriving in 2020.

This means we have seen the TSX-V taken down by a large downturn in the mining stocks, especially those related to the trade war and China, such as the base metals and EV metal miners. We also saw a considerable pullback in the cannabis stocks the past year after their previous boom.

**Does this make Canadian small caps on the TSX-V a contrarian recovery play?**

The answer is mostly yes, if you believe we will soon see a trade war recovery and a strong China. China consumes almost half the world’s metals, so a stronger China is good for Canadian metal miners.

Investorintel asked Mario Drolet (President of MI3 Financial Communication and 25 year trading veteran) to share his thoughts, and this is what he said:

> *‘’Despite the fact that the big market is continuing to make new record highs.….Dow at 28,000.….The small-cap stock index and many sectors has been anemic..…but remember the junior market is a catch up market.….and I am expecting a Christmas rally.….(mid-November to December) and we should start seeing some inflows of money soon into the market..…We are all seeing the TSX-V and CSE Index near their all time lows..…the cannabis and blockchain sectors pullback have accentuated the downward movement and have not helped the cause.…Lookout for a rebound on precious (gold) and base metals (copper, nickel) and strategic metals like rare earths.‘’*

I would agree with Mario’s conclusions. If we get a trade war deal and global growth starts to pick up again (including China EV sales), then we should see better sentiment to small caps (especially the EV and base metal miners), and the TSX-V could be set for a brilliant Christmas rally.

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# The “Godfather of Rare Earths” Jack Lifton to host a

# new InvestorIntel critical materials' market series

### *Expert Jack Lifton to explore how the American recent policy shift has inspired a rare earths revival and a rebirth of a domestic rare earth permanent magnet supply chain*

Toronto, November 4, 2019 – InvestorIntel, a leading online source of trusted investor information, is pleased to announce Jack Lifton as the new host for leading coverage of all related rare earths, critical materials and technology metal interviews in this geopolitically charged sector.

Adding significant depth of knowledge and expertise to the bench strength of the existing InvestorIntel Corp. team, CEO Tracy Weslosky comments: "Rare earths are attracting half of our viewer interest on InvestorIntel.com, providing strong indicators that the sector is attracting investor and capital market industry. Jack was there first calling the rare earths market in 2008, just before the market exploded in 2009-2010, so of course I speed-dialed the 'Godfather of rare earths' to ask him how fast he could bring us all up to speed on what is 'real' in the market coverage. Instead of just interviewing him, we felt we would all thrive if we had him interview the industry. We were exceptionally delighted when the expert who coined the term 'technology metals' agreed to lead the charge for market updates. Jack's interviews will unquestionably be the most informative interviews in the industry, published on InvestorIntel.com, YouTube, and redistributed through iTunes, Spotify and Amazon Google podcast channels."

Recently publishing [How the American recent policy shift has inspired a rare earths revival]() Jack writes that the American Federal Government's recent policy shift to require national self-sufficiency in critical metals for technology for the Defense Department, the interest is now on whether total domestic supply chains can be constructed or revived, he adds that: “the Chinese costs are rapidly rising to first world levels, and that this fact as much as any other is driving the rebirth of a domestic total North American rare earth permanent magnet supply chain.”

Jack Lifton is the CEO for Jack Lifton, LLC, a consultancy he began in 1999 upon his retirement as the CEO of an OEM automotive supply company specializing in process chemistry and metals trading. A consultant, author, and lecturer on the market fundamentals of technology metals. Technology metals is a term that he coined to describe strategic metals whose electronic properties make our technological society possible. These include the rare earths, the platinum group metals, lithium, graphite and most of the rare metals and materials.

A member of the Minor Metals Trade Association, Jack is an advisor to the Malaysian Academy of Science in Kuala Lumpur, and he is a member of that Academy’s Rare Earth Task Force. He is also a member of numerous professional societies and is a frequent speaker at both professional and industry events on both the markets for technology metals and materials and on the use of new and newly applied technologies to the extraction, refining and fabrication of rare metals and materials.

**About InvestorIntel Corp.**

InvestorIntel.com is a leading online source of investor information that provides public market coverage for both investors and industry alike. Offering coverage of emerging markets and investment opportunities to discerning investors, InvestorIntel is considered an online influencer in market coverage, analysis, videos and podcast reports and is based in Toronto, Canada.

# ii6 Summit – V04, you are invited!

October 30, 2019 — Where else can you go where you will hear about a new generation of enhanced performance small arms projectiles for the military and civilian markets? Or what about a company that provides innovative in-vehicle solutions among enterprise and commercial drivers often featured as the #1 stock to watch? How about a gold company focused on finding mines as gold prices hover near $1500…

Or what about a US-based uranium company that will talk about our #1 trending article on InvestorIntel.com — a piece on how President Trump's support of US uranium producers awaits the Nuclear Fuel Working Group Report?

You know because you are invited!

You are invited to the sizzling ii6 Summit – V04 event scheduled for Thursday, November 7th from 930-1130 AM at the Omni King Edward (details are below).

And yes, please do RSVP to tracy@724capital.com or call us at 416 792 8228 and let us know!

what is an ii6?

The ii6 Summit Series is designed to change the way investment events are run. The goal? Fast, efficient face-to-face presentations with some of the fastest moving companies in the market for 2019.
The ii6 is an investor event where you get the opportunity to meet 6 CEOs from a half a dozen companies in 90-minutes or less. We start promptly at 930 AM and ending just as promptly

at 11 AM, providing management with the opportunity to network with potential investors and key opinion leaders in the capital markets.

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# Uranium – Now Rare Earths: How wars hype demand for critical materials

It’s the 1950s and there is a new enemy to fight during the cold war, communism. In response to this threat, and during the actual battle in the Korean War, the US implemented the Defense Production Act of 1950 (DPA 1950). The act allowed the government to dramatically pump up the production of materials seen as critical for national defense. The effect was huge with development extending into Canada’s Elliot Lake region.

The cold war story is done but it set the stage for the second act which started this past summer. The players are the same. So are the scenes. And so is the potential for a dramatic mining story.

Back then, the Act of 1950 gave government executive authority to spur the domestic industry to rapidly build capacity to provide the essential materials needed for defense, similar to the War Measures Act for WWII. In the 1950s the Act covered activities for the Armed Forces, the Atomic Energy Commission and other departments concerned with national defense.

With this act in hand, the US military met the arms and technology challenge of the atomic age and built its atomic arsenal and stockpile of uranium. Actually, there was very little domestic uranium production or resources in the US.

Instead, they looked to their neighbours and allies in Canada to source their needs.

**A mining camp rises to the call**

Elliot Lake sits at the center of the largest deposit of uranium known in North America at the time. The Elliot Lake mining camp launched into existence with the help of the Eldorado Mining and Refining Company. This Canadian government-owned agency provided a guarantee to buy over C$1 billion of uranium over five years – enough to make a jaw-dropping 15,000 atomic bombs – to supply the contract with US Atomic Energy Commission and their military. The contract started in 1957 and continued for five years.

Never before in Canada was so much money funneled so fast into one location. Over C$300 million at the time (current value of C$2.74 billion) served to build 11 mines in the area.

**A different war today**

There is a new arms race on now. Or is it the same one? Today it is called a trade war. There are the same foes, the communists. This time, the fight is for defense, security and technology. Rare earths are now being weaponized as part of the US-China trade dispute. These elements are vital to fuel the new race to win technological supremacy and to answer the green energy challenge.

Recently President Trump made an addition to the materials covered under the DPA 1950 to include rare earth elements. President Trump highlighted the urgency of this need by quipping that the US buy Greenland, in part for its rare earth deposits. The US is also in talks with Australia, one of the few producers of rare earths outside of China, who controls the market.

**New demand today points to the same location**

If history can serve us, why not look near home to the substantial rare earth deposits in Canada, the closest neighbour and ally to the US?

Significant resources of rare earth elements lay waiting in the Elliot Lake camp. In fact the grade of rare earths is approximately 3x as high as the uranium in the same deposits. In the past, it was the largest commercial producer of rare earth elements in Canada. The mines in Elliot Lake simply closed due to market prices for uranium, not resource depletion.

The largest company in the area that holds these resources is Appia Energy Corp. (CSE: API | OTCQB: APAAF) where I am a long-term holder of their stock. Appia is in the north part of the Elliot Lake camp. From estimates, their compliant and historic resources in Elliot Lake could host approaching one billion pounds of rare earth elements, in addition to the known uranium. Several of the resource zones are open for substantial expansion.

Elliot Lake contains known deposits. The history of past production proves the rare earth resources exist at Elliot Lake and are recoverable within an established major mining camp. The site has the capacity to work for decades.

Appia is also looking for rare earth elements and uranium in Saskatchewan. At that location, their Alces Lake project hosts some of the highest reported grades for rare earth elements in the world.

Now that rare earth elements are listed as critical in this new era of technology, security and defense why not use the powers of the DPA 1950 to secure them with the help of Canadian allies as in the cold war? Why not in the same place? The camp is there, ready for act two.