Drilling and cash the key to picking the next junior gold explorer break out

written by InvestorNews | May 27, 2022

In early September, 2021 I wrote an article on the merits of potentially investing in gold, more specifically the gold miners, as they had been underperforming the underlying commodity price. Did the trade work out? It depends on when you bought and if/when you sold. Frankly, I'm not overly concerned because I'm not an investment advisor and I'm not qualified to provide anyone with investment recommendations. I'm simply trying to present ideas to readers that they can evaluate on their own and decide if it's a good idea for them in the context of their risk/reward profile. With that said, I will take another stab at trying to make a case for the potential to invest in junior gold explorers in the context of the current market.

As I noted in the first article, I'm not a gold bug, I'm just an investor. I have no vested interest in talking up gold or any of the underlying equities. However, because I write about a lot of junior mining stocks, many of them being gold explorers or at least companies having some precious metal exposure, I've noticed of late that a lot of them are trading at or near 52-week lows. This got me wondering if there was a legit reason for this or if the junior sector was simply getting crushed by a massive "risk-off" trade. Of note, I'm specifically looking at explorers this time around, not producers. Producers have been facing their own set of challenges with rapidly increasing costs, like Equinox Gold Corp. (TSX: EQX | AMEX: EQX) or geopolitical risks like Kinross Gold Corp. (TSX: K | NYSE: KGC).

Check out how Equinox performed at the end of April when they guided much higher with their AISC (all in sustaining cost) than the market was expecting. And they aren't alone in this issue, so I figured I'd stick to the segment of the market that is purely driven by drilling results and optimism around gold prices.

As for the price of gold, if I had a dollar for every "expert" on the business news channels over the last 6 months that got the call on gold prices correct, I wouldn't have very much money right now. Back in September I simply stated that the price of gold looked OK but not outstanding. A 1-year chart had support levels at $1,770 and $1,675 with upside to potentially test $2,000 but if the price rallied back above $1,850 for a couple of days I would change my tune. Gold got down to $1,740 in late September, made a "head fake" break out above $1,850 for 2 weeks in November, retested $1,775 in December then went on a great run up to $2,000 in March. I could argue I was right, and someone could just as easily argue I was wrong. Timing is everything and everything changes with time.

Fast forward 8 months and not much has changed from a technical perspective. I still see support around $1,750 with an upside to $2,050 but it would have to trade above $1,910 for me to get excited right now, which seems to be an interesting resistance level, as well it would get you above the 200 day moving average. Of note, it appears that gold is pretty safe to sell if the RSI (relative strength index at the top of the chart) gets above 70 and potentially a buy when the RSI touches 30.

Source: Stockcharts.com

What I didn't do last time, but will endeavor to undertake this time, is some macro comments on why gold the commodity may be poised to finally break out. Generally speaking, gold tends to have a negative correlation to the US Dollar, which recently hit all time highs relative to virtually every major currency. The US Dollar is overbought and appears to be starting to roll over. This could result in some bullish sentiment returning to gold. Another macro observation is that gold seemed to be fighting for investing interest with the crypto universe. Cryptocurrencies were being billed as the new gold. At least for the time being, that doesn't seem to be the case as crypto investors appear to be running for the exits. Will gold benefit from this? We may never know but it likely doesn't hurt gold's popularity. Lastly, gold is sometimes considered an inflation hedge and if you've put gas in your car or been grocery shopping you know inflation is taking its toll. Right now funds flow appears to be chasing oil stocks as the inflation hedge but once portfolio managers hit a certain threshold of oil exposure they will look elsewhere. Perhaps that could be a tailwind for gold, but this is the factor I have the least confidence in.

So what does it all mean? Putting a bunch of mixed and random thoughts together has led me to believe that junior gold mining explorers may be getting unduly punished right now by a market full of uncertainty bordering on fear. However, the opportunity is not broad based. You want to look at companies with cash to fund future drilling because if they don't have the money right now, you don't want to be out raising capital at 52-week lows. Preferably you want to find companies with active drilling underway so you don't have to wait too long for news to come along but having cash is the #1 priority.

Here are a couple of ideas in no particular order, including Troilus Gold Corp. (TSX: TLG | OTCQX: CHXMF) and Westward Gold Inc. (CSE: WG | OTCQB: WGLIF), that meet the criteria of cashed up and drilling like mad.

How to Play the Coming Market Cleanup – Including Five Names To Watch

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Broad markets are down this week in a wide, deep selloff. Or for optimists out there it's a general cleanup across the spectrum, punishing the overly ambitious. Gold is down too, as I'll discuss below.

Here's what's going on, and towards the end I'll list five "mine and minerals" ideas on how to play it all.

First, and obviously, markets have declined based on negative sentiment. And why? After all, is there any good news out there? Consider:

- War in Ukraine, rapidly emerging as a new, generational East-West struggle.
- Structural, built-in inflation across every economy in the world.
- High oil and natural gas prices, with production and supply issues worldwide that have translated into shortages.
- The nat-gas shortages have led to a lack of fertilizer which – rolled in with high oil/diesel prices – foretells of eventual, widespread food scarcity.
- All of the above, while the global cargo ship economy

remains mired in clogged ports, amplified by Covid shutdowns in China.
- And people have finally caught onto the racket of those high flying, profitless tech companies with business plans that lose money, seemingly forever.

I could go on, but you get the picture. It’s a mess out there and getting messier. Not exactly the foundation of a booming global economy as 2022 unfolds.

So yes, people feel negative, sell out, and go to cash. They de-risk, so to speak.

Which brings us to gold, which is sliding. And here’s the quandary: Why sell gold into a de-risking market? Gold ought to represent long-term security in a time of risk, right?

The sell-side argument is that interest rates are rising, and rising rates raise the carry cost for holding gold. That is, physical gold is “just metal” and doesn’t pay a dividend. So, every ounce in the vault is a missed opportunity to generate cash. And the imputed loss on gold (i.e., versus holding cash) is greater when interest rates are high.

It’s not difficult to understand the argument, but I don’t buy it. Because look at the situation from a different angle.

Per the U.S. government’s own statistics, inflation is running in the 8.5% range – and the true number might be twice that if you follow what is called “shadow statistics.” In that respect, holding cash also has a cost, namely that 8.5% inflation rate (or more) per year of vanishing purchasing power.

Here’s the investor choice: hold cash and generate minor amounts of interest in an environment of rising inflation. Or hold gold and protect the wealth basis against declining purchasing power over time.

Indeed, the Fed threatens the world with small interest rate increases of 0.25% or even 0.5%. Okay, but that's insignificant when compared with the 8.5% (or more) declining value of cash.

So, why have people sold gold down in recent days? Well, sometimes you don't sell what you want to sell. You sell what you have to sell. Like if you need fast cash.

You sell gold because it's liquid and always catches a bid. That's not necessarily the case with many other investment ideas.

During market sell-downs the price of gold often drops early, such as when overstretched people need cash to cover margin calls. But after that early tumble, gold tends to be among the first plays to recover on the other side of the selloff and cleanup.

Along with the declining price of gold, metal miners often head down too. Good companies drop in value for no good reason. The list is long and includes names that hold great assets with serious ore in the ground, coupled with excellent geologic work, facilities, workforce and management teams.

There's no saying how long the current selloff will last. Will the market find a bottom and then head back up? Or will more downside yet unfurl? Nobody really knows, and things can change in a matter of hours.

But along these lines, I have five names for you, companies in the gold and related metals space that have tumbled in recent days into bargain-hunt land:

One great up-and-running metal miner is **Avino Silver & Gold Mines Ltd.** **(NYSE American: ASM | TSX: ASM)**. This company has operated near Durango, Mexico since 1968. The ore body is a deep-running series of veins that were first discovered in 1548 by Spanish explorers/conquistadores. There's a full package of mineshafts, mills and processing facilities. Much of the operation was closed during Covid, but it's all getting back into production. Ore grades are excellent, with continuing discovery as mining progresses. Plus, an offtake agreement with Samsung for all the metals.

And here are a couple of names for companies well-along in the exploration side, with superb results to date and great prospects ahead:

Take a look at [American Pacific Mining Corp.](#) **(CSE: USGD | OTCQX: USGDF)**. This company controls a major copper exploration play in Madison, Montana and is partnered-up with giant Rio Tinto to explore a skarn-porphyry, mineral-bearing body. Progress – meaning mineralization uncovered – has been excellent over the past 18 months, with numerous unreleased drill results still to come. Meanwhile, Am-Pac holds 100% of two other outstanding, high-grade, near-surface gold plays in hard-rock mining country in Nevada.

And look at [Group Ten Metals, Inc.](#) **(TSXV: PGE | OTCQB: PGEZF)**. This is another company that works in the nickel-platinum belt of Montana, adjacent to property controlled by Sibanye-Stillwater. Group Ten controls a vast land package and has had remarkable success identifying high-grade zones of copper-nickel, along with platinum group metals, gold, silver and even chrome. Indeed, it's a "battery metals" play from numerous angles.

For early-stage gold exploration, look at [TRU Precious Metals Corp.](#) **(TSXV: TRU | OTCQB: TRUIF)**. The company works in Newfoundland, in a highly prospective gold-copper belt. Its neighbors include two well-known names, Marathon Gold and

Newfound Gold Corp., and TRU is directly on the geologic trend that connects these other two plays. Early sampling, mapping and geophysics are promising, with drill results offering strong promise.

And finally, another early-stage explorer, **Romios Gold Resources Inc.** **(TSXV: RG | OTCQB: RMIOF)**. This is what geologists call a "hip pocket" play, an intriguing collection of historically explored and mined projects across Canada and in Nevada. Right now, the focus is on two high-grade works that were picked in the olden days, but abandoned to the mists of time due to low-priced gold. Modern geophysics and drilling reveal significant new mineralized zones. Romios is a small-cap play, but with the ability to move on news from the drill deck.

That's all for now… Thank you for reading.

Is it time to invest in Gold, or maybe just in Gold Miners?

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It seems like nowadays when we start a conversation about investing in gold one has to also include commentary on Bitcoin. There's no doubt some investment funds that traditionally found safe haven in gold have drifted over to the much more volatile domain of cryptocurrencies. That's just part of the evolution of the market and, as an investor, one has to adapt. Nevertheless, I will argue that whatever the reason you have for putting a portion of your portfolio into gold or cryptocurrency, you definitely need to have a strong stomach to manage the day-to-day gyrations in Bitcoin, Ethereum, for example, and the like. Not that gold doesn't have its moments, like the weekend of August 6th when it essentially plummeted 7% over the weekend, but that was relatively short lived. Arguably gold has traded in a range from $1,700 to $1,950 for the last year. Bitcoin on the other hand has a one year range of roughly $10,000 to $63,000. I dare say a bit of a difference.

Now before you start complaining and telling me to go get my walker, because I'm a dinosaur and haven't kept up with the times, I need to point out that this isn't an article about the merits of gold versus crypto. This is solely an article about exploring the potential of investing in gold currently and that's it. The commentary on crypto is simply to highlight that gold may not be the "go-to" alternative investment it once was. Perhaps Bitcoin et al are attracting some of the same investment dollars meaning that maybe gold doesn't have the same upside it could have had in a different time…or maybe it does, we'll have to wait and see how that plays out.

Another topic I'm not going to delve into is the merits of having gold in your portfolio as a safe haven investment or hedge against inflation or whatever. I'm not a gold bug. I'm just an investor. And as such it's good to know things like: gold tends to have a negative correlation to the US Dollar; generally speaking, it usually doesn't go down as much as equities in times of crisis or market meltdown (although that's debatable in more recent times); and that as a finite resource it cannot be printed like a fiat currency. But ultimately, for something like gold, I'm simply looking at charts and momentum and the like because it's tough to review the fundamentals of most of the above items that tend to affect the price of gold in order to come up with an investment thesis other than technical analysis. Gold miners on the other hand are a completely different story but we’ll get to that.

At present, I would suggest gold looks OK. Not outstanding, not screaming “buy me”, just OK. If we look at the 1-year chart below we see support levels at $1,770 and $1,675 with upside to potentially test $2,000. Depending on your risk tolerance you could buy it now, put in a stop loss around $1,750ish and have a decent risk-reward trade. On a bullish note, it recently broke above both the 50 day and the 200 day moving average, but is struggling to sustain those thresholds. So I’d give it another day or two to see how that plays out. If the price can rally back above $1,850 for a couple of days I would change my tune and say now we’re talking about something a lot better than just OK. In the meantime, it has piqued my interest as it appears to be a trade with more upside than downside.

Source: StockCharts.com

Having a strategy for the underlying commodity now allows us to look at the miners for additional opportunities. In my opinion, here is where things get interesting. The two charts below show the commodity price (red line) versus the gold miners (blue line) represented by the VanEck GDX ETF and the junior gold miners (green line) represented by the VanEck GDXJ ETF. Albeit, what the GDXJ ETF considers “junior” miners and what I consider junior miners may differ, you’ll still get the point.

The first chart is a one year comparison of the three in terms of relative performance, as in they all start at 0% return on day 1. The second chart shows what has happened since the start of June, when gold tested $1,900 but couldn’t decisively break above. As you can see both the miners and the junior miners have significantly underperformed the underlying price of gold over the last year, primarily in the last 3+ months.

Is this underperformance a result of the miners leading the gold price and should one anticipate gold to drop significantly? Or is it an opportunity to get long the miners right now because they have been unfairly punished relative to the price of gold?

What I do know is that almost all gold producers are making money hand over fist with gold over $1,750. One would think that as balance sheets get cleaned up with all that cash generation, as long as the sector as a whole doesn’t revert back to old habits of overpaying for acquisitions when the coffers are full, we could start to see more share buybacks or dividends or a whole bunch of drilling to expand existing resources or define new ones. All of which should be quite bullish.

Ultimately an investor can play this however they like. I know I’m taking a lot closer look at the junior gold producers right now as I think there could be an opportunity there.

Goldplay’s Fonseca on discovering a new high grade gold zone

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“The name of the zone is Nava. It is important because it is a brand new target that is 1.5 kilometers from the resource area. The resource area is a silver open-pit high-grade, but this is gold, the new discovery, and shows to us now that we have a multi-commodity concession, gold and silver, which is the core business of the company.", States Marcio Fonseca, President, CEO and Director of Goldplay Exploration Ltd. (TSXV: GPLY | OTCQB: GLYXF), in an interview with InvestorIntel's Tracy Weslosky.

Tracy Weslosky: I have to say I love your shareholders. They are enthusiastic gold play owners. Everyone is talking about your latest news release. How about we start there with your latest new gold zone that you have discovered and let us talk about the highlights?

Marcio Fonseca: The name of the zone is Nava. It is important because it is a brand new target that is 1.5 kilometers from the resource area. The resource area is a silver open-pit high-grade, but this is gold, the new discovery, and shows to us now that we have a multi-commodity concession, gold and silver, which is the core business of the company.

Tracy Weslosky: One of the items that was brought to my attention is that you can actually see visible gold on surface. Is this correct?

Marcio Fonseca: Oh yeah. That is very important. Good point. When we were doing all the exploration on surface we identified a series of old workings and tunnels going through the mountain. We realized for those old miners to go there and really be chasing gold something must be there. We some field workers that have a lot of experience about panning gold and we decided to pick up rocks all over the hill, inside the tunnels. We came across a lot of visible gold when we crush and panned the gold showing that there is a really good gold target in the area. We put on the news release a photo that shows that we have gold in the target.

Tracy Weslosky: We recently did an interview with gold bug expert and he was telling us what high-grade gold actually means. It is quite significant that you can see this visible gold at surface. Is that correct, because this is quite unusual?

Marcio Fonseca: Yes, because it shows that there is a lot of gold in the system. Because most of the deposits, the gold deposits have gold, but the gold is really fine.

Tracy Weslosky: Okay.

Marcio Fonseca: Micro sized. This is like we are crushing the rock, put in water, and pan it and you can see the streams of gold coming from the rocks.

Tracy Weslosky: Okay, so that is quite incredible based on my understanding of gold exploration. Also, I was reading that you have 3 old tunnels at Nava, 2 connected along 300 meters. I honestly do not know what that means, but I have been told this is really impressive. Can you tell us a little bit more about this?

Marcio Fonseca: Yes. When we first identified the target we saw this prominent hill, a lot of rocks altered red and we said something might be there. When we went to the site we identified all these 3 tunnels; very narrow tunnels, 1 meter high, half to 1 meter wide. We decided we need to explore inside of these tunnels to see where they go. We realized that one tunnel connects with another one showing that the target has at least 300 meters of extension to start with. The vein system that is outcropping in one tunnel side goes to the next side of the mountain showing that the potential is not just a narrow vein…to access the complete interview, click here

Signature Resources' Leliever on securing gold drilling results that 'were better than we anticipated'

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Recently during PDAC 2019, John 'Johnny' Lelievre, Prospector and Founder of Signature Resources Ltd. (TSXV: SGU | OTCQB: SGGTF), shared Signature Resources' competitive advantages with InvestorIntel's Tracy Weslosky.

Tracy started by asking about recent drilling results. Johnny replied with: "We were not only pleased, we actually had results that were better than we anticipated and that has driven us to this next program that we are going to start within weeks….we are going to drill another 1500-2000 meters and we are going to target some really high grade areas that have been under drilled…"

Signature Resources Ltd. is a Canadian gold exploration company with advanced and early exploration assets. Its core asset is the Lingman Mine Project encompassing the Lingman Lake Gold Mine with an historic estimate of 234,648 oz of gold, and two new early exploration projects: Lingside West and Lingside East. All three projects are located in the Lingman Lake greenstone belt of northwestern Ontario. Signature is poised to advance and expand these projects centering on targeted diamond drilling of the high-grade gold zones at the Lingman Lake mine.

To access the complete interview, click here

Disclaimer: Signature Resources Ltd. is an advertorial member of InvestorIntel Corp.

West Red Lake Gold's Kontak on the 'positive' gold sector

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"I think that the macro picture is in place for a positive gold sector and we think that is the case for the next extended period of time. Now on the junior level, junior developers like us, we are getting $13.00 an ounce in the ground based on our resource estimate at the Rowan Mine. These things are going to get revalued at some point. Historically they will get 10 times what they are getting right now per ounce in the ground. We think there is a positive situation ahead in the precious metal sector including gold exploration and development companies like ourselves." States John Kontak, President and Director of West Red Lake Gold Mines Inc. (CSE: RLG | OTCQB: RLGMF), in an interview with InvestorIntel Corp. CEO Tracy Weslosky.

Tracy Weslosky: Your stock moved up 27% last week on no news. Do you think investors are looking at gold again John?

John Kontak: Of course we are happy to see the movement in our stock. The question would become, I think to some extent, does it look like 2016 again when the gold peaked at $1,900.00 in 2011 and then we went into a bear market in the gold sector including the juniors? It kind of turned around in 2016. Let me answer that on a macro level and then relate it to the junior sector. On the macro level I think the price of gold in New York right now is being determined by the Federal Reserve policy. They have been increasing interest rates at 25 basis points. That has created a strong U.S. dollar and a weakness in the gold sector. But, there are only so many interest hikes ahead. For every 1% on the T-bill there is $220 billion dollars of interest given that the U.S. is now under $22 trillion dollars of debt at the national level alone. Regardless of what has happened last week, I think that the macro picture is in place for a positive gold sector and we think that is the case for the next extended period of time. Now on the junior level, junior developers like us, we are getting $13.00 an ounce in the ground based on our resource estimate at the Rowan Mine. These things are going to get revalued at some point. Historically they will get 10 times what they are getting right now per ounce in the ground. We think there is a positive situation ahead in the precious metal sector including gold exploration and development companies like ourselves. We are happy with what happened last week and we think there is more of that ahead.

Tracy Weslosky: InvestorIntel audience members out there, we have a bit of a buzz going on with a belief that some of the cannabis cash will be redirected into gold here shortly. We have asked John, because, of course, West Red Lake is in one of the richest gold deposit areas in the world, correct?

John Kontak: Yeah. Just to remind your listeners, we have the West Red Lake Project property. It is a 3,100 hectors on the west side of the Red Lake Gold District. We have 12 kilometers of strike length on the Pipestone Bay St Paul Deformation Zone, the regional gold bearing structure that has made the Red Lake Gold District a high-grade gold district that has produced 30 million ounces over time. On the West Red Lake project there are 3 former mines. We have the Mount Jamie Mine and the Red Summit

Mine; we own 100%. On the Rowan Mine, which is the most developed portion of our property, we own 60% and operate in Goldcorp, one of the largest gold producers in the world that was founded in Red Lake, Ontario, has 40% and they fund their 40%. We have a resource estimate at the Rowan Mine property. It is 1.1 million ounces graded at 7.6 grams per ton…to access the complete interview, click here