Landmarks You Can Invest In

By Jeffrey R. Kosnett
Kiplinger’s Money Power

The owners of the Empire State Building are creating a real estate investment trust that will own the crown of Manhattan’s skyline. If you buy into Empire State Realty Trust (ESB), which is due to begin trading later this year on the New York Stock Exchange, you’ll own a piece of what is arguably the world’s most famous office tower.

We wondered what other landmarks you could own through REITs or regular stocks, and it turns out there are a bunch. We identify three more investor-owned landmarks worth considering. For a longer list, visit http://kiplinger.com/links/landmarks.

Churchill Downs, Own it by investing in: Churchill Downs Inc. (CHDN: $59; Yield: 1.0 percent). The company owns the namesake racetrack that has hosted the Kentucky Derby since 1875. Churchill Downs is the cornerstone of a gambling and racing mini empire that includes tracks in Chicago, Miami and New Orleans, a casino in Mississippi, and slot machines in Florida and Louisiana. The stock doesn’t keep pace with the faster horses, but the Churchill Downs company did just raise its annual dividend by 20 percent, to 60 cents per share. The company is trying to persuade the state of Kentucky to let it install a casino at its hometown horse track, which might turn a buck or two given that 150,000 people show up every May for the Derby. Churchill Downs has already installed slot machines at Continued on page 10
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“Top Picks” for new money

Nate Pile’s top picks this month are Affymetrix, ProShares UltraShortQQQ, and SPDR Gold Trust ETF.

“Affymetrix (AFFX) – Though my gut is telling me the odds are currently stacked in favor of further declines for the market before things stabilize again, if it turns out I am wrong (and the market does rally sharply from here), I believe Affymetrix’s stock is currently one of the most attractive in this newsletter based on a combination of momentum and valuation.

ProShares UltraShortQQQ (QID) – If you like to bet on short-term swings (and believe the market is going to head lower before it heads higher), this is the most direct way to play such a decline.

SPDR Gold Trust ETF (GLD) – While there is always a chance that gold will “break down” before it starts heading higher, if it does start to head north in a declining market for stocks, you are encouraged to buy all you can (as history suggests it will mean the next leg up of the bull market will finally be getting underway).”

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LOOKING FORWARD, published for clients of Friess Associates and Brandywine Funds shareholders, P.O. Box 576, Jackson, WY 83001.

Steve Madden at the forefront of fashion trends

Chris Aregood: “Fashion is not only about getting the styles correct. In the fickle world of designer footwear, the right boot is only right when it’s in the store at the right time. Steven Madden sets the industry standard for moving shoes from concept to store display and, in doing so, remains a consistent favorite among fashion-conscious shoppers.

Steven Madden Ltd. (Nasdaq: SHOO) designs and sells fashion-forward footwear for women, men and children. The company markets its brands, including Steven Madden, Betsey Johnson, Big Buddha, Candies, Elizabeth and James, and Superga, at retailers representing a broad spectrum of price points, from mass merchants such as Target and Wal-Mart to luxury retailers such as Neiman Marcus and Saks Fifth Avenue. The company also operates 84 retail stores of its own.

Retail sales tracking data show its Steven Madden brand to be among the top handful in terms of market share in women’s fashion footwear, including the leading share of the juniors segment. Revenue grew 52 percent to $969 million in 2011.

Steven Madden’s ability to regularly hit the mark in terms of design stems in large part from the company’s unique ability to get near-instant feedback on its newest ideas and react accordingly. The company’s main offices include an on-site sample factory that can bring designs to life one day and produce test lots over the next two. The samples are shipped overnight to company stores, where sales over the next two weeks or so help determine whether to launch larger-scale production.

The Friess Associates team spoke to Chief Executive Edward Rosenfeld about the speed and flexibility of the company’s production sourcing network, which includes options around the globe. Steven Madden can introduce a new design in about half the time of its competitors.

The company exceeded estimates with 33 percent December-quarter earnings growth. The Friess Associates team bought Steven Madden at less than 14 times current 2012 estimates.”

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Automation Tooling Systems posts impressive first quarter

Benj Gallander and Ben Stadelmann: “Benj’s pick in The Globe and Mail’s annual “My One and Only” stock picking contest, Automation Tooling Systems (ATS), has punched in an impressive first quarter. It was up over 38.5 percent compared to 4.5 percent for the totals return of the S&P/TSX. Results for the third quarter built upon an already positive trend. Sales jumped 23 percent year over year, with revenue continuing to be nicely diversified both geographically and on a division-specific basis. On the earnings front, the large Q3 2011 loss of $13.07 million was replaced with earnings of $9.54 million this time around. The cash balance stands at over 12 percent of total assets, and debt continues to drop. Cash flow from operations remains negative but has improved tremendously. ATS’s order backlog stands at an all-time high of $376 million, which is a mammoth boost of 75 percent from last year.

Arguably the most important recent development is the sale of the company’s bankrupt solar division in France. This business has been a millstone for a long time, and it got a lot heavier as the bottom fell out of the solar market. In late February, Energies Nouvelles Reparties (EDF) received court approval to purchase the unit. Although the corporation still must deal with the sales of its beleaguered Ontario solar division, this is a smaller ball and chain. The company has received a number of non-binding offers and the key now is to find one that bites. ATS should gain from a revival in global economic output, especially since it is stronger now than it was going into the Great Recession. To dampen the party, keep in mind that this company has run up quickly and no longer has compelling relative or historic valuations. From here on in, ATS has to grow its revenue in a meaningful way, steer clear of solar-style pitfalls, manage its financial position carefully and expand margins along with rates of return. No problem, eh?”
Star Scientific developing dissolvable smokeless tobacco products

Thomas Bishop: “My biggest problem with Star Scientific (Nasdaq: CIGX) is where to start. So let me just shoot an arrow into the bullseye and then go from there. But first, I’ll let Time Magazine paint the bulls eye… from a cover story in 2004: “The Secret Killer – The surprising link between inflammation and heart attacks, cancer alzheimer’s and other diseases.” (Not to mention the more obvious arthritis and aches and pains from back and joint injuries). And from the feature article itself: “Suddenly inflammation has become one of the hottest areas of medical research. Hardly a week goes by without the publication of yet another study uncovering a new way that chronic inflammation does harm to the body. It destabilizes cholesterol deposits in the coronary arteries leading to heart attacks and potentially even strokes. It chews up nerve cells in the brains of Alzheimer’s victims. It may even foster the proliferation of abnormal cells and facilitate their transformation into cancer. In other words, chronic inflammation may be the engine that drives many of the most feared illnesses of middle and old age.” So…what if somebody had a really good inflammation fighter that could combat this stuff. Well…grab a seat.

Star Scientific has developed and continues to test a synthetic nutraceutical compound called Anatabinone, a minor (natural) alkaloid found in tobacco (also found in green tomatoes, green peppers and eggplant) that has remarkable impact on inflammation based on scientific studies and/or anecdotal stories. It has provided tremendous relief from: joint and back pain, arthritis, auto-immune diseases like Crohn’s disease, irritable bowel syndrome, fibromyalgia and thyroiditis, with scientific evidence that it might well also be effective against Alzheimer’s, heart attacks, strokes and cancer, again because inflammation plays a role in all of these. All Holy Grails of medicine… Before I go any further, some terms – Anatabinone is the compound, the “secret sauce.” The Star products it is in that are being sold so far are CigRx and Anatabloc (I’ll get to these in a minute). However, when John Hopkins (which needs no introduction and is conducting trials on thyroiditis) and the Roskamp Institute (which is dedicated to the study of aging and Alzheimer’s disease) are conducting tests on it (at their own expense) it’s often called RCP-006 and RCP-007. The Roskamp Institute, whose primary interest is RCP-006’s use in the fight against Alzheimer’s, published a study showing that RCP-006 (Anatabinone) reduces inflammation (though to play a key role in Alzheimer’s) by 3 to 4 times as much as aspirin, ibuprofen, Celebrex and Volatrol.

So with that primer here’s the back story quick. Star also worked on removing the carcinogens from tobacco. And, long story short, they found a way to do this. It turned out to be in the curing process, involving different curing barns and special equipment. Star patented the process and then went to the cigarette companies. Since the big boys had never been successful at this in 40 years of trying, they fanned skepticism when Star offered them a license to use the process in exchange for a royalty. Only Brown & Williamson signed up, the rest refused… but then, presumably after some testing showed the claim to be true, the others went out and copied the process, quietly changing their barns and buying the necessary equipment (from a manufacturer in Greece, though it could easily have been purchased in the U.S.) and began using the process.

The Company filed suit against Reynolds for collection of this royalty (estimated at about $180 million a year for each of the past 10 years, so roughly $1.8 billion). And because their actions were willful, any award could be subject to triple damages. After 10 years in the courts tiny little Star (with the help of a Big-Time patent attorney) has rope-a-doped giant Reynolds, taking its best shots, until it is finally out of any further chances of appeal… short of going to the Supreme Court (which accepts less than 1% (about 0.7%) of the cases submitted to it. Meanwhile, Star’s patent has also been confirmed to be valid and, importantly, the first to be filed. So at the end of this long road the court has ordered Reynolds and Star to mediation to work out a settlement. In my best dreams this could be the full $5.4 billion (3x 1.8). Hopefully the worst case is between $500 million to $1 billion… this is mediation after all. Imagine what that will mean to Star… with 147 million shares outstanding the lower amount could be over $3 a share right there (before Uncle Sam). In the best
case, in a mediated split down the middle $2.7 billion divided by 147 million shares would be $18 a share to Star before tax. Plus the 3% royalty, at about $180 million per year (unless negotiated lower), would start rolling in henceforth, providing close to $0.73 a share in EPS assuming a 40% tax rate. AND then let's see what other companies should be paying this royalty... Yet the stock trades at under $3 folks. So investors are saying, yeah, yeah that's one big cherry on top but this has been dragging on for 10 years now and even though this looks like the end of the road... we'll believe it when we see it. Fine, so let's set it aside. This is not why I'm recommending the stock (though it sure doesn't hurt). However, no discussion of Star would be complete without acknowledging this facet, as this could finally be mediated/resolved this year.

Now, while Jonnie Williams was working on removing carcinogens from tobacco, he isolated what really causes the craving for smoking, Anatabine (it wasn't nicotine after all, which is why 98% of people who try nicotine to quit smoking...fail). So stripped of carcinogens he used this to develop CigRx for smoking alternative, with the key ingredient being Anatabine (which is not addictive). After some testing they launched the product in the summer of 2010. Now here's where the story starts to get really interesting, because as the months ticked by, reports start coming back of people who were reporting all these other benefits from taking the product-joint pain relief, aches and pains greatly reduced, less frequent trips to the bathroom at night due to enlarged prostates shrinking, even reports of improvement in Alzheimer's symptoms... Boom! In swoops the Roskamp Institute on that last one, and starts testing. They do a financing and the head of the Institute buys a million dollars' worth of Star at $1.50 and then another million dollars at $4 (very interesting...).

Then as luck would have it Jonnie William's wife gets thyroiditis and her thyroid becomes enlarged enough that the doctor schedules surgery... in 30 days. Untreated the condition can turn cancerous. And now the story turns amazing. Again, as luck would have it this doctor, who was head of endocrinology, had done a study years before on how people who smoke rarely get thyroid disease. Two more appropriate people could not be having this conversation! The light bulb flashes on; Williams connects the dots from his own work; and he put his wife on Anatabine. Thirty days later her thyroid has shrunk substantially. The surgery is canceled and she no longer has thyroiditis. Bingo. Previously there is no known cure for this except, eventually, surgery. John Hopkins swoops in to move the ball forward for the use of Anatabine for treating thyroiditis and after numerous animal studies it recently received FDA clearance for a 120-patient Phase II clinical trial which began in March and should wrap up early this fall. This is just one condition Anatabine seems to work on.

Based on all the scientific evidence, not to mention anecdotal evidence, flooding the Internet and word of mouth, the Company developed Anatabloc for improved joint health at three times the strength of CigRx. Arthritis/joint pain relief seems to be one of the most universal benefits, but people are taking it for prostate issues, Alzheimer's and prevention of it, thyroiditis, Crohn's disease and fibromyalgia... just to name a few. Not surprising, its use among the athlete community is reported to be intensifying. In the tennis world Jimmy Arias is a big believer in a Anatabloc, as is famed tennis coach Nick Bolletieri and NFL All-Star Jerome Shockey. There are many, many more. Honestly, I have owned this stock for over a year, but always considered it a bit too speculative for BI Research and never looked quite as deeply into the story as I should have...but I was intrigued by what I did know. It wasn't until I heard that Fred Couples (former Masters Champion and 50-time winner on the pro tour) recently reported on his positive experience with Anatabloc and became its first "Brand Ambassador" that my eyebrows went up and I decided to take a closer look for this issue. (What can I say? I'm a golfer and fan of Fred and his smooth swing). Well, I have just done that and once I really dug in and got exposed to the full story, first hand, I realized how enormous this could be, how much more is going on than I realized and how unknown this is in most quarters...and I had to tell the story.

I have read a lot about this company but I only have so much space here. I think one of the articles that would give you the best additional information here, because it is full of links that you should definitely click on, is this one: http://seekingalpha.com/instablog/377272-nuke-john/249517-my-top-pick-for-2012. Don't let the name fool you, this guy understands this story. One thing that is amazing about this stock is that everybody involved is taking Anatabloc, and almost everybody is reporting benefits. That tells you something right there. If you decide to try it after doing your research, as I plan to... keep me posted. Also, until they have completed some of the numerous clinical studies (in progress) to support it, Star can't really advertise specifically what Anatabloc can do. So, though the product is being rolled out in GNC stores across the nation (there are 4,000), until later this year it's pretty much all word of mouth. However, in this day and age, with the right trigger, it's possible that this could go viral at any time. After the exercise of some warrants in February, Star currently has about $18 million of cash (and no debt), which it has said will carry it through 2012. But it could potentially do a financing before that, perhaps after reporting some good trial results. Then again, maybe Reynolds will “pitch in” before then. Don't bet the farm on this sort of situation, but I definitely encourage you to take some sort of position. This could be a very interesting and perhaps wild ride. CIGX, which trades 2 million shares a day, is a Buy to $4. www.starscientific.com."
Franklin Resources: Strong profit margins

Douglas Gerlach: “Does a P/E of 14 seem cheap for a growing global business with 35% pretax margins, strong cash flow, and a recognized brand name? We think so. We continue to believe that the investment management industry is an attractive business in which to invest. The downside is that most investment managers’ earnings and stock prices magnify the stock market’s gyrations.

Within this industry, we believe that Franklin Resources (NYSE: BEN) is one of the best companies to own. Franklin is the parent company of the Franklin, Templeton, and Mutual Series fund families. The company also has trust and bank subsidiaries.

Over the past decade, 90% of Franklin, Templeton, and Mutual Series funds have beaten their respective Lipper averages, widely accepted benchmarks of mutual fund performance. Franklin’s assets under management are about equally balanced between stocks and bonds. Some of its competitors manage more stocks, an advantage in the current market.

Another interesting aspect of Franklin Resources is its global nature. Its Templeton subsidiary (acquired in 1992) is one of the oldest global asset managers domiciled in the United States. It also manages assets for non-U.S. customers. We estimate that about 55% of the assets under its management are non-U.S. stocks and bonds. Corporate income tax rates are lower overseas, so Franklin’s non-U.S. business helps to lower its overall tax rate.

Franklin’s profits fell by half during the 2008-09 bear market. This is less severe than the decline of some competitors because of the higher proportion of fixed income assets under Franklin’s management.

In determining a growth rate for Franklin, we focus on its historical results, high return on equity, and the cyclical nature of its business. Over the past decade, sales and EPS have grown 11% and 18% annually. We hope for a steadier equity market in the future, which should improve its revenue growth trends. It will be difficult to improve Franklin’s already-strong profit margins. We expect profit to rise faster than revenue as Franklin puts its substantial cash flow to use buying back stock.

Its return on equity (ROE) generally ranges from the mid-teens to the mid 20’s. An average ROE of 21% over the past ten years coupled with a modest dividend payout ratio of 13% suggests a potential earnings growth rate of 18%. This is exactly what Franklin has accomplished over the past decade.

When evaluating cyclical stocks, it is appropriate to look at the compound rate of earnings growth on a peak-to-peak and trough-to-trough basis. Franklin’s EPS grew 18% annually from the 2000 peak of $2.25 to the 2007 peak of $7.03. Earnings grew 14% annually from the 2002 trough of $1.65 to the 2009 trough of $3.89. If these growth patterns hold in the future, then EPS should be in a range of $9.50-$31.50 in five years, depending on where the market cycle is situated at that time.

Our forecasted EPS growth rate takes into consideration all of these factors. Five years of 16% growth could result in EPS of $18.00. A repeat of the typical high P/E ratio of 19.1 could produce a stock price of $345. The total return could exceed 23% annually, including Franklin’s modest dividend. The downside risk could be 41%, to a price of 72. The selected low price is the product of the typical low P/E of 12.0 and estimated low EPS of $6.00.

Weak global equity markets in 2011 affected Franklin’s results in the September and December quarters. EPS and revenue were flat in the December quarter. In the three months since then, assets under management have risen 8%.”

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Trouble ahead for many European banks

Ronald Sadoff: “Many important European banks are treading close to the edge. The chart patterns for these leading international banks confirm this gloomy outlook.

The largest bank in Spain, Banco Santander, traces out a sharp downtrend for both the price of its stock and its relative strength line. The largest bank in Britain, Barclays, outlines a steep five year decline. The Royal Bank of Scotland has been in a gigantic freefall over the last five years. The stock was once at $220. Now it’s near $7. Deutsche Bank exhibits a similar depressing declining pattern. Global giant Credit Suisse remains locked in a five year decline. Ditto for UBS, one of Switzerland’s largest financial institutions.

Packaged together, these major downtrends confirm the European banking system is facing sizeable risks. Conversely, an upside price breakout above these steps downtrends would confirm an “all clear” improving outlook.

The two top U.S. banks with significant international exposure are Citigroup and Bank of America. Both are clutching within a six year sharp downfall.

The steep extended downtrends are cautionary warnings of trouble ahead. Conversely a decisive price and relative strength breakout above these downtrends would be a very bullish omen.

Most interesting, many of the bank stocks rallied sharply over the last few months in an attempt to break out. To date, their failure to accomplish this feat suggests that their major breakdowns will extend.

Historically financial stocks lead major market uptrends. Most international bank stocks have been leading on the downside, not the upside, over the last few years. That’s not a healthy sign.”
Latin American Minerals Starts Pilot Gold Production at Mina Independencia High-Grade Project in Paraguay

High-Grade Gold Discoveries and Portfolio of Diamond, REE and Zinc-Copper Projects

Latin American Minerals, Inc. (TSX.V: LAT, OTC.QX: LATNF) is poised to become a gold producer on a massive gold mineralized system it owns in untapped but mineral-rich Paraguay.

The amount of gold produced from the company’s pilot plant, completed in January 2012, will initially be small but still significant in a market that has seen the price of bullion soar to record levels. When added to the $5 million the company has in its treasury, the revenues from sale of gold doré bars will provide Latin American Minerals with a healthy war chest for extending its exploration effort to prove up and develop its flagship Paso Yobai Gold Project. The production results will also provide a means to more accurately assess the size of the surface outcropping gold deposit when combined with drill data.

The Mina Independencia Project is the company’s fully permitted mining concession within Paraguay’s Paso Yobai gold district. This district has seen small-scale gold production for the past 10 years during which locals are estimated to have produced 150,000 ounces from artisanal surface workings. Latin American Minerals has mapped a 100 square-kilometer epithermal mineral system containing, so far, the gold-bearing Discovery Trend where initial mining will take place, and the 15 km long New Trend which is currently being expanded through exploration.

To date, the company has spent about $7 million on exploration and $4.5 million to construct a pilot production plant. According to the company’s conservative base case, this 100 tpd plant will process an average grade of 2.5 gpt with an 83% recovery rate by mid-2012. Latin American Minerals has not yet projected gold production on the basis that the deposit is not fully delineated, but anticipates that production proceeds willcover all of its ongoing exploration and overhead costs.

Gold Production at Paso Yobai a Major Milestone

Bulk sampling has begun at Latin American Minerals’ Paso Yobai Gold Project. The open pit operation and Mina Independencia pilot plant enable the company to meet three important goals – 1) to satisfy government requirements to begin production on this permitted mining concession; 2) the operation will expose ore shoots to 20-meter depth for bulk sampling and follow-up deep drilling; and 3) the operation will generate funds for further exploration and property development through the sale of the processed gold.

Mineral stockpiling began in November 2011 at the 300-meter-long bulk-sampling pit centered in the Discovery Zone. Equipment trials were completed at the plant in January this year, and single shift operation began in February. The newly manufactured pilot plant’s sophisticated ultra-centrifugal gravity system does not use any chemicals that might be hazardous to the environment, and is a modular system where capacity can easily be uprated. Significantly, the plant allows Latin American Minerals to expand operations to commercial scale, thereby accelerating development of the gold project.

The Mina Independencia operation is located on the Company’s 99%-owned Minera Guairá mining concession. This mining concession features the 4.5 kilometer long, high-grade Discovery Trend, one of two parallel gold trends at Paso Yobai. This fully permitted mining concession is part of the company’s larger 100%-owned Paso Yobai Gold Project.

The main objective in beginning small-scale production is to more accurately evaluate its Discovery Trend resource, where coarse gold mineralization extends from surface to greater than 100 meters in depth. The typically granular epithermal gold mineralization is unlikely to produce consistent assays from the small sample volumes recovered in conventional diamond drilling, hence the requirement for larger samples to adequately represent the overall gold content.

By mining the trend to 20-meter depth for processing, Latin American Minerals will expose veins and ore shoots for further mapping, sampling and assay analysis, which will be used to determine a resource estimate for...
the Discovery Trend. This influx of geological data will be used to advance planning, economic feasibility and infrastructure development for an eventual full-scale hard-rock operation. The company’s operation is designed to smelt, export and sell the gold produced at the project.

“The commencement of the pilot plant operation is a major achievement for Latin American Minerals and for development of Paraguay’s mineral wealth,” says President and CEO Miles Rideout. “The Mina Independencia operations represent the first formal gold production in the history of Paraguay, and is a milestone for the Paso Yobai gold district.”

**New Drilling on Paso Yobai’s New Trend Expected to Confirm Significantly Larger High-Grade Gold Resource**

Latin American Minerals has yet to finalize its 2012 exploration program at Paso Yobai’s second and potentially larger New Trend, but is planning to spend several million dollars to expand exploration resource estimate work.

“The 14.8 kilometer long New Trend, located just 3.5 kilometers northeast of the original Discovery Trend, will be the focus of most our exploration efforts in 2012,” says Rideout. “We are trenching and drilling multiple gold soil targets to validate our belief that the New Trend hosts a multimillion ounce gold resource. The New Trend appears to host an extensive gold system. Because it is such a large area, the gold potential is skyrocketing.”

Sample assays from the Tacurú target located on the 100%-owned New Trend mineral concessions demonstrate extensive and pervasive mineralization. Trench channel samples produced 3.8 g/t gold over 30.55 meters. The initial drilling produced a 4.09g/t intersection over 25.5 m. The gold occurs as fine high-grade grains disseminated in sandstones, a new mineralization style for the district.

“The excellent initial Tacurú
results suggest we may be outlining a major new epithermal gold system reflective of Paraguay’s great mineral potential," says Rideout.

Although the pilot plant operation and the New Trend exploration will be the focus areas of 2012, diamond drilling campaigns will continue on the northern arm of the Discovery Trend, following up on multiple large mechanical trenches excavated and sampled in 2011. Previous exploration on this trend has defined ore shoots extending for more than 200 meters on strike and continuing from surface to approximately 120 meter depth. Visible gold was found at 121-meter depths. The best intersection on this trend was 26.64 grams over 6.5 meters. Given that drilling has detected significant gold extending below one hundred meters depth, the initial open pit mine could well become an underground operation.

“We continue to map ore shoots and prove grade through exploration-scale bulk sampling. We will be proving our gold grades in 2012 to determine production feasibility for the full extent of the Discovery Trend,” says Rideout. “Our objective is to finally develop a resource estimate.”

Other Mineral Projects
Target Diamonds, Base Metals and Rare Earths

Latin American Minerals is also exploring or has optioned a number of other mineral exploration projects in South America.

Rock and soil samples collected last year at the Chiriguelo project in northern Paraguay identified a second rare earth element (REE) target. Previous exploration identified an initial REE target area, and also a significant niobium target in the 7 km diameter structure that has similar geology and scale of the world’s largest niobium deposits.

“This remarkable niobium target validates our interest in this new exploration region,” says Rideout. “We are developing a portfolio of three REE/Nb projects in this area, with the probable objective of producing a spin-off company. Latin American Minerals has a strong track record where we have previously identified and developed a lithium project, spinning-off an IPO in 2010 that raised the company $12.5 million.”

In July 2011, the company optioned its 220,000-hectare Itapoty Diamond Project in eastern Paraguay to Olivut Resources Ltd. for a potential 50% earn-in and joint development. Olivut is planning and funding the expanded diamond exploration program. The project has produced more than 70 diamonds, recovered from 11% of the total reconnaissance samples collected – an “extraordinarily high success rate”, according to Rideout.

The company has similarly optioned a 51% of its interest in its advanced zinc-lead-copper Tendal Project to Votorantim Metais Argentina SA, a subsidiary of Votorantim Metais, the largest zinc producer in Latin America and one of the ten largest worldwide. The 36,500-hectare property in northwestern Argentina is 100% owned by Latin American Minerals.

Management Team
Latin American Minerals began trading last fall in the U.S. on OTC-QX, to complement its Canadian exchange listing, providing U.S. investors with “superior liquidity, transparency and information flow”.

The company’s management and directors contribute decades-long strong backgrounds in exploration, mining, South American business expertise, international finance, and advanced project development. The Company CEO, Miles Rideout has 23 years of experience within Latin America encompassing 600 exploration, mining and engineering projects. In October 2011, the Board appointed a new CFO, Julio Martinez, who has extensive experience in South American business practices and in mine development.

Latin American Minerals’ Paso Yobai gold project is managed by a well prepared and experienced Paraguayan geology and engineering team aided by international consultants and exploration experts.

Investment Considerations

As of April 2012, Latin American Minerals is well financed with $5 million in capital, no debt, and is poised to generate revenues from the sale of gold from its pilot plant at the Paso Yobai Gold Project.

The company’s three Paraguayan exploration projects are located in emerging mineral districts within the stable democracy that is leading South America in economic development, with 14.5% growth in 2011. There is a wide-open opportunity to put this primarily agricultural country on the international mining sector map. Elsewhere in the country, limited exploration to date has led to the discovery of Greenstone Belt-style gold, iron, copper, manganese, uranium, tin, lead, barium and silver. Paraguay has potentially vast and virtually untapped mineral resources and mining-friendly laws.

“We will be selling gold several times this year, using the proceeds to help explore and develop Paso Yobai. We hope to prove up a potential multi-million ounce gold resource,” says Rideout. “One day Paso Yobai will be a significant gold mine owned and operated by Latin American Minerals.”
Landmarks You Can Invest In

Continued from page 1

its tracks in Florida and Louisiana.

Disney World and Disneyland. Own them by investing in: Walt Disney Co. (DIS: $43; Yield: 1.4 percent). The smiling visitors to Disney theme parks can get additional satisfaction by buying a piece of the whole enterprise, instead of just sweatshirts and stuffed animals. Helped by films and other brands, such as ABC and ESPN, Disney generates solid long-term growth and lately has been raising its dividends sharply – the payout jumped 50 percent this year (Disney, incidentally, pays dividends only once a year). Plus, the company has relatively little debt.

Madison Square Garden (MSG: $35; Yield: 0 percent). The home of the New York Knicks and Rangers hasn’t been on Madison Square since 1925, but the name clings to the world’s most famous arena (the fourth structure with the name). The present Garden, located above Pennsylvania Station, is 44 years old and about to undergo major renovations. The arena is best known for basketball and hockey, but it also has a monumental history of concerts, boxing matches and political conventions. Madison Square Garden (the company) owns the Knicks and Rangers, and it operates Radio City Music Hall as well.

Editor’s Note: Jeffrey R. Kosnett is a senior editor at Kiplinger’s Personal Finance magazine.

How the Stimulus Package works – a Perfect Example

It’s a slow day in the small town of Pumphandle, West Virginia and the streets are deserted. Times are tough, everybody is in debt, and everybody is living on credit. A tourist visiting the area drives through town, stops at the motel, and lays a $100 bill on the desk saying he wants to inspect the rooms upstairs to pick one for the night. As soon as he walks upstairs, the motel owner grabs the bill and runs next door to pay his debt to the butcher.

(Stay with this...and pay attention)

The butcher takes the $100 and runs down the street to retire his debt to the pig farmer. The pig farmer takes the $100 and heads off to pay his bill to his supplier, the Co-op.

The guy at the Co-op takes the $100 and runs to pay his debt to the local prostitute, who has also been facing hard times and has had to offer her “services” on credit.

The hooker rushes to the hotel and pays off her room bill with the hotel owner.

(Almost done...keep reading)

The hotel proprietor then places the $100 back on the counter so the traveler will not suspect anything.

At that moment the traveler comes down the stairs, states that the rooms are not satisfactory, picks up the $100 bill and leaves.

No one produced anything. No one earned anything. However, the whole town now thinks that they are out of debt and there is a false atmosphere of optimism and glee.

And that, my friends, is how a “stimulus package” works!

Source: MontrealAnalyst.com
Bargain Stock: Baker Hughes

Vita Nelson’s Bargain Stock of the Month is Baker Hughes (BHI).

“The company is a leader in the oil well equipment and services industry and the world’s largest producer of oil well drilling bits and tools. The stock posted its 52-week high of $81 back on July 26 and its 52-week low of $39.40 on April 10, so its recent price of $41.75 results in an INVEST% reading of 146%. So what is wrong? It seems that there have been some short-term problems with its recent $5.5 billion acquisition of BJ Services, a key player in pressure pumping services, which aid in difficult and newly developed oil extraction operations. The rest of BHI’s business is functioning quite well. A closer look at the numbers reveals that total debt of $4.1 billion accounts for only 19% of capitalization, while cash assets stands at over $1 billion. Baker Hughes, which operates in 80 countries, is a cyclical company in a cyclical industry, yet one that continues to reward long-term shareholders. International sales accounted for 48% of 2011 revenues. An interesting twist is that due to the 10-year low in natural gas prices, many companies are converting to its use and BHI is a leading provider of the hydraulic fracturing technology that has produced the North American gas surplus.”

Editor’s Note: Although Baker Hughes is identified as a bargain stock, Vita Nelson suggests that you build holdings over a period of time. DRIP enrollment is available through Temper Enrollment Service, www.direcinvesting.com.

Long-term investors should consult Accenture

Ingrid Hendershot: “Accenture plc (ACN: $59.65) is a global management consulting, technology services and outsourcing company, with more than 244,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments by improving operational performance, delivering their products and services more efficiently and growing their businesses.

Durable Brand

Prior to a transition to a corporate structure, Accenture had operated as a series of related partnerships tracing their roots back to 1950. On January 1, 2001, Accenture introduced their new name to the world when they became a public company. The company has spent the past decade building their brand, which has now become synonymous with their commitment to help clients achieve high performance. By continually investing in their brand, Accenture has built a strong and durable global brand boasting a value of $8 billion and which is now ranked No. 45 on Interbrand’s 2011 ranking of the top 100 global brands.

Today, with more than $25 billion in net revenue, Accenture operates globally with one common brand and business model designed to deliver competitively-priced, high-value consulting, technology and outsourcing services that help clients measurably improve business performance.

Accenture serves more than three-quarters of the Fortune Global 500. By delivering real business value year after year, 99 of the company’s top 100 clients in fiscal 2011 have been clients for at least five years. In addition to expanding relationships with existing clients, Accenture continues to attract new clients. Geographic expansion is a high priority for the company, especially in rapidly-growing emerging markets.

Management’s financial goals are to grow revenue faster than market growth, achieve double-digit EPS growth and maintain a strong balance sheet and cash flow, while continuing to return a substantial portion of cash to shareholders through dividends and share repurchases.

Strong Free Cash Flow

Over the past five years, Accenture has generated $13.6 billion in free cash flow. During the same period, the company paid out $2.5 billion in dividends and repurchased $10.7 billion of stock. In fiscal 2012, Accenture expects to continue to generate strong free cash flow, which should be in the range of $3.1 billion to $3.4 billion. This is equivalent to an approximate 8% free cash flow yield based on the firm’s current market capitalization.

Management plans to return the majority of this cash to shareholders through further share repurchases and growing dividend payments. The company recently increased its dividend 50% to an annual rate of $1.35 per share with the dividend currently yielding a solid 2.3%. During the first fiscal quarter, Accenture repurchased 5.3 million shares of $285 million at an average price of $53.36 per share. $5.8 billion remains authorized for future share repurchases.

High Returns on Equity

Accenture’s business model generates high returns on equity which have averaged an outstanding 62% over the last five years. This is even more impressive given that the company had no long-term debt and more than $5 billion in cash on the 8/31/11 year-end balance sheet. Accenture reported strong first quarter fiscal 2012 results as revenues increased 17% to $7.1 billion with EPS up 19% to $0.96. This represented the company’s highest quarterly revenue even with double-digit local-currency growth in all five operating groups and all three geographic regions. New bookings for the quarter were $7.8 billion, with consulting bookings of $4.2 billion and outsourcing bookings of $3.6 billion. New bookings for the full fiscal 2012 year are targeted in the range of $28-$31 billion. Net revenue growth is expected in the range of 7%-10% for fiscal 2012 with EPS expected in the range of $3.76-$3.84, representing double-digit growth as operating margins expand. Long-term investors should consult Accenture, a HI-quality firm with a durable brand, strong free cash flows and high returns on equity. Buy.”
DOW THEORY FORECASTS
7412 Calumet Ave., Hammond, IN 46324.

Universal Health Services can boost investors’ wellness

Richard Moroney: “Universal Health Services (UHS: $41) is projected to earn $4.41 per share in 2012, implying growth of 9% – more than double the median for health-care-facilities companies in the S&P 1500 Index. Yet the shares trade at less than 10 times estimated earnings, a 20% discount to their peer group 1500 Index. Yet the shares trade at less than 10 times median for health-care-facilities companies in the S&P 2012, implying growth of 9% – more than double the three-year average trailing P/E of 13.

The company operates more than 200 hospitals, psychiatric clinics, and surgical centers. Its growth is tied to:

- The U.S. labor market, which has expanded in 18 straight months.
- Health-care utilization rates, which insurers expect to rebound this year from historically low 2011 levels.

Shares should get a lift this summer if the Supreme Court rules in favor of the Affordable Care Act, which would require most Americans to purchase coverage and could boost the number of covered Americans by up to 30 million. Universal Health is rated Buy.

Corporate profile

Universal Health operates six surgical hospitals and radiation oncology centers, plus 25 acute-care hospitals. These facilities accounted for 55% of revenue and 33% of operating profits last year. Sales crept 4% higher last year, though profit margins shrank, hurt in part by a higher number of uninsured and underinsured patients.

The company also runs 198 behavioral-health centers, which generated 45% of revenue in 2011, up from 25% in 2009, and 67% of profits. A big chunk of that growth arrived all at once, in the form of a $3.04 billion acquisition of Psychiatric Solutions in November 2010.

About 15% of Universal Health’s patient revenue comes from Medicaid and 22% from Medicare. During the last six months of 2011, Medicaid rates have fallen 3% to 4% in states where Universal Health operates; rates are projected to be flat or lower in Medicaid’s fiscal year ending July 2013. But rates from commercial insurers (43% of patient revenue) have been rising 5% to 7% in Universal Health’s recent contract renewals.

Operating profit margins widened in each of the last four years, topping 15.8% in 2011 despite a historically high level of uncompensated care. The company has grown sales and cash provided by operations by more than 14% in each of the last five quarters. Free cash flow, rising in six straight quarters, jumped 70% in 2011.

Universal Health borrowed heavily to fund its Psychiatric Solutions acquisition and currently has more than $3.6 billion in long-term debt outstanding, equating to 61% of total capital. However, the interest payments are well covered by earnings. Universal wants to regain the investment-grade status it lost after the acquisition, and its long-term debt declined nearly 7% in the four quarters since the merger. The company is likely to deploy much of its future cash flows to retire debt.

CEO Alan B. Miller holds an 8% equity interest in Universal Health but 87% of the voting power. While such centralized control adds risk to an investment, the company seems well managed and capable of continued operational growth and solid stock returns. An annual report for Universal Health Services is available at 367 South Gulph Road, P.O. Box 61558, King of Prussia, PA 19406; (610) 768-3300; www.uhsinc.com.”

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INVESTOR’S DIGEST of Canada
133 Richmond St., W., Toronto, ON M5H 3M8.
1 year, 24 issues, $137.

11 surveyed analysts rate
Toronto-Dominion Bank a buy

Philip Fine: “The Toronto-Dominion Bank (TSX: TD; $83.99) is nothing, if not ambitious.

The Green Machine has drawn up a growth plan that would make any motivational speaker proud.

For starters, the bank wants to open more branches, particularly in Quebec, reports Peter Rozenberg, an analyst with UBS Investment in Toronto.

In addition, TD wants to grow its credit card operations, as well as its auto loan business.

The bank also has big plans in the U.S. where it already boasts more branches than it has in Canada and where it has expanded aggressively in recent years – especially in Florida.

Not only does TD want to expand those U.S. outlets it already has, but it hopes to leverage the deposits of its American customers, says Mr. Rozenberg.

Overall, he notes, TD aims to capitalize on its big North American presence, thereby giving it an edge over its peers.

Elsewhere, the bank intends to keep a lid on costs, especially during fiscal 2013 and ‘14.

Meanwhile, to keep itself moving forward in the economic slowdown, TD intends to focus on its wealth management arm and its insurance products.

Over the medium term, TD is hoping for growth in personal and commercial banking of seven to 10 per cent; for wholesale banking, a return on equity of 15 to 20 percent.

But Toronto-Dominion concedes it may not reach its targets, given continued low interest rates, high consumer leverage, as well as the low rate of loan growth in Canada.

Still, the bank remains bullish about delivering growth in net earnings per share of seven to 10 per cent.

For Mr. Rozenberg, Toronto-Dominion rates a “buy,” along with a 12-month price target of $91 a share.

He also sees it posting higher-than-average growth, thanks in part to its strong service model.

Our market mavens this month were onside with Mr. Rozenberg in his admiration for Toronto-Dominion.

Of the 11 other analysts we surveyed, all of 11 recommended the bank as a “buy,” lofting it into fourth
spot in our list of 10 must-have stocks for investors.”

Editor's Note: Get specific “buy-sell-hold” advice from the best and brightest investment analysts in Canada in The Investor's Digest of Canada plus a whole lot more. Check out their Special Offer and bonus reports at www.investorsdigestofcanada.com.

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The Timely Ten

Kelley Wright: “The Timely Ten is not just another “best of, right now” list. It is our reasoned expectation based on our methodology and experience for what we believe will perform best over the next five years.

Do we believe that all 10 will go up simultaneously or immediately? Of course not. Our four decades of research and experience, however, leads us to believe that these stocks, purchased at current Undervalued levels, are well positioned for both growth of capital and income.

The Timely Ten consists of Undervalued stocks that generally have a S&P Dividend & Earnings Quality rating of A- or better, a “G” designation for exemplary long-term dividend growth, a P/E ratio of 15 or less, a payout ratio of 50% or less (75% for Utilities), and technical characteristics on the daily and weekly charts that suggests the potential for imminent capital appreciation.

The current 10 selections and their yields are: Chevron Corp. (CVX) yielding 3.4%; Eaton Corp. (ETN) yielding 3.1%; Johnson & Johnson (JNJ) yielding 3.8%; Occidental Petroleum (OXY) yielding 2.4%; Union Pacific (UNP) yielding 2.1%; United Technologies (UTX) yielding 2.3%; CVS Caremark (CVS) yielding 1.5%; Air Products & Chem (APD) yielding 3.0%; ConocoPhillips (COP) yielding 3.7%; Harris Corp. (HRS) yielding 2.9%.”

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THE KONLIN LETTER
5 Water Rd., Rocky Point, NY 11778.

ETAK shows strong growth in mobile and security solutions revenues

Konrad Kuhn: “Elephant Talk Communications, Corp. (NYSE Amex: ETAK; $2.10) is an international provider of business software and services to the telecommunications and financial services industry. ETAK enables both mobile carriers and virtual operators to offer a full suite of products, delivery platforms, support services, superior industry expertise and high quality customer service without substantial upfront investments from clients. ETAK provides global telecommunication companies, mobile network operators, banks, supermarkets, customer product companies, media firms and other businesses a full suite of products and services that enables them to fully provide telecom services as part of their business offerings. ETAK also offers various dynamic products that include remote healthcare, credit card fraud prevention, mobile internet ID security, multi-country discounted phone services, loyalty management services, and a whole range of other emerging, customized mobile services.

Panic selling last month caused a free-fall on high volume in ETAK’s stock into the area of long-term support, which was extreme, giving the astute investor a second buying opportunity to purchase at bargain basement prices. ETAK expanded its geographic footprint into Germany (Europe’s largest telecomm market) through the acquisition of Ensercom, which include a 5-yr. contract with Telekom Deutschland. By year end, ETAK anticipates operations with its cutting edge mobile platform to expand and be present or commencing in 8 countries. Its recent partnership with Adeptra (the leader in auto-resolution technologies that span the consumer lifecycle and help retail banks to detect and prevent fraud worldwide) has led to its first commercial contract award, expected to go live in days. This contract will serve as a pivot point for ETAK, allowing them to secure additional contracts through the pipeline they invited with Adeptra.

In addition, ETAK’s subsidiary ValidSoft, a global supplier of advanced telecommunications-based fraud prevention, authentication and transaction verification solutions, announced a new, global partnership with Utiba, a global leader in mobile payments and mobile financial solutions. Utiba’s more than 40 Mobile Network Operators and banking customers worldwide are now able to offer advanced, user-friendly authentication options using ValidSoft’s proprietary technology. As a result, this partnership stands to impact more than 500 mil. subscribers processing over 12 bil. transactions per year, enabling people to send money, pay bills, receive salaries and more, all from the Mobile “Wallet” phone, having access to the Utiba platform, including those involved in Utiba’s recently announced partnership with MasterCard, the leader in the Mobile Wallet marketplace.

The company’s revenues for FY’11 declined to $32.2 mil. while achieving a doubling in their mobile and security solutions revenue. Also, in the Q4, ETAK completed its largest migration by transferring over 600,000 users to their telecom platform in Spain, providing monthly recurring revenue, which will continue to provide an increase in higher margin mobile revenue throughout the year. ETAK has about $12 mil. in cash and cash equivalents as of 4/12.

Meanwhile, the stock achieved a bullish reversible down spike at 1.41 and is in the process of establishing an uptrend, reclaiming its 50-Day MA in the 2.20 area. Astute investors who purchased in the area of the fear bottom that overshadowed reality, achieved one of the best buys of the year. The shorts are getting nervous as reflected in the huge short interest starting to decline, as the elephant tramples the bears. Continue to A/B as the advance will become more explosive, with a closing above 2.16 and a short-term target of 2.95. Traditional security methods are inadequate and unsuitable for the Mobile Wallet. ValidSoft has custom built its SMART™ architecture to be specifically designed for optimum use in the mobile payments world to over 2.5 bil. financially underserved global consumers through their mobile phones. Ultimate target 9-10.”

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A likely election winner: Television and radio stations

George Putnam, III: “While we do not recommend changing your allocation to stocks based on the Presidential election cycle, you may want to consider the effect that the election will have on particular stocks or sectors. One industry group that is sure to get a boost from the election cycle is broadcasting. One analyst has predicted that $4.9 billion will be spent on political advertising for the 2012 elections. The bulk of this ad spending will go to television, but radio and other media will get their share as well.

Television and radio broadcasters have struggled in recent years as new forms of competition have developed. However, the broadcasters are showing signs of regaining their footing, and the elections may be just what they need to get back on track. A number of TV broadcasters will get a further boost this year from the Summer Olympics in London. We’ve highlighted below nine broadcasting stocks that look interesting to us right now.

**Belo** (BLC: $6.65) began as a newspaper company in Texas, but it has transformed into a broadcasting company through the spinoff of its newspaper assets. Texas is still a key market, but it also has a strong presence in the Northwest, Mid-Atlantic and Arizona. Belo has affiliations with all major networks, and it ranks first or second in nearly all of its markets. Net debt has been steadily declining in recent years, and the stock is attractively valued with a nearly 5% dividend kicker.

**Comcast** (CMCSA: $30.28) is the nation’s largest cable operator. With the $30 billion acquisition of a controlling 51% interest in NBC Universal, it became a significant player in broadcast TV, content production and theme parks as well. The cable business is stable and a strong competitor, but the NBC Universal side is an acknowledged turnaround in progress. Political ads and NBC’s Olympic broadcast rights should provide a good boost in 2012.

**Cumulus Media** (CMLS: $3.59) is the largest pure-play radio broadcaster in the United States. Revenues trended down from 2007 through 2009, accompanied by losses. But operations began a turnaround in 2010 that largely continues today. The stock rebounded off its bear-market lows of 2009, but continues to trade at compressed valuation levels.

**Disney** (Walt) (DIS: $43.35) is a global entertainment company. Media operations, including the ABC network, account for 46% of revenues. While the impact of election year advertising may be overshadowed by other parts of the company such as ESPN, Disney Channel and theme parks, it certainly won’t hurt. Disney controls some of the strongest brands on the planet, and the stock is not trading much above the level it first hit in 2000.

**Entercom Communications’** (ETM: $6.57) radio operations date back to 1968. Today, the company ranks as one of the nation’s five largest broadcasters, with more than 100 stations in 23 markets. Despite revenue challenges, operations have been consistently profitable with solid free cash flow. Trading at only 6 times forward earnings and below book value, Entercom could be an interesting holding as 2012 unfolds.

**Fisher Communications** (FSCI: $34.06) operates 20 television stations and three radio stations in the Western U.S. Fisher began broadcasting operations in 1910, and so it has managed many challenging periods. Unlike many broadcasters, Fisher has a rock solid balance sheet, with little debt and cash equal to 61% of the current share price.

**Lin TV** (TVL: $4.07) operates 32 network affiliate television stations in 15 markets. Lin operates 17 stations in states that are expected to be closely contested, including Ohio, Michigan, Virginia, and Florida. Last December, Lin’s CEO commented that political advertising had become the company’s largest growth area.

**News Corp.** (NEW: $19.87) is a diversified global media company with operations in six industry segments spread over five continents. Fox film studios, The Wall Street Journal, and Fox broadcasting account for the bulk of its U.S. operations. The recession led to four quarters of declining revenues, but recent results indicate a turnaround is underway. Management may be distracted by legal proceedings in the U.K., but many analysts think the stock would benefit if the Murdoch family were forced to relinquish control.

**Sinclair Broadcast Group** (SBGI: $10.40) owns or provides sales services to 73 television stations in 45 markets, thus making it the nation’s largest television broadcasting company. The company benefited significantly from political ads in the midterm elections of 2010, and we expect it to do even better this year. The shares are attractively valued and accompanied by a nice 4.6% dividend.”
Terraco Completes 2nd Royalty Transaction on Barrick-Led Project, Increasing Stake in Growing Nevada Gold Trend

Company Also Has Three Drill Rigs Spinning at its Flagship Gold Property in Idaho

Terraco Gold Corp. (TSX.V: TEN; OTC Pink: TCEGF) is aggressively underpinning its future value with a second royalty transaction to complete its royalty coverage on a Barrick led joint venture of an over 3.5 million ounce gold deposit (Spring Valley Project) right next door to its 100%-owned, gold-silver Moonlight Project (13.5 sq. mile) in Nevada.

Exploration at the Spring Valley Project, a joint venture between Barrick Gold and Midway Gold, is continuing to prove up a world-class gold deposit by growing the known gold ounces. The gold deposit remains open to the south, as well as to the north toward Moonlight, which adjoins Spring Valley.

Terraco has successfully covered the entire Spring Valley Project’s reported gold resource with a combination of a direct royalty ownership, a royalty option and a first right of refusal royalty option on an area of interest around certain claims covering the gold deposit.

The Spring Valley royalty option could provide significant future cash flow for Terraco. Upon fulfillment of the terms of the royalty option, the company would be entitled to up to a 2.5% royalty on a substantial portion of the gold produced at Spring Valley as well as up to a 1% royalty on a northern area of the deposit (approx. 20%) where Barrick and Midway Gold have had excellent gold grade in holes drilled. Since the deposit is characterized by easily recoverable coarse gold, recovery rates should be relatively high. Using just Spring Valley’s NI 43-101 measured and indicated resource of 2.16 million ounces, a conservative 80% rate would generate more than 1.7 million ounces of gold. Conservatively, Terraco’s share, if its royalty option covered 75% of the ore body, could be well in excess of 30,000 ounces – and even at a fraction of today’s gold prices, that would mean tens of millions for Terraco’s bottom line.

“We are pleased to be able to finalize royalty coverage on the entire deposit,” says Hilditch. “Our Spring Valley net smelter royalty option sets us apart from other juniors and gives us the opportunity to add more value to Terraco shareholders by underpinning our company with future cash flow or the option to monetize bits of the royalty for a non-dilutive financing to the company.”

Terraco Has Three Pillars to Provide Shareholders Value – All Gold

Significantly, Terraco is setting itself apart with its recent transactions in an attempt to build future
shareholder value. The transactions relate specifically to gold in the ground underpinning the company’s value:

- Near 1 million ounce gold deposit (and growing) in the ground in Idaho (Almaden “Nutmeg Mountain” Project)
- A gold production royalty option on a Barrick led project in Nevada - currently over 3.5m ounces (Spring Valley Project)
- 13.5 sq miles of gold and silver exploration blue-sky on a Nevada project that adjoins the Spring Valley Project outlined above (Moonlight Project)

“Having three gold diversified related assets inside Terraco, gives our shareholders three opportunities for success with each one of them the possibility for a company maker,” says Hilditch.

The Barrick-led Spring Valley Project currently has an estimated resource of over 3.5 million ounces of gold. Barrick has the right to earn a 60% interest in the project by completing $30 million in work expenditures before the end of 2013 and they have recently announced an $11 million budget for 2012 which would cause them to most likely earn into the project early.

Terraco’s Moonlight project also is just five miles from Coeur d’Alene’s massive silver-gold Rochester Mine which over its 24-year history produced 127 million ounces of silver and over 1.2 million ounces of gold and recently returned to production, while adjoining Spring Valley on the North.

Aggressive Exploration Planned in Early 2012 at the Idaho Gold Project

The 2012 exploration activity for advancement of the Almaden/Nutmeg Mountain project is currently underway. The program is fully financed by the recent $5 million cash infusion, and is expected to both expand known mineralized areas as well as search for feeder zones.

The Almaden/Nutmeg Mountain Project, purchased by Terraco in early 2011 for under $20 an ounce, hosts an NI 43-101-compliant measured and indicated resource of 864,000 ounces of gold and an inferred resource of 84,000 ounces of gold for a total of 948,000 ounces of gold, all within approximately 300 feet of surface. The currently identified deposit is an outcropping, flat-lying orebody about 1000 feet wide, 2000 feet long and 300 feet thick.

The 2009 NI 43-101 technical report, prepared by Mine Development Associates, outlined a measured resource of 9,810,000 tonnes grading 0.754 g/t, an indicated resource of 29,250,000 tonnes grading 0.651 g/t, and an inferred resource of 4,780,000 tonnes grading 0.425 g/t.

Almaden (Nutmeg Mountain) Project Highlights

- 100% owned by Terraco
- Excellent access / infrastructure
- NI 43-101 gold resource within 300 feet of surface
  - 864,000 ounces (Measured plus Indicated resource grading 0.02 opt)
  - 84,000 ounces (Inferred resource grading 0.016 opt)
- Well-defined gold resource with 205,000 feet of drilling in 903 drill holes
- 2012 Phase I drilling campaign to determine the interior continuity of the gold resource and include deep holes exploring for feeder zones and drilling along strike from the resource

Moonlight Gold-Silver Project and Gold Royalty Highlights

- 100% owned by Terraco; Good access / infrastructure
- Evolving Nevada precious metals trend includes the Coeur d’Alene Rochester silver-gold Mine, which produced 125,000,000 ounces of silver and over 1,200,000 ounces of gold in its 24 year history
- Moonlight lies on strike and 8 kilometers north of the Rochester Mine and is adjacent to the Barrick-led Spring Valley joint venture
- Unique exposure to gold ounces in the ground at a Barrick-led project through a royalty and royalty option on production from claims covering the known orebody
to position itself as an aggressive player over the past year. "Expanding the known resource, increasing the grade of the resource and initiating the development work required for economic review as a production scenario will be three of Terraco's primary objectives in 2012," says Hilditch. "We are expecting an initial preliminary assessment (PEA) by 3Q 2012."

Exploration is being conducted by highly respected professionals who were involved in the discovery or co-discovery of major Nevada gold deposits turned mines such as Barrick's Goldstrike Mine – partially credited to Terraco Gold's VP of Exploration Charles Sulfrian, CPG – and Newmont's Ken Snyder 'Midas' Mine, named after Terraco's lead consulting geologist, Dr. Ken Snyder. "The key at Terraco is an experienced geological team matched up with a creative management team," says Hilditch.

**TERRACO GOLD CORP.**

**TSX.V: TEN • OTC Pink: TCEGF**

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Shares Outstanding: 130 million

52 Week Trading Range:

Canada: Hi: C$0.40 • Low: C$0.165

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Recently, the folks at Berkshire Hathaway have talked down precious metals. Warren Buffett and Charles Munger (two titans of the stock investing world) had made some unkind remarks about precious metals in general and gold in particular.

I have tremendous respect for them (who doesn’t?) and I think that if the topic is “long-term stock investing” then few (if any) could match the performance they have racked up in recent decades. I wish them continued health and prosperity!

But I write this essay for a very specific issue and that is their attitude towards precious metals. I believe that it is a less than stellar record when you scrutinize it.

If you were an investor with them (who doesn’t?) and I think that if the topic is “long-term stock investing” then few (if any) could match the performance they have racked up in recent decades. I wish them continued health and prosperity!

If you were an investor with them you would obviously be doing it by investing in Berkshire Hathaway, right? Therefore, we could easily construct a scenario where we could have pitted their stock against those barbaric and unproductive metals, gold and silver.

Let’s imagine that you broke up your portfolio into 4 parts and invested equally on the first trading day of 2000 into the following entities:

1) Berkshire Hathaway class A stock
2) Berkshire Hathaway class B stock
3) Gold
4) Silver

How would that type of portfolio performed since the beginning of the millennium?

1. Berkshire Hathaway class A stock started at $54,800.00/share and closed on April 30, 2012 at $120,800.00 for a total percentage gain of 120.44%. Nice!!

2. Berkshire Hathaway class B stock started at $35.40/share and closed on April 30, 2012 at $80.45 for a total percentage gain of 127.90%. Also Nice!! (please note that the stock price quoted here is adjusted for stock splits)

3. Gold started January 2000 at $282.05 (Kitco.com closing price 1/4/2000) and closed on April 30, 2012 at $1,651.25 for a total percentage gain of 485%. Ultra nice!!

4. Silver started January 2000 at $5.30 (Kitco.com closing price 1/4/2000) and closed on April 30, 2012 at $31.20 for a total percentage gain of 488%. Ultra nice again!!

Given the above, one can see easily that the two most popular precious metals outpaced the stalwart Berkshire Hathaway by 3-to-1 over nearly 11 ½ years. Bashing precious metals for being unproductive is certainly uncalled for…especially given that amazing comparison.

If you noticed, I didn’t choose some arbitrary period like a single year or other short-term measurement. As most of you know, Mr. Buffett (to his credit) is a true long-term investor and patience has been his “secret” to success. He typically doesn’t trade stocks or decides to jump in one day and jump out the next. “Buy and hold” for him is not some flashy saying… it is part of a long-term discipline approach to wealth-building. Therefore, I think the comparison in this essay is valid.

Yes…there will come a day when I am not bullish on gold and silver. However, given that politicians, government bureaucrats and central bankers have not stopped their massive financial and economic mismanagement, that day is still very far away.

Editor’s Note: Paul Mladjenovic is a CFP practitioner, speaker and author of “Precious Metals Investing for Dummies”. He edits the financial newsletter Prosperity Alert (available for free downloading at www.RavingCapitalist.com).
associated with one of the most promising drugs that
to be. Built around a few blockbuster, multi-billion
dollar drugs, today most large pharmaceuticals companies increasingly find themselves searching for
the new miracle drug that will help people fight cancer, cardiovascular disease, diabetes – you name it – without any major success, while their existing
drugs go off-patent en masse. Generic drugs now account for more than three quarters of all US
prescriptions, up from a little more than half in 2005. Industry revenues and profits are in danger, and the
business model is changing.

This explains the very limited scope of our recommendations in the sector. But when it comes to free cash flow – and dividend – generation, large pharmaceuticals companies are still ahead of many
other major stock groups. The key to selecting the right one, therefore, is to find a company whose profits seem secure and whose drug pipeline is among the
most promising.

Ideally, when choosing an investment, even an income-oriented one, you want a growing revenue and profit stream; but when it comes to the large pharmaceuticals, these are becoming increasingly
less predictable. That’s because future growth for many of these companies comes increasingly from acquisitions.

Case in point: our recommended Bristol-Myers Squibb (BMY) has reportedly made a bid for Amylin Pharmaceuticals. The company is interested in Amylin’s proprietary diabetes 2 drugs, including the recently approve Bydureon, a once-weekly
extended release injection for the treatment of type 2 diabetes. It’s a very interesting drug with substantial benefits, whose direct competition consists of only one other similar medicine. If Bristol-Myers is indeed successful in acquiring Amylin, provided it’s not overpaying (which we deem unlikely given its
typically very disciplined approach to acquisitions) we think we’ll all benefit both as investors and as a society impacted by the hidden costs of this chronic disease. Bristol-Myers remains a buy.

We have added another old-school pharmaceutical company to our recommended buy list as well. Merck (MRK), a member of the Dow Industrial Average as well as the Standard and Poor’s 500 Index, is the world’s second-largest pharmaceutical company, and by our estimates its growth prospects are above average for the sector.

Its 2009 $41 billion acquisition of Schering-Plough was certainly not the biggest in the industry (Pfizer, for example, paid $68 billion for Wyeth), and was generally praised by analysts. This acquisition has given Merck access to new biotechnological drugs (biologics), as well popular over-the-counter consumer names like Coppertone and Dr. Scholl’s.

Clinical studies that point to significant side effects associated with one of the most promising drugs that Merck acquired when it bought Schering-Plough, the blood thinner Vorapaxar, have made some investors and analysts question the wisdom of the acquisition itself. They also exemplify the challenges the large pharma companies face when it comes to getting new drugs to market. And investors shouldn’t forget the omnipresent threat of liability that may arise if any of a company’s products turns out to be harmful to patient’s health.

That said, we like Merck’s drug portfolio and its pipeline relative to most peers. Drugs in the pipeline now include osteoporosis medication Odanacatib, atherosclerosis drug Tredaptive, and more. Some filings are expected this year, including a potential blockbuster: chronic insomnia drug Suvorexant. Merck’s HPV cancer-prevention treatments also looks promising. Januvia, a treatment for type 2 diabetes, fully qualifies for blockbuster status, too; with $2.4 billion in revenues for the first nine months of 2011, it is showing a great deal of strength against the competition.

We also like Merck’s strong balance sheet, the stability of its earnings and its high dividend yield. Merck’s 10 percent free cash flow yield means that if it paid all the cash it generates annually in dividends, it would be yielding 10 percent. We are content, as well, with its current 4.3 percent yield. The company has been making an effort to increase payout, most recently in November, having announced an 11 percent dividend hike. For strong dividends going forward, Merck is a buy up to $42.80.”

UTILITY FORECASTER
7600A Leesburg Pike, West Building, Ste. 300, Falls Church, VA 22043. Monthly, 1 year, $149.

MDU Resources: Bakken field reaches output record for oil
Roger Conrad: “I first recommended Growth Portfolio Core Holding MDU Resources (NYSE: MDU) in September 1990. It’s since returned nearly 740 percent, including 8 percent a year for the past decade, fueled by a 64 percent boost in dividends.

MDU generates a third of its earnings from oil and gas production. The focus is output from 124,000 acres in the Bakken region, supplemented by properties in the Heath Shale (Montana), Paradox (Utah) and Niobrara (Wyoming) formations. Management is targeting a 20 percent to 30 percent boost in oil output for 2012.

Construction services and materials production contribute about a quarter of profit. The recession hit this business particularly hard, but it’s recovering thanks to the need for infrastructure to support drilling in the Bakken.

Regulated gas, electric and pipeline services
Continued on page 21
Gold, Gold Shares and Silver: Still Correcting in a Bull Market

By Mary Anne and Pamela Aden
The Aden Forecast

Gold shares have been hit hard recently. Gold and silver dropped too. Some technical damage was done but we’re keeping our positions. Why?

As you’ll see, gold’s fundamentals are strong and solid. Demand is hitting new highs and it looks like this weakness will be temporary.

As for gold shares, they’re bombed out, oversold and cheap. This is not the time to sell.

So for now, sit tight and be patient. This is one of those times that can be difficult but we don’t think you’ll regret it.

Meanwhile, the European debt crisis, together with China’s slowdown and the stubborn U.S. jobs problem are all affecting the metals.

Central Banks Buying Weakness

Central banks, however, have been taking advantage of the weak market by buying gold and silver. According to the IMF, 12 central banks added to their positions in March. From Mexico, to Argentina, Turkey and Russia, they all bought gold.

Meanwhile, Chinese gold imports have grown sharply during the past eight months. Their gold imports in Q1 12 were almost seven times more than in the first quarter 2011.

Central banks know when to buy and they know value, yet the investing public is ready to give up on the bull market. Granted, it’s already been a year since silver reached its peak, and it’s been eight months for gold.

This sounds like a long time but it really isn’t.

Take a look at gold and silver on Chart 1 over the last 5+ years. Using the last (and worst) correction in 2008 as an example, you can see it look a longer time then to reach a new high.

In gold’s case, it peaked in March 2008, fell almost 30% and didn’t reach a new record high until September 2009. That is, it took one and a half years before a new high was reached.

In silver’s case, it took a year longer to reach new highs. It also peaked in March 2008, near $20.90, but it fell more at 56% and it took two and a half years before it again reached a new high.

But once it did in September 2010, silver soared to almost $50 in April 2011… more than doubling in seven months.

Today’s declines have been milder. Gold has given up almost 20% and silver has lost about 44% since their peaks. And both have remained firm within their bull markets.

Of course, the corrections aren’t over yet, and the December lows are key for now. These lows have been the lows so far in the current correction. They’re an important support and that’s what we’re now watching.

The Summer months tend to be a seasonally low time for gold. And June tends to be the month that has seen the most lows. This upcoming June may not be an exception.

Gold has been much stronger than gold shares since 2011 when they parted ways. The ratio comparing the two on Chart 2 has now shot up to the 2008 highs.

That is, the gold share fall compared to gold has been as severe as it was during the heat of the 2008 financial crisis.

You’ll remember that gold was one of the few investments that ended 2008 with a gain. In other words, the ratio is currently at that same intensity and it’s at the top of the mega two decade long upchannel.

This means gold shares are at an extreme low and they’re cheap compared to gold. They’re poised to normalize, rise and then they’ll likely outperform gold.

Editor’s Note: Mary Anne and Pamela Aden are co-editors of the Aden Forecast, now in its 31st year, P.O. Box 790260, St. Louis, MO 63179, 1 year, 12 issues, $250. Includes weekly online updates. The Aden Forecast specializes in all major markets with special emphasis on the precious metals, currencies, and natural resource markets. www.adenforecast.com.
generated the rest of the company’s income. The utilities serve nearly a million customers, stretching across the northern tier of the US, also with a special focus on the surging Bakken.

Customer growth of 5 percent is the highest in the industry, and investment is reliably recovered in rate base, thanks to positive regulatory relations.

The aggregate is a company with immense regional and energy business expertise and $3.7 billion in earnings-boosting capital projects planned for the next five years. And it’s backed by one of the industry’s lowest debt-to-capital ratios, just 34 percent.

Notable headwinds this year include weak natural gas prices, mild winter weather and weak demand for construction materials. But with first-quarter 2012 results coming in on the high end of guidance, full-year projections of $1 to $1.25 per share look conservative, management’s long-term earnings growth target of 7 percent to 10 percent secure.

Buy MDU Resources up to 24 if you haven’t yet.”

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DELIBERATIONS on World Markets, P.O. Box 182, Adelaide St. Station, Toronto, ON M5C 2J1.
1 year, 18 issues, $225. Introductory Trial, 4 issues, $49.

The most important chart in the gold market

Ian McAvity: “With $7 trillion in official Forex Reserves owned by emerging, non-members of the G-7 Old Boys Club of global banking elites largely denominated in US$ and Euro, this chart shows the track record of the 5 major currencies reflected by the historic denominator of money... gold.

Euro fears fueling a rush to US$ are having a remarkably negative impact on gold sentiment. A knee-jerk flight to US$ is providing an opportunity in my view. If prospective viability of the Euro worsens, I believe the rush out will drive massive flows into gold as the other major haven currency given the US foreign policy tendency to seize/freeze assets, blackmail other governments into extra-territorial application of US law. Sanctions against Iran won’t stop their trade with most of their neighbors... that may explain some of the gold selling of late. I suspect the CFTC/CME trader margin requirement hikes are also generating some liquidation despite a 90-day extension. (Obama got his lower oil price, at least for now, but let’s see what July 4th gasoline prices are).

China, Russia, India and Brazil plus many other emerging countries do not see themselves as US foreign policy pawns... For any country that might ever have major differences with America, US$ is not the best currency for reserves, albeit the most useful for global trade. Many emerging countries are building up some gold reserves, and concerns over the Euro future may accelerate that trend as a diversification alternate to US$. It was a factor in the Euro success in the last decade.

Long-term degradation of the “old boys club” currencies above is a contra trend correction that may end soon, not a major trend reversal in my view.

Gold is also under pressure with an extreme wave of bearishness finally taking the Market Vane Bulls back down to 56% – a level not seen since the bottom in late 2008.

I’m not unduly concerned about the gold price weakness and view anything under $1650, perhaps even a test of the year end lows around $1530 as attractive for adding to holdings. With central bankers fighting every fresh fire with money printing by whatever name, I’m very confident gold’s price will best protect private individuals from a nasty degradation of the purchasing power of that paper in the next few years. Watching the European events unfold, I’ll stick with my previously suggested guesstimate 2012 range of $1600/$2500 and maybe hedge by adding +/- $100 both sides.”

GOLD • SILVER • URANIUM • PLATINUM/PALLADIUM • DIAMONDS • BASE METALS
TheResourceInvestor.com
The Marisco growth portfolio
That said, the Marisco funds court sector and individual stock risk, as positions can be highly concentrated. This fund typically holds 40-50 stocks (recently 51). The managers – Marisco along with Doug Rao and Coralie Witter – have piled nearly 37% of assets into consumer discretionary stocks, well above the S&P 500 and category average. The fund is also overweight in industrials, while below its peers and the benchmark in technology and health care. The consumer discretionary stake reflects the fund’s belief that the US economy will continue to recover. The fund has a 10% stake in non-US securities, split between greater Europe and Asia, with a 3.5% stake in emerging markets.

Performance
Fund performance over the past year benefited from a reduction in its financial stake from 15% to about 3% in the first half of 2011, with the managers citing regulatory climate changes and economic considerations. This year, top holding Apple has contributed to performance with its near 50% gain year-to-date through April 27. Retailer TJX has also been a strong addition to fund performance with a 32% advance since the beginning of the year. The fund has also benefited from its priceline.com holdings, which, thanks to sound acquisitions and market share gains in the European and Asian markets, are up nearly 63%.

For the year-to-date, the fund has gained 17.2%, outpacing the S&P 500 and ranking ahead of more than 70% of its Morningstar large growth peer group. Longer term, the fund outpaces more than 80% of its peers over the trailing three-year period.

Marisco Growth (MGRIX), Marisco Funds, 1200 17th St., Ste. 1600, Denver, CO 80202, (888) 860-8886, Minimum investment: $2,500/$1,000 IRA.”

Market Outlook
PINNACLE, Greystone Court West, 573 Hopmeadow St., Simsbury, CT 06070. Published for clients of Pinnacle Investment Management Inc.

Oh Canada, Eh
John Eckel: “Neither Republicans nor Democrats have a viable economic policy – they have an election strategy. The Democrats say they will balance the budget by letting the Bush tax cuts expire for everyone but the wealthy. Ironically the wealthy just do not have enough income to even remotely come close to balancing the budget. The Republicans say they will reduce the budget deficit while preserving all the Bush tax cuts. Again the math does not work. Further, both parties say they will reduce spending but neither party is willing to say what specific program they will cut. In contrast to the US, The Wall Street Journal reports that Canada has come a long way in cleaning up its fiscal excesses. It’s national debt as a percentage of GDP is now lower than the US and continues to fall, while the US’s is rising. Canada’s
corporate tax rate is 15% compared to 35% in the US, the highest corporate tax in the developed world. Canada is proposing to raise the eligibility age from 65 to 67 for their Old Age Security, phasing it in over time. Yet neither US political party has the courage to propose modifying US Social Security. The result is that the Canadian dollar has risen from about 73 cents in the 1970’s to par with the US dollar today. This lowers the cost for Canadians who are importing goods, travelling abroad or buying foreign real estate. Canada has shown that poor policies can be reversed and when they are, there will be significant benefits for their citizens. Canada and other nations with sound fiscal policies are more attractive to investors since the rate of economic growth is usually higher and their currencies become more valuable.

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Onward and upward

Russ Kaplan: “The large increase in the stock market since October has shown the folly of the pessimists. Yes, there will be corrections along the way, but for the long-term investor this should not be an issue. I believe it is better to hang on to good stocks even if they go down than to sell, thinking there is going to be a correction with the intention of buying the stock back later. I have yet to meet anyone who has been successful at this.”

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Buy signal for gold imminent

George Dagnino: “Commodities have been declining since early 2011. They have shown some strength at the beginning of the year, but they have rolled over since late February. This weakness confirms the weakness of the economy we have been expecting. Our models, are saying a buy signal for gold is imminent. The dollar will stay weak due to the $474b current account deficit.”

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Focus on high-quality companies paying good dividends

Sean Christian: “We continue to believe that the market will follow through with the rebound from the 2008 crash. Our target is for the Dow to reach new all-time highs by the first quarter of next year. Of course, this does not mean that there will not be a correction at some point over the next 11 months.

We kind of expect it. And, it does not mean that the election in November will not prove disastrous ultimately for investors. Our personal belief is that the risks are greatest for the so-called “safe” assets of cash and Treasury bonds. It is simply not possible for the U.S. Federal debt to continue growing at its current pace without serious repercussions. The Federal Reserve has been buying something like 61% of all newly issued debt and that at some point must prove inflationary. It also creates tremendous vulnerabilities. There is no question that substantive political changes must take place to address this. We believe that the change will happen after the election but that the direction of change will be determined only in part by whomever wins. It is absolutely essential that all political changes be monitored closely by all investors. There is the potential for more profound economic changes manifesting in the next five years than any point since the early 1980s.

We believe that the focus in this market stage should be on high-quality companies paying good dividends.”
Steven Halpern's THESTOCKADVISORS.COM, a free website featuring daily stock picks and market commentary.

The StockAdvisors.com provides a daily overview of the latest stock, mutual fund, resource industry and ETF recommendations, investment ideas and stock commentary of the nation's leading financial advisors. Edited by Steven Halpern, here are a few recent postings:

**10 values: Validea’s Buffett portfolio**

John Reese, editor Validea, www.validea.com: “My Warren Buffett-based Guru Strategy attempts to use the same conservative, stringent criteria to choose stocks that the “Oracle of Omaha” has used in evaluating businesses.

My Buffett-based 10-stock portfolio was first developed in late 2003. Since then, it’s returned 62.1%, more than twice what the S&P 500 has gained (28.8%; all figures through April 23).

While most of my Guru Strategies are based on published writings of the gurus themselves, Buffett has not publicly disclosed his exact strategy (though he has hinted at pieces of it).

My Buffett-inspired model is based on the book Buffettology, written by Mary Buffett, Warren’s ex-daughter-in-law, and David Clark, a Buffett family friend, both of whom worked closely with Buffett.

Second, while most of my Buffett-based method centers on a company’s fundamentals, there are a few non-statistical criteria to keep in mind.

For example, Buffett likes to invest in companies that have very recognizable brand names, to the point that it is difficult for competitors to take away their market share, no matter how much capital they have.

In addition, Buffett also likes firms whose products are simple for an investor to understand – food, diapers, razors, to name a few examples.

In the end, however, for Buffett, it comes down to the numbers – those on a company’s balance sheet and those that represent the price of its stock.

In terms of the numbers on the balance sheet, one theme of the Buffett approach is solid results over a long period of time.

He likes companies that have a lengthy history of steady earnings growth, and, in most cases, the model I base on his philosophy requires companies to have posted increasing earnings per share each year for the past ten years.

There are a few exceptions to this, one of which is that a company’s EPS can be negative or be a sharp loss in the most recent year, because that could signal a good buying opportunity (if the rest of the company’s long-term earnings history is solid).

Another part of Buffett’s conservative approach: targeting companies with manageable debt. My model calls for companies to have the ability to pay off their debt within five years, based on their current earnings. It really likes stocks that could pay off their debts in less than two years.

Two qualities Buffett is known to look for in his buys are strong management and a “durable competitive advantage”.

Both of those are qualitative things, but Buffett has used certain quantitative measures to get an idea of whether a firm has those qualities. Two of those measures are return on equity and return on total capital.

The model I base on Buffett’s approach likes firms to have posted an average ROE of at least 15% over the past 10 years and the past three years, and an ROTC of at least 12% over those time frames.

Another way Buffett examines a firm’s management is by looking at how it spends the company’s retained earnings – that is, the earnings a company keeps rather than paying out in dividends.

My Buffett-based model takes the amount a company’s earnings per share have increased in the past decade and divides it by the total amount of retained earnings over that time.

The result shows how much profit the company has generated using the money it has reinvested in itself– in other words, how well management is using retained earnings to increase shareholders’ wealth.

The Buffett method requires a firm to have generated a return of 12% or more on its retained earnings over the past decade.

The second critical part to Buffett’s analysis is price – can he get the stock of a quality company at a good price?

One way my Buffett-based model answers this question is by comparing a company’s initial expected yield to the long-term treasury yield. (If it’s not going to earn you more than a nice, safe T-Bill, why take the risk involved in a stock?)

To predict where a stock will be in the future, Buffett uses the firm’s historical return on equity figures and earnings per share data to estimate what the company’s earnings and stock’s rate of return will be 10 years from now.

In the end, Buffett-type stocks are not the kind of sexy, flavor-of-the-month picks that catch most investors’ eyes; instead, they are proven businesses selling at good prices.

That approach, combined with a long-term perspective, tremendous discipline, and an ability to keep emotions at bay (allowing him to buy when others are fearful), is how Buffett has become the world’s greatest investor. Whatever the size of your portfolio, those qualities are worth emulating.

Now, here’s a look at my Buffett portfolio’s current holdings: The TJX Companies (TJX), Oracle (ORCL), PetMed Express (PETS), Monster Beverage (MNST), Raven Industries (RAVN), Bio-Reference Laboratories (BRLI), Rollins (ROL), World Acceptance (WRLD), Coach (COH), and Infosys Ltd. (INFY).

It’s an interesting group, and some of the holdings might not seem like “Buffett-type” plays on the surface. But they have the fundamental characteristics that make them the type of stocks Buffett has focused on while building his empire.”

Continued on page 26
SilverCrest Mines Producing Silver and Gold and Developing Advanced Properties in Mexico

SilverCrest Mines Inc. is a Mexican precious metals producer with headquarters based in Vancouver, BC. SilverCrest’s flagship property is the 100%-owned Santa Elena Mine, which is located 150km northeast of Hermosillo, near Banamichi in the State of Sonora, Mexico. The mine is a high-grade, epithermal gold and silver deposit, with an estimated life of mine cash cost of US$8 per ounce of silver equivalent (55:1 Ag:Au). SilverCrest anticipates that the 2,500 tonnes per day facility should recover approximately 4,805,000 ounces of silver and 179,000 ounces of gold over the 6.5 year life of the open pit phase of the Santa Elena Mine. A three year expansion plan is underway to double metals production at the Santa Elena Mine and exploration programs are rapidly advancing the definition of a large polymetallic deposit at the La Joya property in Durango State, Mexico. The company recently announced its financial results for the year and fourth quarter ending December 31, 2011. Highlights of that report included cash flow from operations of $14.7 million ($0.19 per share), revenues of $41.9 million, mine operating earnings of $29.0 million, and working capital of $24.1 million.

Teryl Resources Intent on Replicating Strategy of $15 Million Sale of the Gil Venture to Kinross Gold

A 20-year relationship with mining giant Kinross Gold paid off handsomely in December when Teryl Resources Corp. sold its 20% working interest in the Gil Venture gold property to Kinross Gold’s subsidiary, Fairbanks Gold Mining Inc., for $15 million plus ongoing royalties. With a $2.5 million down payment in hand, another $1.5 million to be paid on commencement of production, and a guarantee of significant future net smelter income from production, Teryl is in an undeniably enviable financial position. Teryl’s Alaskan properties – Westridge, Fish Creek and Stepovich – all have proven gold mineralization and lie within the same area as the Gil, offering the clear potential for similar exploitation. Teryl applied for an exploration program permit to drill five promising targets at its 5,200-acre Westridge property. The goal is to test for both placer and load targets. Teryl also is planning a $360,000 multi-phase work program at its Silverknife property in summer 2012. The company holds a 40% interest in the northern British Colombia silver property, which lies adjacent to Silvercorp’s huge silver-lead-zinc discovery.

Puma Exploration Discovers High-Grade Silver-Gold Lenses and Validates New Geological Model

Puma Exploration is focused on advanced projects in precious and base metals in Canada. The company’s major projects are the Nicholas-Denys Silver Project and Turgeon Copper Project in New Brunswick and the Little Stull Lake Gold Project in Manitoba. New Brunswick, Canada has been ranked the best place in the world to conduct mining exploration by the 2012 Fraser Institute Survey. New players such as Trevali Mining Corporation who had commenced initial production at Halfmile Mine and Votorantim which is developing the Murray Brook Deposit are now very active in the area. Puma recently reviewed its drill hole database for its Little Stull Lake Gold Project to evaluate the potential of a surface openpitable gold resource similar to the new model defined at Monument Bay Gold Deposit held by Mega Precious Metals (MGP-TSXV) in Northern Manitoba. Puma re-worked the existing information taking into account the potential for open pit and underground operations at today’s gold price to direct next exploration works at Little Stull Lake that will include an internal resources study.
Continued from page 24

**5-star buys from the ‘Best on the Street’**


Here are some of the winning analyst’s recommended stocks in the category for which he or she won. Each stock earns our highest 5-star buy rating.

“Coming off of last year’s No. 1 ranking in the ‘Best on the Street’ survey, our equity research team at S&P Capital IQ maintains a strong showing of third place (tied), with nearly 200 firms in this year’s survey,” says Stephen Biggar, Global Director of Equity Research for S&P Capital IQ.

**Angelo Zino, Alternative Energy**

Despite recent softness in the thin-film solar energy business unit at Advanced Energy Industries (AEIS), we expect segment orders to begin to rebound. We anticipate strong growth in the company’s renewables business, with solar-inverter sales to experience robust growth as the company increases its penetration of the U.S. utility solar market.

We think the company will be able to sustain a high share of the U.S. inverter market despite competitive pressures, but expect pricing pressure to persist in the foreseeable future. We expect revenues to decline 6.5% in 2012 but to rebound with a 14% gain in 2013.

Our 12-month target price is $16 per share. Risks to our recommendation and target price include weaker than expected growth in the global economy, lower than projected semi-conductor demand, and a greater than expected decline in non-semiconductor sales.

**Stuart Benway, General Industrials**

We estimate that 2012 revenue at Neenah Paper (NP) will increase by 8%-10%, following growth of 5.8% in 2011. The acquisition of Wausau Paper’s fine paper brands is expected to account for about half of the improvement.

Sales of filtration products used in automotive applications as well as specialty papers used in tapes, packaging, and labels are likely to rise modestly this year due to market share growth and a further gradual rebound in the worldwide economy.

Over the long term, we expect Neenah Paper to report higher profits and cash flow due to growth in its higher margin businesses.

Risks to our recommendation and 12-month target price of $34 a share include unexpected declines in paper prices and demand, a lack of recovery in the worldwide economy, and further increases in energy and raw-material costs.

**Phil Seligman, Health Care**

We think Humana (HUM) has the scale, diversity and financial flexibility to adjust to the health care reform law. We are encouraged by gains in its Medicare Advantage (MA) health plan enrollment, based on Centers for Medicare and Medicaid Services data, which appear to us to be ahead of its guidance and most peers.

We believe Humana has a good opportunity to gain additional MA members thanks to an aging U.S. population and an expected shake-out among health insurers caused by health care reform.

We also see good prospects for its penetration of the “dual eligible” (beneficiaries of both Medicare and Medicaid) market, partly aided by an alliance with CareSource, a non-profit Medicaid managed care organization.

In addition, we see its individual commercial enrollment benefiting from what we consider attractive, price-competitive products and services.

We expect Humana shares to reach $108 a share over the next 12 months. Risks to our recommendation and target price include intensified competition, a medical-cost spike, and MA-rate cuts.

**Esther Kwon, Hotels & Casinos**

We see growth for Las Vegas Sands (LVS) being driven by operating performance in Macau and Singapore, where its newest integrated resort, Marina Bay Sands, opened its first phase in 2010. Las Vegas Sands just opened its second property in Macau, the Sands Cotai Central, in April.

For 2012, we see revenue rising by more than 20% to $11.7 billion from $9.4 billion in 2011, boosted by the opening of Sands Cotai Central, strong performance at existing properties in Macau and Singapore, and improvement in Las Vegas.

We see property EBITDA rising at a slower rate than revenue as Sands Cotai Central improves its operational efficiency, but we forecast some improvement in property EBITDA margins in Macau and Las Vegas. For 2013, we see revenues rising at a double-digit rate.

We have a 12-month target price of $64 on the shares. Risks to our recommendation and target price include an unexpected slowdown in the growth rates of key markets, sudden regulatory changes in China, and a terrorist event.

**Efraim Levy, Specialty Retailers**

(Because Efraim Levy currently has no 5-STARS/”strong buy” ranked stocks in specialty retail, the category for which his award was given, we have included a 5-STARS recommended stock from a different category.)

**Johnson Controls** (JCI), a leading manufacturer of auto-motive interior systems, batteries, and automated building control systems, also provides facility management services for commercial buildings.

It is one of the few suppliers to the auto industry whose shares we believe are undervalued. We see Johnson Control’s revenue rising by 7.6% in fiscal 2012 (ending September) on increasing global vehicle sales, despite weakening auto sales in Europe.

We see operating margins improving in fiscal 2012 on stronger demand, the benefits from its restructuring activities, and reduced restructuring costs.

Our 12-month target price of $41 a share reflects our expectation that long-term sales and earnings growth will exceed that of peers, and for the company
to show greater earnings stability.

Risks to our recommendation and target price include lower than expected demand – especially for automotive parts – higher than anticipated raw material costs, further weakness in Europe and of the euro versus the U.S. dollar, and less than expected acquisition synergies and restructuring savings.

**Todd Rosenbluth, Telecommunications**

In 2012, we look for Windstream (WIN) to report revenues of $6.3 billion, with 35% from the newly acquired assets of broadband-services provider PAETEC Holding.

We expect strong growth in the business segment. Within consumer, we see broadband customer additions nearly offsetting the impact of access line losses.

However, growth will likely slow on an above-average penetration rate. On a pro forma basis, revenues in 2011 were $6.24 billion.

We view Windstream’s fundamentals as stronger than many peers, and we see the shares as undervalued; we have a 12-month target price of $14 on the shares.

Risks to our recommendation and target price include increased cable telephony competition, federal or state regulatory changes that pressure cash flow, and inability to support the dividend.”

**Pax World: High yield exception**

Amy Calistri, editor *The Daily Paycheck*, web.streetauthority.com: “I generally prefer closed-end or exchange-traded funds because the fees tend to be lower. But I made a special case for Pax World High Yield Bond (PAXHX); this high-yield bond fund is my only open-ended mutual fund holding.

This fund carefully selects non-investment grade bonds issued by companies that have strong and improving financial results.

It also is a “politically correct” fund in that it chooses companies that have good environmental records, responsible employee relations and ethical company governance.

It won’t invest in companies that have bad product safety records, manufacture tobacco or are involved in the manufacture of weapons or weapons related products. And it has an expense ratio of only 0.97%, which is relatively low for an actively managed fund.

I recently selected PAXHX as one of my top three safest holdings – securities I wouldn’t hesitate to buy during a market meltdown.

I’ve been looking to buy this safe security at a price well below market – $7.08 per share.

This fund’s share price is usually very steady. So it might take a mini-market panic – when the babies go out with the bathwater – for PAXHX to dip that low.

In the meantime, I continue feel it is an excellent choice for more conservative investors.”

**Leucadia National: Another Berkshire?**

Gavin Graham, contributing editor *Gordon Pape’s Internet Wealth Builder*, www.buildingwealth.ca: “Our latest recommendation Leucadia National (LUK) is a diversified conglomerate with a long-term approach; indeed, the company could be viewed as another Berkshire Hathaway.

It has been run by the duo of Ian Cumming and Joseph Steinberg since 1978. Over that time, book value has compounded at 18.5% per year, compared to 8% for the S&P 500 with dividends reinvested.

Leucadia’s market price and shareholders’ equity have compounded at 19.8% and 19.1% respectively over that period.

This excellent track record has not come without volatility. Although Leucadia’s stock was up eight out of past 10 years, it fell 58% in 2008, compared to a 37% decline in the S&P 500, and was down 22% last year while the index was up 2%.

However, volatility is not the same as risk. Warren Buffett has famously said he would much rather make a lumpy 15% than a smooth 12%, especially as the lumpiness of the return will deter investors who have a low tolerance for volatility.

Messrs. Cumming and Steinberg fall into the same camp and an examination of their largest and single most successful investment reveals a great deal about the reasons for their success.

Believers in the long-term growth of Chinese demand, in August 2006 Leucadia invested $400 million, or almost 15% of its shareholders’ equity, in Australian start-up iron ore miner Fortescue Metals Group.

This investment has proven to be an enormous success, and Leucadia has taken the opportunity to crystallize profits. It sold 117.4 million shares last year for $732.2 million, as well as receiving $193 million in royalties net of withholding taxes.

It sold another 100 million shares for $506 million in the first quarter of 2012, leaving it with 30.586 million in royalties worth $186 million and another seven years on the royalty note.

Leucadia has taken the same bold approach to several of its other investments. It swapped its interest in a Spanish copper project, Cobre Las Cruces, for a shareholding in Canadian miner Inmet, becoming largest individual shareholder.

Leucadia also owns a 29% stake in Jefferies, which cost $980 million. Jefferies is a leading U.S. middle market full-service investment bank and broker, with 30 offices in 11 countries. Messrs. Cumming and Steinberg sit on its board of directors.

Leucadia increased its position in Jefferies in 2008-09, when investment banks were probably the least popular sector in the entire market. Its willingness to take large positions when it is convinced of the underlying soundness of the business has been a hallmark of its management.

For instance, in October 2007, just as the recession was beginning, it began buying stock in auto-finance company Americredit which provides car loans to customers with bad credit.

Leucadia sold its Americredit stake to General Motors for cash in October 2010, receiving $830.6 million for shares that had cost $428.5 million to buy. That generated an internal rate of return of 29%, compounded.

The company’s Berkadia 50/50 joint venture with Berkshire Hathaway is another example of counter-
On The Cutting Edge...

Each quarter Friess Associates, managers of the Brandywine Funds, share samples of innovative ideas that cross their research team’s radar screen even though opportunities to invest in them may lie in the future or never surface. Some of these innovations might be showing up near you already while others fail to evolve into practical applications. Here are some recent ideas:

• **Brought to You by the Gecko Foot.** Inspired by a lizard, researchers at the University of Massachusetts created a strong and reusable adhesive fabric that can securely grip to smooth surfaces such as glass and walls. Just as important, it can be made easily, cheaply and at a significantly greater scale than previous approaches, which tended to focus on replicating microscopic hairs on gecko toes that contribute to the lizard’s remarkable climbing ability. The UMass team credits their gecko toes that contribute to the Gecko Foot.

• **Disappearing Ink.** Laser printers work by using heat to deposit toner onto paper. Researchers from the University of Cambridge found that turning up the temperature on laser light and delivering it in ultra-short bursts can return used paper to its preprinted state. Recycling is good, but it still consumes energy and produces carbon emissions in the process, which when it comes to paper includes a sizable market dedicated to removing ink. While practical hurdles remain, the researchers envision office machines that one day will be able to print and “unprint.” They estimate their process can extend the one-and-done lifecycle of most office paper fivefold before the time comes for the recycling bin.

• **Feel the Wheel.** Listening to verbal instructions can reduce the amount of cognitive focus a driver gives to driving, but that won’t stop a GPS from speaking up during those times when the road demands undivided attention. Amid heightened awareness of the dangers of distracted driving, AT&T Labs is working on a steering wheel that incorporates tactile cues, known as haptics, to deliver navigation directions to drivers more safely than audio or on-screen commands. Twenty actuators in the haptic wheel can vibrate in any pattern, with a clockwise pattern signaling a right turn, for example. Testing conducted at Carnegie Mellon University found that drivers kept their eyes on the road longer when using the haptic wheel. AT&T Labs sees applications beyond GPS, including blind-spot notification.

• **Check it Out.** Does someone or something really need to slap a barcode sticker on every tomato in the produce aisle in order to tell the cashier’s computer what it is? According to Toshiba Tec, the answer is no. A subsidiary of Toshiba, the company makes cash registers, electronic scales and other retail point-of-sale products and systems. Its new Object Recognition Scanner is aptly named. Armed with a comprehensive database of reference images and a camera, the scanner isolates items by neutralizing visual background noise and uses pattern recognition technology to identify them. The scanner operates at high speeds and, in addition to produce, can identify items by printed material such as labels and coupons.

Continued from page 27

cyclical thinking. It is one of the largest and lowest cost non-bank owned commercial mortgage servicers and originators in the U.S.

The joint venture was established in December 2009 with $434 million in capital, of which half is Leucadia’s. Through the end of 2011, Leucadia has received $84.6 million in dividends. Both cash flow and dividends increased in 2011 from 2010.

Leucadia owns a number of other interesting smaller operations, such as the Hard Rock Hotel and Casino in Biloxi; the Crimson Wine Group; oil and gas driller Keen Energy; valve and tube maker Mueller Industries; manufacturers Idaho Timber and Conwed Plastics; and auto dealership joint venture Garcadia.

But its most recent and largest investment is in beef! The simplest way to explain Leucadia’s latest acquisition is to quote from the Chairman’s letter discussing the purchase of 79% of National Beef Packing for $868 million on Dec. 30.

“While the U.S. is a mature market, global protein consumption is growing at an astounding rate. People across the globe have an ever-growing desire to consume high quality U.S. beef and we will do all that we can to make that possible.”

Worried about the outlook for credit markets, Leucadia paid cash for National Beef. It also reduced its total leverage by over 40% by calling $511 million of long-term debt in 2012 and buying back more of its debt in the market over the last three years.

While both Messrs. Cumming and Steinberg are in their 70s, the board of Leucadia recently appointed Justin Wheeler as Chief Operating Officer. Mr. Wheeler has been with the company since 2000 and was largely responsible for the Americredit and National Beef deals.

Leucadia underperformed the S&P 500 in three of the last four years, despite realizing $2 billion in capital gains in the last two years and reducing its leverage. I believe it offers good value at current levels.

I am recommending it for investors willing to Continued on page 29
undergo some volatility to gain exposure to a widely diversified and well-managed group of businesses run by two of the top investors of the last quarter-century.”

**United Online:**
**High yield for patient investors**

Jason Clark and John Buckingham’s The Prudent Speculator, www.theprudentspeculator.com: “Internet services provider United Online (UNTD) sports a yield of more than 9% after the stock tumbled in price.

While we know that the firm has an uphill battle within its media and content business and that the company is still finding its footing in some of its newer endeavors, the sum of the parts seems to stand materially above the current share price.

The shares fell sharply after the stock was downgraded to a Sell by one of the few analysts covering the company in the wake of the Q1 earnings release.

Alas, the reason for the downgrade was essentially that the brokerage house doesn't much care for management and that operating margins might eventually impair the ability to pay out the generous $0.10 per share quarterly dividend.

The Q1 earnings report showed that UNTD produced better-than-expected revenue during the period, exceeding consensus by $2 million at $242 million.

Revenue was propped up by continued strength in its FTD floral business, as well as a slower attrition rate in its Content & Media segment.

Additionally, adjusted operating income before depreciation and amortization (OIBDA) exceeded forecasts and came in above the high end of the company's estimate.

United CEO Mark R. Goldston commented, “Highlights of the quarter included the FTD segment's fifth consecutive quarter of year-over-year growth in revenue ... and the launch of our NetZero 4G Mobile Broadband service.”

Investors seemed alarmed by the decrease in free cash flow, as this metric was impacted by management staying aggressive on acquiring customers and kicking off marketing efforts for the new mobile broadband service.

While we would expect these types of actions to continue to impact results for the next few quarters, it is worth noting that the expense of the $9.3 million in dividends that were paid were adequately covered by the $15.4 million of free cash flow.

Further, the balance sheet continues to be strengthened, as it now has $137.7 million in cash, more debt was paid off during the quarter and the firm recently refinanced its FTD's credit facility, cutting interest expense by more than 30%.

Management's commitment to its juicy dividend and the extremely inexpensive valuation metrics make UNTD shares an appealing technology value play, especially given the stock's recent underperformance.

We are willing to patiently collect the dividend as management takes further strategic actions which should drive long-term share price appreciation.”
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Aurizon Posts Record Profits for Q1 2012 Gold Production and Plans Development, Exploration and Updated Reserves/Resources

Aurizon Mines Ltd. is a gold producer with a growth strategy focused on developing its existing projects in the Abitibi region of northwestern Quebec, Canada, one of the world’s most favorable mining jurisdictions and prolific gold and base metal regions. A significant part of the company’s business plan is to increase production through accretive transactions. Aurizon has 11 properties in Quebec: including Casa Berardi, an operating gold mine, the Joanna property, which is in the feasibility stage, and a growing project pipeline. Aurizon recently reported Q1 2012 financial results, highlighted by a net profit of $8.3 million, or $0.05 per share, 238% higher than $2.4 million, or $0.02 per share, for the same quarter in 2011. The company’s operating profit margin per ounce increased 31% to $1,011, largely due to higher realized gold prices. Gold production for the quarter totaled 33,488 ounces. Revenue from Casa Berardi operations increased 20% to $56.8 million in Q1 from the sale of 33,364 ounces of gold, compared to the same quarter in 2011. Aurizon ended the quarter with cash balances of $199 million and no debt.

Batero Gold’s Colombia Project Resource Estimate Shows More Than 6 Million Oz of Gold…and Growing

Batero Gold Corp. is focused on the exploration of its 100% owned Quinchia gold project located within the Middle Cauca Belt in Colombia. The Company is evaluating a high grade development option at La Cumbre deposit in the southern area of the project. The Batero-Quinchia Project is located within the Municipality of Quinchia, Department of Risaralda, Republic of Colombia, approximately 55 kilometres to the north of the regional capital, Pereira. The property consists of a 1,407.43 hectare tenement and is supported with full infrastructure including roads, water and power. Three historic Miocene intrusive centers have been identified, spaced out over a 3km north-south strike length trend, and are at elevations between 1,600m and 1,950m. The Municipality of Quinchia is recognized as a stable and secure social and political environment. Batero Gold recently closed an oversubscribed $6.3 million special warrant financing co-led by Raymond James Ltd. and Cormark Securities Inc. The proceeds will be used at the Quinchia Project for a planned preliminary economic assessment, including additional drilling and metallurgical work.

U.S. Silver Focused On Growing its Silver Assets in 2012 with Goal of Opening A Second Mine

U.S. Silver Corp is the second largest primary silver producer in the United States with annual silver production of 2.3 million ounces. The company owns and operates the Galena Mine in the historic Silver Valley of North Idaho and holds a dominant land package of 14,000 acres of under-explored property. The Galena Mine and Mill, along with the Coeur Mine and Mill and the Caladay Project, were acquired from Coeur d’Alene Mines Corp in 2006. Excess hoisting and milling capacity exists allowing U.S. Silver to easily increase future production as reserves are discovered and developed. Recent strong cash flow and cash on hand are funding expansion programs through increased development work and the planned reopening of the Coeur Mine. U.S. Silver recently announced first-quarter 2012 earnings of $2.9 million and cash from operating activities of $3.9 million. Revenue increased by $3.9 million from $19.1 million in Q1-2011 to $23.0 million in Q1-2012. Silver production totaled 551,228 ounces.
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