Top gold experts share secrets for making money in any market

By Casey Research, The Gold Report

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When the bears are attacking and "stuckholders" are looking for shelter, that is the time to call on the experts who have found a way to make money in up and down years. In this excerpt from the Casey Research "Going Vertical" webinar, The Gold Report shares inside secrets from Pierre Lassonde, Rick Rule, Jeff Clark, Doug Casey, Frank Holmes and Louis James as they call out their favorite picks of yesterday and today.

Pierre Lassonde, co-founder and chairman of Franco-Nevada Corp.: I think today's gold market is reminiscent of the 2001–2004 era. Gold bottomed around August of 2001 at $250/ounce ($250/oz) when the gold stocks recorded their absolute lows. I became president of Newmont Gold Co. at that point, and we were selling for $18/share and our cash costs were $160/oz.

Over the next three years, gold went up to $450/oz, then $500/oz. Our stock price went up to $62/share because our cash costs stayed exactly the same. That allowed us to deliver real shareholder value. After that, producers' costs have been going up atrociously every year, and companies have struggled to deliver anything to shareholders. But now, similar to 2001, cash costs are going to be down anywhere from 5% to 15% due to the oil price drop, so all the producers should be able to hold the line next year and maybe the year after. That makes this a great opportunity.

I turned bullish about the end of October after someone dumped $1 billion worth of gold at 2:00 a.m. to try to smash the floor price. It didn't work because the Chinese and the Indians bought all they could get their hands on. That was the turning point that showed a floor was in, and 2015 is going to be sideways, with the surprise likely to be on the upside. The change of heart of the Swiss central bank to stop pegging its currency to the euro says that there is a lot of trouble brewing in Europe. Combined with negative interest rates on European bonds, people are going to start wanting to buy gold.

At times like this, I like to invest most of my money in companies that already have real assets. One example is Teranga Gold Corp. Franco-Nevada has a royalty deal, so we did our due diligence and valued it at about $300 million ($300M) in 2013, which is slightly less than the total amount of money that's been spent building the mill and mine, and it doesn't even account for the reserve!

Four months ago, the stock was $0.35/share for a company with a $100M market cap. It has a mine and mill producing 200,000 oz per year at fairly cheap costs, and the market was willing to let it go for $0.35/share. That's the kind of crazy opportunities that are out there.

I also own a couple junior exploration companies. One is Foran Mining Corporation. It has a copper-zinc deposit in northern Saskatchewan, very near Flin Flon, so there's a mill nearby. The stock is around $0.21/share. The whole market cap of the company is $18M. There's been over $30–40M spent on that property. There's a real ore body that makes real economic sense. There's even a feasibility study that's been done, and it values the ore body at $350M net asset value. These are the disconnects that are out there.

In a way, I understand. People have been burned. They've become what I call "stuckholders"—they got stuck and weren't able to sell anything. But now is the best time to buy value.

Rick Rule, founder and chairman of Sprott Global Resource Investments: I think we came very close to capitulation last October, but we didn't pitch over to the other side. We are bumping along a bottom, and I suspect, unfortunately, 2015 will resemble 2014—higher highs, higher lows, a gradual recovery, but enough volatility that speculators will be alternatively elated and terrified throughout the year.

That dynamic is indicative of the last stages of a bear market coming into a bull market. We're seeing the last weak holders give out. We're seeing some strong buyers come in. We're seeing people run on emotion rather than mathematics. At the bottom part of the market, the valuations and the best stocks in the sector are so compelling that they ought to gap up 100%.

The only reason that they don't is that people's expectations of the future are pegged to their experiences in the immediate past. People's experiences in the immediate past have been so bad for the last three years that they don't have the courage to buy companies that are selling at 50% discounts to working capital. There are companies on the exchange now where cash is selling for $0.50 on the dollar.

Bear markets are the authors of bull markets. A market that has declined by 83% in nominal terms and 90% in real terms is 90% cheaper and 90% less risky than it was during a bull market. Bull markets follow bear markets, and you make money in markets by buying low and selling high. This is the opportunity to buy low.

Jeff Clark, editor of *Big Gold*: Last year, gold was up in every single major currency except the U.S. dollar. It was down by 1.8%. That is a major shift. A lot of people are buying gold in other countries because they're experiencing inflation or currency crisis related to printing money. That is a positive message for us in North America because gold did what it was supposed to do. It responded to crisis. It covered you for inflation. It hedged you for all these other variables. So if a crisis occurs in North America, we can expect gold to protect us.

In the meantime, we are seeing an unprecedented flow of gold from West to East, from North America and Europe to Asia, China and other Asian countries are going to control this market. It is not going to be the COMEX. It's not going to be the U.S. or Canada. It's going to be China. We don't know exactly how much because China doesn't announce its moves, but at some point, it will.

Maybe it wants to be the reserve currency of the world, we don't know. But at some point, it wants to have enough gold to withstand whatever shock the system might deliver. Then the gold price will be controlled by China, and it may be too late to buy gold at reasonable prices. That is why you really want to buy now when the price is down.

Add to that possible supply problems. Because of what has happened to the price of gold, producers have had to cut back on exploration and put some projects on hold or they're high grading and leaving the low-grade stuff behind, which will never come to market. Sooner or later, all of that is going to have consequences. At some point, there could be a crunch where it dawns on the public that we don't have enough gold, and we're going to have to pay a higher price for it. Throw in simultaneous inflation or a stock market crash, and it would be a perfect storm for gold prices moving a lot higher.

The stocks have leverage to gold, so they have sold off even more than gold has. The producers are down 50%, maybe 75% from their highs. The juniors are down even more, so there's really a lot of value there right now. They're not worth as much because the gold price is lower, but if you're bullish on gold and think gold prices have to move higher, this is a tremendous opportunity.

But you have to be patient. You can't expect to double your money next month. At some point, I think that producers do double. The producers have really cleaned up their acts. They've cut back on costs and capital expenditures. There is less waste. They're really focusing on the higher-margin projects now. So they're in a lot better shape. It's an easy double from current levels for the average producing gold company once gold goes into a sustainable higher bull market because they've been so devastated. The best juniors could realistically get a 10:1 shot. It's really more of a when question than an if question.

Doug Casey, *New York Times* bestselling author and chairman of Casey Research: I think 2015 is going to be a fantastic year for gold and also for the little companies that explore for it and mine it. So I'm very, very optimistic at this point. It's been an ugly bear market now for well over three years.

People have to understand that the junior resource market is the most volatile market in the world, more volatile than Internet stocks, more volatile than biotech stocks that regularly go up 10:1 or 50:1 with some issues going up 1,000:1, and then they melt down twice as fast and twice as deeply as they went up. So this is par for the course. This is the nature of the beast.

It's not pleasant, but it is perfectly normal. It's also cyclical. We are going to experience a recovery. I greatly fear a credit collapse-type deflation in the world economy because we are in very much the same position as we were in 2007, on the edge of a precipice, and this time it might be a catastrophic deflationary depression. There's nothing wrong with deflation, but it can be ugly for securities prices.

There has already been deflation in commodity prices and in the price of mining stocks. So I'm optimistic, but not for the stock market in general. It's been seven years straight up, powered by trillions of currency units that central banks and governments have created all over the world. I think that's going to be ugly, as will be the bond market. But with this particular little subsector, I'm optimistic, very optimistic.

I'll give you an example of a stock that went through the cycle. I bought a couple hundred thousand units of ATAC Resources Ltd. at $0.30 with a warrant in 2007. I sold them in 2009, 2010 and 2011 and got a 50:1 hit on it.

There was one called Mexgold Resources Inc. It was $0.13. I bought a 100,000 share unit, $13,000. I sold it two years later. It was a 20:1 hit.

These aren't the kind of spectacular hits that we had during the previous bull market, but they'll do. Then of course there were a couple of Ross Beaty stocks. Ross is well known as the broken slot machine. These were Northern Peru Copper Corp. and Regalito Copper Corp., which were spinouts of Lumina Copper Corp. I bought into those.

One was a 15:1 hit. One was a 20:1 hit. This is pretty amazing. We're not talking about small gold companies. We're talking about big copper deposits. There were a lot of them. I usually think of my losers because the losers hurt you so much that they burn themselves in your mind. You don't think about the winners.

As we talk right now, this is happy hunting ground time. A lot of these companies are selling for less than the cash that they have in the bank. They have competent, quality managements and interesting properties. We're likely to have a bubble in gold and a superbubble in these crappy little mining stocks.

Frank Holmes, CEO and chief investment officer of U.S. Global Investors, author of *The Goldwatcher: Demystifying Gold Investing* and adviser to the Clinton Foundation on sustainable development in countries with resource-based economies: I am bullish on the commodity supercycle because of the impact of 7 billion people in the world who need stuff. The problem is that prior to 2008, we had synchronized global growth, and we had fiscal policies that were all about trade and growth. Now the G20 gets together and it’s all about tax and regulations. It's synchronized tax collection. That is not good for global growth.

Royalty companies can be a great way to play it safe. They put up the money and receive a royalty off the top or a guaranteed stream above a fixed cost of future production. This simple royalty business model has none of the risk and juicy, fat margins. Silver Wheaton Corp. has one of the best records in the business when it comes to most revenue per employee and most cash flow per employee. Where can you have less than 30 people with cash flow of $500M a year? Royal Gold Inc. was up more than 30% last year while the gold stocks overall were down 15%. Over the last three to five years, these companies have far outperformed any gold index. Royalty funds in general are the most stable way to look at the resource sector.

Investors need to be careful not to leverage themselves. The nice thing about most of the juniors is they're not leveraged. It's just their assets have gone down in relative value.

Klondex Mines Ltd. is a great company. Franco-Nevada has done its due diligence and gave its good housekeeping seal of approval to Klondex's Midas mine. The intellectual capital is very strong at Klondex, and the company is very frugal. That is why it is in our Top 10 holdings.

Louis James, chief metal and mining investment strategist with Casey Research and senior editor of the *International Speculator* newsletter service: The current circumstances feel like 2009 to me. That is a good thing because 2009 was a terrific year for us. The market had just melted down. We had a severe mauling of the bear, something we are experiencing now. And like now, when there are small movements in the metals, we saw large movements in the stocks. There is a feeling of a lot of money on the sidelines wanting to come back in.

The problem is you never know when the bear is going to maul you, so you can't be entirely out of the market, and that's important. You have to buy value when you see it. You have to speculate on when something is selling for less than what it's objectively worth. But if the market does go south, you need to be able to persevere through that. And the company needs to be a good enough company that it can pull through.

I can think of one very acute example. AuEx Ventures Inc. was one of our biggest wins. It was a true tenbagger for us. The interesting thing about this one was that our initial recommendation in an alert was at $0.55 in early 2006. By the time the Prospectors and Developers Association of Canada (PDAC) convention rolled around in March 2006, the stock had already doubled, and we had already taken profits. Sometimes, people don't want to take profits.

They're excited the company is succeeding, and the stock is just going up and they can't imagine selling half. Subsequently, the bear reared its ugly head, and the stock dropped. It was easy to hold on because we had already taken profits. We had no risk in the play. It was all upside. And company management was doing all the right things. The drill holes were confirming the thesis. We were finding more gold.

AuEx got bought out by Fronteer Gold Inc., which we happened to own as well, and it did well. Then that company got bought out by Newmont Mining Corp., which is one of the gold majors. In both cases, we were dividended shares in a spinout company, both of which are exciting companies to this day. That netted us a gain at the end of the day of just under 1,300%, including having taken profits. And it's still going because our shares in the dividend that we got for free are still in play.

Pilot Gold Inc., one of the daughter companies, is doing very well with a discovery in Nevada and another potential company maker in Turkey. The upside just keeps going. Those who didn't take profits would have doubled those gains. It would have been a twenty-twobagger, but it's better to be able to sleep at night. When you have a situation as we have had over the last three years where the bear just won't let go, it is so much easier when you've taken profits.

Another example, Pretium Resources Inc., is a particularly important one because sometimes it is about keeping the faith. About a year ago, one of its consultants quit, saying some very negative things about the company on the way out. The other consultants who were working on the project disagreed. But we knew management.

We trusted CEO Bob Quartermain. So when the rumors were flying and the stock was suffering, we were able to buy shares at $3. Subsequently, Pretium was vindicated. The bulk sample not only didn't disappoint the way the guy who quit said it would, but it overdelivered by almost 50% of the amount of gold that it had. It was too conservative.

Pretium, quite simply, has one of the richest gold discoveries in decades, possibly history. Now, that may sound like an extreme claim, but large gold deposits are rare in today's world. Around the entire world, there are only a couple hundred that could claim to have 1 million ounces (1 Moz) or more of gold in the ground. Most of those are low grade. The average of these is less than 1 gram per ton (1 g/t).

Of the high-grade ones, there are about 40 around the entire world that grade 10 g/t or higher. Only 40. Pretium Resources has 13 Moz gold averaging about 0.5 oz/ton. This is extremely high grade and extremely large by modern standards. In fact, I can only think of one mine that might be bigger, in South Africa. South Africa has challenges whereas Pretium's Brucejack project is in Canada, one of the best mining jurisdictions in the world.

Now, what's really best about this story is that it's on sale. And the company keeps discovering more gold at bonanza grades. It was down in the deep-bargain rack with all the other dreck that had no gold at all besides in the name of the company. So you could back up the truck and within months double your money. And it still has the potential to go vertical.

Taking profits and sticking with winning management helped us do well even in a challenging market. The exchange that we have most of our picks on, the TSX Venture Exchange, was down 26%, and that's after a multiyear slide. We managed to finish the year up 10% despite gold being down 1.7% for the calendar year. We were very realistic and willing to cut losses, trim the portfolio ahead of bad news.

And we realized that even when gold rebounded slightly, there was a risk of it going back down again, so we took out puts, bets that gold might go down. Since they're options, you can do it with a little bit of money for a big payoff. When gold did retreat last year, we profited and that offset losses in our portfolio.

So it wasn't just that I picked all the winners when the market was going down. We did pick some, and we took profits when the market was up early in 2014, and we placed insurance bets in case gold went down and profited from those. That is how we ended the year up when the entire market that we play in was down by every measure.