Are juniors poised to rally in coming weeks or months?

Two articles on August 11th, the first in the Wall Street Journal, entitled, “Hedge Funds are Digging Gold Miners,” elicited a thought process that I believe is interesting. To be clear, the WSJ article was focusing on large hedge funds and large gold mining companies. However, the thesis certainly applies in many respects to juniors and not just gold companies. Further evidence of a more bullish stance to natural resources was the news that **Franco-Nevada** and **Sandstorm Gold** have entered into a US$120-million stream financing agreement with **True Gold Mining** to assist in funding the construction of the Karma Project in Burkina Faso, West Africa. True Gold is targeting first gold pour at Karma by the end of 2015. Of course, for Franco-Nevada and Sandstorm Gold this is what they do for a living, extract a pound of flesh from juniors in need of development capital. However, these companies haven’t been “going long’ gold in this matter for some time. Do Franco and Sandstorm see a rebound coming in gold? In fact, this hitting the tape– Franco-Nevada just announced a $500 million equity raise. Actions speak louder than words.

Majors frequently lead the way forward…the last time Franco did a deal anywhere near this size was 8 months ago, with **Teranga Gold**, located in Senegal. Franco-Nevada is a $9 billion company. Is it just me or is it possibly telling that Franco finds itself investing in Burkina Faso and Senegal as it’s two main deals in the past 8 months? Why those relatively higher risk countries (compared to the U.S., Australia and Canada) and why now? Perhaps Franco and Sandstorm recognize not necessarily that the gold price is poised to spike next week or next month, but that gold may have bottomed and is more likely to go up than down over the next few years. M&A is frequently a sign of a change in sentiment.

The hedge funds digging gold again are buying majors, but that’s often the first move before buying of juniors occurs. One last example, similar to the two above– in June, **B2Gold** announced a $570 million acquisition of **Papillon Resources**, also located in Mali. What’s so great about Africa? Anyway, I think that B2Gold paid a pretty full acquisition price of roughly $125/oz of Measured, Indicated and Inferred resources, especially for a company that’s 2 years from initial production. Reading between the lines, the real story might be that mid-tier and major producers are starting to look at their production profiles from 2016-17 on. There are going to be shortfalls in production as these companies have curtailed production and exploration and even development of projects with all-in costs north of $1,200. Astute readers may be scratching their collective heads and wondering who has projects with all-in costs that high? Well, when the gold price was above $1,800/oz a few years ago, several high cost projects, in Northern Canada and Australia surely, among other places, surely did. Those particular jurisdictions are frequently quite remote and require tremendous time, capital and logistical magic to make things work.

Is now the right time to revisit the juniors? A takeaway for junior miners is that M&A and investments from hedge funds and even Private Equity capital is becoming less scarce. Make no mistake, it’s not a seller’s market, but we have to walk before we can run. I would also note that the timing, a few weeks before Labor day in the U.S. is potentially important. Not that the M&A and investments are occurring near Labor day, but sometimes juniors have positive movements in September/October as hedge fund Portfolio Managers return from lengthy vacations. Now, I’m not pointing to any charts and I’m not a technical trader by any means. And believe me I know, it’s depressing to look at some of your longer-term holdings…But September and October can be interesting months because the market is so dead in July and August. Still, the key is what happens in November and December. Of course, I don’t know, but I suspect that tax loss selling this year will be less severe than last year. If there’s an attempt at a meaningful rally in the juniors starting in a few weeks, will it run out of steam in October or carry through to December? Could we see a melt-up in juniors in September-December?

With a bear market like we’ve had over the past three years, the next few months seems like a good time for investors to attempt a bullish move in the juniors. What about January and February 2015? Even those months carry some degree of significance. Even if we get choppy trading instead of a bullish move in September-December, early in a new year institutions are more likely to take on riskier positions because they have the whole year ahead of them to make up for mistakes. Some Funds become risk averse in the 4th quarter of a year. Why? To protect their bonuses! It would not take all that much capital to move many of the juniors who’ve been beaten down the most. Finally, I believe there will be a counting rotation out of the zombie juniors into the ones with cash and real projects.

Conclusion: It’s a matter of when not if. The timing remains unknown, but I would bet starting next month through the first quarter of 2015 could be a good time to be closely watching for buying opportunities. A joke in the market is that PDAC Toronto in March frequently marks the top of the market for juniors. To a large extent, it happened last year. Still, many (not all) uranium, gold, silver, coal, iron ore, graphite and potash stocks had nice rallies leading up to PDAC. Finally, one still has to be prudent and diligent in picking good companies, not just the most depressed ones. And, don’t bet the farm on any single company or sector. I’ve been there and done that, it can lead to some serious marital stress!