



How to Make a Small Fortune in Mining Stocks



"If you don't know the first thing about mining stocks and would like to learn - I can teach you how to play this game for the maximum profit!"

**... By James L. Rapholz
Editor, Economic Advice**

How to Make a Small Fortune in Mining Stocks

By James L. Raphael
Economic Advice

Can the average working stiff make a small fortune in mining stocks? Yes – it can be done. I did it in the last gold bull market – I’m now in the process of doing it all over again & I can show you how to do it. All you have to do is follow my simple instructions and forget the worthless advice that your Mother-in-law, your no count Brother-in-law and Sam the bartender have in store for you... It’s as simple as falling off a log and the hardest thing you’ll ever do, all rolled up into the same animal. Intelligence and patience are like a man and a woman in a marriage contract – you need both parts if you want to make a big pile of kids!

So here we sit at the end of the year’s first quarter – gold was up 17% last year while the rest of the market went sideways and now it’s up another 11% – in just three months!

The smart money says that gold will be trading for at least \$700 by the end of 06 – up another 18% and will be selling for \$2000 within five years – up nearly another 300%.

None the less – we’re still left with the same old question and the same old problem – how can the average Joe Sixpac or Sally Allgood make a killing in mining stocks?

I’ve read this one at least a hundred times and you probably have too – “If you own only one mining stock it should be Newmont Mining – the world’s biggest.” There has never been any better advice given when it comes to mining stocks – it was true fifty years ago – it was true last year and it is still true at this very moment in time. Even though Newmont is trading for about \$60 today – there’s still about a 100% chance of doubling your money in Newmont – over the

next five years. And of course there’s Glamis which I recommended about three years back for \$2. This one is trading for about \$30 today but – there’s a very good chance of doubling your money in this one too.

That said – let’s get back to making a small fortune off this gold movement; can the average sap make ten times his investment over the next five years? Yes – real fortunes have been made in mining stocks and some people of relatively modest means have become millionaires after taking a relatively small whirl in the game.

The real money in mining stocks has been made in the *exploration companies with proven reserves in the ground – but are not in production yet*. And – anyone – in this business who has half an idea of what he’s preaching about – will tell you the same thing unless he’s got a self-serving reason to tell it differently! The big money will be made for two reasons:

(1) When the exploration companies eventually raise enough money to become producers, their price then will be based on expected profitable production on proven reserves, not just the value of the known or suspected metal in the ground; and

(2) Even though the production company may never go into production itself it may be bought out by one of the big producers, again transforming the value of the gold in the ground to a predictable profitable commodity.

One thing to remember about mining is that unlike most classes of stocks, the price is commodity based. In order to make money in mining stocks, and keep the odds in your favor or pick a winner, you merely have to be right about the direction of the underlying commodity – gold or silver – and at the present time it’s up and the future outlook is up

even more!

That’s not true of most other stocks. For example the price of Toyota or Ford is not based upon the cars that they sell; it’s based on potential profits, from past or projected sales. However, when you are deciding to buy a mining stock, you just look to the underlying prices of gold and silver and their future trends.

Penny mining stocks with no proven reserves, but only potentially profitable properties, and perhaps some preliminary drilling results, are not just the last to move; they are ultimately the best movers, because there is no basis for placing a limitation on their future. You are simply betting on management’s very optimistic economic assumptions with no ceiling in mind!

Eventually, even the holes in the ground surrounded by liars will move, as speculators jump in with both feet, hoping not to miss out on the next Newmont or Glamis!

This is Bull Market Time

In a precious metals bull market, a relatively small investment in a cross section of speculative mining stocks can result in many times your money. I am not talking about a 5 or 10% return here. I’m suggesting a return in hundreds of percent.

During the last gold bull market in the 70s and early 80s, fortunes were made. During the long bear market, fortunes were lost, but this is again bull-market time.

The best way to bet on exploration companies with proven reserves is to start reading everything that you can get your hands on that pertains to the subject. Because you don’t know which ones will be the winners, you need a broad portfolio. I would suggest investing in approximately a dozen stocks that fit this category. After

your initial purchase you can refine your portfolio down as time goes on increasing your bets on the ones that are moving up, and reducing your bets on those that are falling behind the curve.

This is basically what I've been doing with my money since I detected the beginnings of a new precious metals bull market about three years back. I started with about \$50,000 and have tripled it to this point. You can start with as little as \$6000 invested in a dozen different stocks – you won't make a million but you'll get a terrific appreciation. A good source for finding promising gold mining stocks is *The Bull & Bear Financial Report*, www.TheBullandBear.com. All of the following companies are suitable for starting a new portfolio that fits the formula's criteria and I do not favor any one of them over the others. This list of stocks is only a sample of those that are out there but, to find the rest of them you'll have to burn a little of the midnight oil. I own some of these stocks.

Cusac Gold Mines Ltd., (OTC BB: CUSIF \$0.22), Toll Free USA 800-665-5101, Toll Free Canada 800-670-6570, www.cusac.com.

Golden Eagle International, Inc., (OTC BB: MYNG \$0.03) 1-800-619-9320, www.geii.com.

Silverado Gold Mines Ltd., (OTC BB: SLGLF \$0.14), Toll Free 800-665-4646, www.silverado.com.

Pacific Gold Corp., (OTC BB: PCFG \$0.31), Phone 416-214-1483, www.pacificgoldcorp.com

Liberty Star Gold Corp., (OTC BB: LBTS \$1.20), Phone 520-907-9492, www.libertystargold.com.

Columbia Goldfields, Ltd., (OTC BB: CGDF \$2.25), Phone 604-601-2040, www.columbiagoldfields.com.

If you choose to invest in the above stocks – by all means – roll up your shirt sleeves and do a little homework first. Go to the Web and get all the information you can dig up – then call for investor's kit. After you've studied everything available to you – make a list of all the questions you have and then call the company's investor relations department.

This is what I'd really like to have you do: Just as soon as you have the opportunity, research the market and purchase about a dozen mining stocks which have proven reserves in the ground but are not yet in production. You don't have to fly into a wild panic but at the same time – don't fall asleep on the job. Time is wasting because as the price of gold continues to rise,

more and more small companies are able to secure the financing required to go into production – leaving less stocks that fit the formula.

After you have made your investment – don't look at your portfolio every day or even every week. Two times a month is often enough. If you watch every wiggle (every time a stock goes up three cents or down four) you'll become punch drunk – so don't do it! After the first month – you should start to see a pattern forming where some stocks are moving up faster than the group and others are falling behind the pack. On a monthly basis start making approximately one trade a month where you sell a laggard off and add that money into one or two of your leaders. You don't have to rush – and it isn't necessary to make a trade each and every month. I would say that within a year you should have condensed your portfolio down to four or five of the leaders – after you've accomplished that – you've completed the easy part of the project.

Do Nots of the Game

With that said – now comes the hard part. To win at this game you'll have to hang onto your portfolio and your conviction with all the courage that your mind and body can muster up! Don't let anyone sway you from your goal and you'll get all the rewards that you're after. Here are some of the things *Do nots of the game*. Don't discuss your precious metals portfolio with stockbrokers. By and large you won't find a broker who knows the slightest thing about mining stocks and cares even less. Remember – the last bull market in precious metals took place twenty five years ago and most of today's brokers weren't even out of grade school yet! The vast majority of brokerage houses don't trade precious metals stocks – so they don't carry any inventory – they can't make any big money – so they shun mining stocks! If you call the average broker he'll most likely try to trade you out of your mining stock portfolio and into some other area where his firm makes markets and he gets a fat commission.

By all means don't discuss your mining stock portfolio with people that don't know the slightest thing about the subject but, are very willing to give you an abundant amount of misplaced advice – you'll just end up with a big fat headache!

Some of the worst advice you'll be able to solicit will come from those who have tried playing the game and

lost and there is nothing like a sore loser! The guy probably didn't know what he was doing – shouldn't have been there in the first place – and still hasn't figured out where he was or why he lost his money!

Don't let the corrections in the market scare you out! Precious metals have had a tremendous run up in the last three years and the market has and will continue to correct. A seventy-five point correction on the Dow will very likely cause some or all of your small stocks to correct as much as 15%. I'll be the first one to admit it's scary – sometimes it's real scary – and sometimes it even shakes a veteran investor like me up a bit – but don't let it chase you out! Remember the market reacts to two common human emotions – the players are sucked in by greed and chased out by fear. However – no one ever died from fear – it won't kill you and it won't hurt you – it's only a human emotion like feeling hot or cold – so don't run from it!

My last piece of my advice on the do nots of the game will – without doubt – be the hardest one to follow. Do not trade your portfolio for short term gains. It is extremely hard to stay away from trading and trying to time the markets movements. If you learn how to time the movements of the mining stock market – you'll be the first. Up until this point – it has never been done with any amount of consistent accuracy because this market operates on the basis of greed and fear – so the market will do what it wants to do – not what you want it to do! If you try timing the market – you're going to get so confused – you'll lose track of your ultimate goal of making a small fortune – so don't do it! With that said – I'll be the first one to admit that it's very easy to double your money in a penny mining stock and it's extremely tempting to take a quick 100% profit. However – those types of profits usually take place in a rally that sets a new price floor under the stock you sell and, you may have to pay more than you sold it for to get back in again or lose out on owning it completely.

In summation – if you decide not to follow my advice on all the things not to do – your end result will be something like the following example: Joe Sixpac wakes up Monday morning with a bellyache. He spends the week visiting six different physicians and receives six different medications for his pain. He takes all six of those vile concoctions and by the time Sunday

comes around – he’s got an even bigger bellyache, a king size headache – and he’s out of pocket a couple a thousand of his hard-earned dollars to boot!

How will you know when the ultimate time to sell arrives? 99.9% of you will never know – so don’t even try to figure it out. That’s what you pay me for. I’m good at what I do – I’ve had far more experience at the game and made money at it than most of the people in this business but – even with that said – I still won’t be able to get you the absolute top! Usually – the ultimate top for any market or stock consists of just one trade and catching that one, my friends, is like the old adage of finding a needle in a hay-stack! However – if you’ll do as I tell you to do – or do what I’m doing – and try not to second guess me – I can tell you from first hand experience that your pockets will be an awful lot fatter five years from this date.

Now – that you are in possession of my formula for marking a small-fortune-in-mining-stocks, you can do as I say – do as I do or do as you damn well please – but regardless of the path you take – may the wind be to your back as you pockets overflow with gold.

Thought For Today

“There are two ways to slice easily through life; to believe everything or to doubt everything. Both ways save us from having to think.” – Alfred Korzybski (1879–1950)

My “poor excuse for a market letter” – like any other market letter – should be considered as just a tool to help make your investment problems and decisions a little easier. Please don’t take my words to be the absolute and ultimate answer. That answer can only be found within your individual brain because everyone’s problems and desires differ from the next guy’s.

Gold mining stocks are going to be nothing but a gold mine in the coming years. The intensive globalization that our world is going through is leading to low headline inflation rates. All of the governments of the old industrialized economies are running huge fiscal deficits that their central bankers are fueling with untold amounts of cheap-paper currency! Then – on top of that

– not one country in the world wants a strong currency – so what we have is competitive devaluation – which is adding an untold amount of energy to the world’s smoldering inflationary forces. So our world will be living with cheap money and low real interest rates for several years to come.

Historically – gold has performed best when real bond yields and money-market rates were low or negative – which is what’s going on in most of the industrialized world at the present time. One should take into serious consideration the fact that GOLD is a very small market in comparison to stocks and bonds. The total market value of all gold-mining shares is just a little over \$100 billion. That figure is only about a third of Microsoft’s market value. To this point in time – a little more than 50% of all the known gold that the world has to offer – has already been mined. That is equal to about 130,000 tons, which has a total market capitalization of \$2 trillion.

The Biggest Risk in Gold Today Is In Not owning It

The biggest risk in gold today is in not owning it! This precious metal has been rising in linear fashion from the low of 2001 – but the gold stocks have gone sideways from late 03 to late 05. Gold mining stocks are now sitting where oil and oil shares sat two years ago – *ripe to explode!*

You must keep your mind open to the fact that you don’t buy gold mining stocks on the basis of current earnings. If you are investing in gold stocks with 20/20 vision – you’re buying them for the stuff in the ground and what it’s going to be worth in the future. The cost of inflation in mining is running at about 20% a year. That has created a problem in the last two years – particularly in South Africa – where the currency has had a big increase in value. This caused the closing of several mines in turn helped push up the price

of gold.

At the present time – there is virtually no enthusiasm for investing in gold. Surveys have shown that the professionals are bullish on gold – which you might say is actually bearish! Try this statistic on for size: Only 4% of the money in Fidelity’s sector funds is in precious metals – up from 1% at the bottom of 2002! However – you can rest assured that this too shall change – at any rate – it always has! I don’t know at what point it will take place – but the change will come and it’ll come almost over-night! It may take place when gold reaches \$700, \$800 or \$1,000. One evening you’ll end up at a cocktail party where everyone will be talking about gold instead of housing prices, because there’s one thing that never changes in mankind’s makeup – it’s called greed. Now – you’re fortunate enough to be in this game – early enough – to make yourself a respectable pile of money at it and you’re no more than a damn fool, if you let this opportunity slip away from you!

Supply/Demand Sector

Now let’s take a look at the supply and demand sector: Gold’s use in jewelry accounted for approximately 2,950 tons in 2005 – central banks in the emerging economies and industry soaked up 300 tons – hoarding got 250 tons, ETFs 300 tons, coins 130 tons and hedging reductions accounted for 200 more tons. Then we have the supply side of the coin – mining production was 2,500 tons, scrap brought in 850 tons and official central bank sales were limited to 500 tons. This resulted in a deficit of 280 tons of gold for 2005. If you start looking at the big picture you’ll begin to see nothing but an explosion in the price of gold in the not to distant future! It’s all out there kids – so grab a nice piece of it for your self!

Editor’s Note: James Rapholz is editor of Economic Advice, 3910 NE 26th Ave., Lighthouse Point, FL 33064, 1 year, 12 issues, \$149. E-mail with updates, \$99. James Rapholz is the world’s only gold advisor who successfully launched two mining companies. To read a free market letter visit www.economicadviceinc.com.

ECONOMIC ADVICE



J.L. RAPHOLZ, B.A., M.S. ECONOMICS

...The only market letter editor
to successfully bring two
mining companies public!

James L. Rapholz – America's independent authority on free market economics, precious metals, and personal investing. The world's only gold advisor who successfully launched two mining companies from scratch and brought them public.

Before getting involved with gold and silver – Rapholz lived off the stock market as a professional investor and has written stock market advisory letters for the past 20 years.

He started and managed a mutual fund that traded natural resource stocks for three years. Rapholz also taught economics on the college level.

Because of his 20 years of mining experience, He can give you a close-up, hands-on perspective that you can only get from a mining professional. When it comes to picking mining stocks, He digs just as deep into the financials, plus he knows the right questions to ask to determine if it's a golden opportunity or a bust.

On the other hand, his BA and MS degrees along with his university economics teaching experience has trained him to focus on the larger economic view of those forces that are affecting the economy as a whole and the market for gold in particular.

It's this unique blend of education and real-world experience that helps Rapholz unearth the world's most profitable precious metals and natural resource stocks.

"IF YOU DON'T KNOW THE FIRST THING ABOUT MINING STOCKS & WOULD LIKE TO LEARN – I CAN TEACH YOU HOW TO PLAY THIS GAME FOR THE MAXIMUM PROFIT!"

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