

When Greg McCoach Picks Mining Stocks, It's Location, Location, Location

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COMPANIES MENTIONED

- ATAC Resources Ltd.
- Canadian Zinc Corporation
- Comstock Metals Ltd.
- Ethos Gold Corp.
- Explor Resources Inc.
- Kaminak Gold Corp.
- Orko Silver Corp.
- SilverCrest Mines Inc.
- Tinka Resources Ltd.

The looming financial meltdown will affect the global economy and the U.S. will not escape, says Greg McCoach. Whatever happens, the precious metals are bound to fly, as investors scramble for tangible cover. Mining stocks will be major beneficiaries of the soaring metals prices, but where mines are situated will be an important factor as governments try to get a bigger piece of the action. In this exclusive interview with [The Gold Report](#), McCoach names some of his favorite companies that he expects to do well in the coming turbulent times.

Source: [Zig Lambo of The Gold Report](#)

The Gold Report: When we last spoke in February, you were predicting a new round of quantitative easing (QE), which we've been seeing the last few weeks. Where do you think this is all going to end up?

Greg McCoach: The latest QE3 is open-ended, allowing the Federal Reserve to create money every month, indefinitely. QE3 was announced just a few weeks ago and already there is talk about QE4. So, in my opinion, this is the death spiral of the U.S. dollar.

The same thing is going on in Europe and Japan. It's very troubling and, in my opinion, totally unsustainable. But, trying to predict a timeline for the ultimate demise is almost impossible. This stuff could last another couple of years. Adding in the derivative problems on top of all this debt, it's just sheer insanity. So, where is gold going? It's going way higher because this is the ultimate dynamic that will guide the investment world for the coming years.

TGR: Is there any realistic solution, or are they just getting us deeper into the hole, and ultimately everything is just going to cave in on top of us?

"At some point I know gold and silver prices are going to go way higher than where they are now."

GM: The days of being able to fix this are long past. I had a chance conversation with a U.S. senator and, when I asked him about the debts and deficit spending, he admitted that everybody in Washington and New York knows that there's no possible way to

pay this back. So, essentially all the politicians are hoping it doesn't blow up on their watch.

I'm a student of history, which shows that no government that has taken on a fiat currency has gotten past the 41-year mark before it ended in inflationary panic and disaster. The U.S. dollar is now going into its 42nd year as a fiat currency and breaking the record. We're right on the cusp of what history says is totally unsustainable and will eventually collapse.

Then there is the derivative problem on top of the debt. There's no historical record

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of derivatives because they were created in the 1980s for large financial institutions to manage big risks. Unfortunately, the greed in the system overtook them, with everyone trying to make incredibly large returns. Now we have the derivative liability tracking through the world system.

TGR: Hardly anyone is even talking or worrying about derivatives at this time.

GM: Derivatives are the gigantic pink elephant in the room that no one wants to admit is there. As an example, the sovereign debt of Europe is \$70 trillion. The derivative liability, that means the unsecured liability that's associated with that debt, exceeds \$700 trillion. It's a ridiculous number. When we're talking about trillion-dollar deficits and derivative problems in the hundreds of trillions, it just shows that there's no possible way this can be fixed.

TGR: Another thing that is looming is the fiscal cliff that we'll face in a few months. What do you think will happen there?

GM: I think the pressure on Congress to do something is critical. [John Mauldin](#), a very bright economist who writes a newsletter, recently spoke at a conference I attended. He stated that if the U.S. Congress doesn't deal with the deficit problem in the first six months of next year, it's over. He said he would go from being an optimist about America to becoming a pessimist and that we'll go into this death spiral, as he refers to it, of not being able to pay our debt or interest on it. But, he believes that Congress is going to do something.

I'm very pessimistic about that, though I'm more of a pragmatic optimist. I don't see how Republicans and Democrats, who are so deeply divided, can handle the amount of deficit spending that would have to be cut out of the budget and how badly taxes would need to be raised just to try to have a chance of warding off what's coming. The chances of that happening, in my opinion, are zero.

So, the fiscal cliff is coming. He and I believe that if we're going to do the right thing, we have to go far beyond what the fiscal cliff is talking about. The way it's set up right now, only about 5% will be cut from spending next year. That's nothing. We have to do far more than that. Everybody's going to have to pay more taxes and government spending will have to be drastically reduced, or we go into the death spiral. That'll be very good for precious metals' prices, but it's a very sad commentary on where we'll be in this world.

TGR: Do you think the recent prediction by Merrill Lynch for \$2,400/ounce (oz) gold by 2014 indicates that the investment establishment is starting to see the light and realizes the dire situation, and that gold is going to have to go higher?

GM: The mainstream media, which has always been slanted against gold, is starting to acknowledge this. For them to make a positive comment about gold is really just a fraction of what's probably coming. At some point I know gold and silver prices are going to go way higher than where they are now. When I tell people that they should be buying precious metals, they say, "Isn't the price too high?" No, it's dirt cheap compared to where it's going.

After the elections, I think we'll see gold and silver prices press for a new high. As currencies eventually collapse, it's going to affect the whole world, and metals prices are going to go parabolic. People are always trying to guess how high that could be. The only justifiable rationale that I can give is to take how many ounces exist in the world aboveground today compared to how much fiat currency exists worldwide, and how many ounces of gold would be required to cover all that paper money? Well, my calculation comes out to about \$19,750/oz, and that's probably conservative.

I think gold could hit at least that number when it goes parabolic, based on all the emotional craziness that would be going on at that point. The rush into precious metals would be one for the record books. You would have oceans of fiat money that were suddenly trying to find some form of safety.

"We have to focus on the best areas of the best jurisdictions that have existing and rational mining laws."

Gold, which has always been the safe-haven asset, is a tiny little market and couldn't receive it. That's why it will drive these prices into the stratosphere.

I can't tell you when all this is going to happen and I could be wrong, but the precious metals bull market could continue for quite some time before we get to those parabolic moves. We might be at the end of that cycle right now and precious metals prices could start to go parabolic within the next few months or year.

TGR: So, when do you think the mining stocks are going to start benefiting from the higher metals prices and where should they be going?

GM: There's been a real disconnect. The high gold and silver prices have enabled producing mining companies to make money hand over fist, but their lack of market performance relative to metal prices has been troublesome. In the nearly 14 years I've been doing this, I can't remember a more difficult period for the junior mining stocks than the last few years. In August and September, the volume on the Toronto Stock Exchange started doubling and things were looking really good. I was expecting a favorable recovery this fall with higher metals prices, but our mining stocks are still really fragile, maybe because of the election.

TGR: There have been some setbacks recently with geopolitical issues affecting mining companies in certain areas. How is this influencing your investment recommendations and where should investors be focusing or avoiding at this time?

GM: It's becoming more and more complicated. Some governments around the world are acting like extortionists. They see a profitable mining company in their country and say, "We own your asset now, goodbye and good luck." This is a nightmare for investors. More and more countries are getting greedy and not wanting to allow mining in their countries unless they get an unfair portion of the profit, or they're just outright nationalizing these mines. That trend is definitely on the rise.

"I'm looking at companies that can still deliver a big upside, yet have cash flow so they don't have to be constantly going back to the market to do financings, which dilutes current shareholders."

What that means for junior mining stock investors is that we have to focus on the best areas of the best jurisdictions that have existing and rational mining laws. That was the topic of my talk at the [Toronto Cambridge House Investment Conference](#). I think it's so important that I wanted to highlight this issue and show people just how critical it is to invest in the right areas of the best jurisdictions. I'm not just talking

about the best countries, but the best areas within those countries or jurisdictions.

TGR: Do you want to talk about some of the companies that you like?

GM: I divide my recommendations into exploration, development, production and permitting situations. In the first eight years, we had great success with exploration stories and a few development stories. Now I'm more oriented toward a combination

in the portfolio, but looking more at companies that have cash flow. Because of the volatile nature of our markets, I'm looking at companies that can still deliver a big upside, yet have cash flow so they don't have to be constantly going back to the market to do financings, which dilutes current shareholders.

I like a company called [SilverCrest Mines Inc. \(SVL:TSX.V; SVLC:NYSE.MKT\)](#), located in one of the best areas of Mexico. There are certain areas of Mexico I don't like, but this is in a good area. The company is currently working through all the startup bugs, but it's banking money hand-over-fist, with over \$35 million (M) cash and growing every month. It's using that cash flow to find more ounces around its mine site.

SilverCrest also made a new discovery in another location in Mexico that's looking very promising. The stock price was around \$1.65/share over the summer and it's at \$2.39/share now. That shows it's in a quality mining spot and is a company to watch. I think the stock will break out to a new all-time high along with silver prices. That should take SilverCrest to a \$6–8/share buyout by a midtier company. I'm very bullish on SilverCrest right now.

TGR: How about other ones in Mexico or South America?

GM: [Orko Silver Corp. \(OK:TSX.V\)](#) is still looking very good. It has decent share structure with an NI-43-101-complaint resource in a very good part of Mexico and a new super-pit design with quite a silver asset that's economic. I think Orko will be taken out as well.

In South America, on the exploration side, I like a company called [Tinka Resources Ltd. \(TK:TSX.V; TLD:FSE; TKRFF:OTCPK\)](#), which is currently drilling some very large, very high-grade base-metal anomalies: silver, lead and zinc. Originally, the company had 20 million ounces (Moz) silver in an NI-43-101-complaint resource that it has built further. In addition, it has found some other very high-grade lead and zinc resources. We're hoping that this drilling really breaks open the understanding of these areas. This is on a major trend in central Peru going down into Chile that is known to host large volcanic massive sulfide (VMS) deposits, which are known to be very high-grade and highly profitable. I've been following the story for quite some time and I like what I'm seeing there. Drilling is currently underway and it should get some assays that could really move this story forward. Tinka is one to watch right now.

TGR: OK. Any other ones there?

GM: I'm going to be taking a trip to South America this winter to look around at some new projects. There are so many areas that I need to check out. If I really like something on paper, I try to visit the site before I make a recommendation. Once you get on site, there are always a lot of new questions that you didn't realize you needed to ask when you saw everything on paper. So, it's very important to do these site visits.

I really like Chile as a country that's moving toward liberty and freedom. Mining law is well established in Chile. I think that's a good area for investors to look at; Chile has some very big deposits of copper and gold.

I like central and southern Peru because the local people know mining and the mining law in those areas is very well established. That compares to northern Peru, where nationalization is going on. Just because I like a country doesn't mean I like all areas of that country.

I like the Yukon where there are going to be a lot of big gold, silver and base metal discoveries. Right now we're focused on the White Gold camp and what [ATAC Resources Ltd. \(ATC:TSX.V\)](#) is doing. The White Gold camp is going to have a lot of big new gold discoveries in the coming years. It will take time and there are infrastructure issues. Investors need to be patient. It's going to take a lot of money because the lack of infrastructure makes for very expensive exploration. There is no problem getting permits and building mines, but you can't get to them very easily and that gets very costly. For a junior mining company with no cash flow, that means you have to keep going back to the trough to raise money. If you don't hit early on, it can get painful for the investor.

TGR: So, what other companies do you like in Canada?

GM: I like [Ethos Gold Corp. \(ECC:TSX.V; ETHOF:OTCQX\)](#). It hit high-grade narrow-vein gold drilling this summer, but it was not the bulk-tonnage targets it would like. It only drilled 60 holes. [Kaminak Gold Corp. \(KAM:TSX.V\)](#), which I also like, has had great success up there and drilled over 400 holes this summer. I also like a new discovery up there called [Comstock Metals Ltd. \(CSL:TSX.V\)](#), still in very early days. I think there are a lot of things that could happen in the Yukon, but it's going to take time.

TGR: Any thoughts on [Explor Resources Inc. \(EXS:TSX.V; EXSFF:OTCQX\)](#)?

GM: Explor Resources is a company that's in a great area. All the infrastructure is right there. It got a lot of attention over the last three years from investors and mining companies. Expectations were high to find a big high-grade gold deposit. So far, it's hit on a lot of very expensive deep drill holes. For a junior mining company without a deep-pocket partner, this has gotten very expensive. Lately the company has had some of its best drill results. It hit 35 meters of 8 grams/ton gold, which is very good. Had it hit that years ago, when it only had 65 or 85M shares outstanding, it would've been a multi-dollar stock. Now, in this tough market, we have these great drill results but there are 160M shares out and it needs more money again. Timing is everything in these deals.

I do think Explor will do well because it will be coming out in late November or early December with around a 1.5 Moz NI 43-101 resource calculation, which should be a bankable asset. The rest of the assays on further drilling will be coming out later this fall and will be calculated in another NI 43-101 resource sometime in April/May 2013. I think that will be around 2.2 Moz. That's a significant resource and the majors have to pay attention because it's located just 10–15 minutes outside of Timmins, in an area with infrastructure, that doesn't cost a lot to build a mine and has no permitting issues.

I do think that, ultimately, Explor will perform well. The stock is around \$0.15/share today, after hitting a low of \$0.12/share during the summer. As these NI 43-101 numbers come out, this stock will get back to a more respectable level and eventually will be joint ventured or possibly taken out by a bigger entity.

TGR: Definitely one to keep an eye on. So, are there any other ones you want to mention?

GM: Up in the Northwest Territories, [Canadian Zinc Corporation \(CZN:TSX; CZICF:OTCQB\)](#) has a mine that was built by the Hunt brothers in the late 1980s, with very high grades but not a lot of infrastructure. It looks like it's getting a permit right now. If that comes through, I think the stock revalues from \$0.39/share

currently, to more like \$2–3/share. Then it's a development story with about a year and a half to two years to production. Sprott Asset Management is one of the biggest shareholders. If you believe that silver prices are going higher, here's an operational mine that could be in production with very high-grade ore by 2014 or 2015. So, I like that one as well.

TGR: What should people be doing now to protect themselves and profit from what you expect is ahead?

GM: If you want to make money and not lose money, number one, you have to get out of U.S. dollars. If you hold U.S. dollars in a U.S. bank account, work for U.S. dollars at your job, or you're hoping to retire in U.S. dollars, you're going to be in trouble. This is what's coming. This deficit issue is beyond sustainable. At some point it means collapse and devaluation of our currency.

TGR: We've never had it in this country, so that would be a real shock to people.

GM: A big shock. The only way to protect yourself, that I see, is to own physical gold and silver as the ultimate form of money, and take possession of precious metals, whether it's American Eagles or Silver Eagles for Americans or Canadian Maple Leaf coins for Canadians. Don't let other people store them for you or get involved with certificates, pooled accounts or ETFs, because they only have to keep a small percentage of the actual money they receive in the metal that they say they're buying for you. When these metal prices go parabolic, how can they deliver to you if they don't own the actual metals? That's going to be a big surprise to people.

On top of that you've got to own the precious metal mining stocks, with their big upside leverage potential. Aside from that, my subscribers know that I'm very oriented toward preparedness. Get some food storage together. Our system works on a just-in-time three-day inventory system. If, for whatever reason, there's a disturbance to that three-day delivery system, the shelves are empty. Get some canned goods and freeze-dried foods that last for a long time. It's just a smart way to look at life, regardless of how you feel.

On a positive note, once we learn our lesson and the people keep the politicians accountable and don't let them abuse a fiat currency as we have the last 40 years, I do believe that good things can happen again with a new age of prosperity that has never been seen in this world. So, that's my positive note, after talking about the difficult times we'll have to get through first.

TGR: We appreciate your thoughts today, Greg, and the next time we talk, we'll know a lot more about how all this has turned out.

GM: Glad to be with you.

[Greg McCoach](#) is an entrepreneur who has successfully started and run several businesses in the past 23 years. For the last nine years, he has been involved with the precious metals industry as a bullion dealer, investor and newsletter writer (Mining Speculator and The Insider Alert). McCoach is also the president of AmeriGold, a gold bullion dealer. He writes a weekly column for Gold World.

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