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Why Peter Grandich Is Still Telling His Wife Gold Will Hit $2,000/oz

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COMPANIES MENTIONED

- Geologix Explorations Inc.
- Oromin Explorations Ltd.
- Sunridge Gold Corp.
- Teranga Gold Corp.
- Timmins Gold Corp.

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Many junior mining investors have run off with their tails between their legs. And who can blame them when even the portfolios of market veterans like Peter Grandich, publisher and editor of *The Grandich Letter,* have taken a beating? But before you cash in, you might want to read why Grandich still has hope for $2,000/oz gold, and which companies he believes have the mojo to make it through this trough in this interview with *The Gold Report*.

Source: Brian Sylvester of *The Gold Report*

***The Gold Report*:** Peter, the last time we talked you said that the success of your marriage was resting on the performance of your junior resource equity portfolio. You are still married, so is your portfolio performing or is your wife an extremely patient woman?

Peter Grandich: Living in the doghouse isn't that bad once you get used to it. It's wise during this horrific bear market not to let your wife see your monthly brokerage statements.

TGR: A reader of yours apparently suggested that you should have a "kennel portfolio" for some of your dog stocks.

PG: And that was one of the kinder comments that came in recently. I would be better off running a kennel than speaking about my junior resource clients.

TGR: Tell us about what has happened and what you're expecting for your portfolio.

PG: This has been the worst junior resource market in the 30 years that I've been on Wall Street. It may not be the largest percentage decline, but at least there were legitimate reasons for previous bear markets. It's hard to justify the most recent gold takedown. Nevertheless, it happened. I just can't seem to find any particular reasons to justify where we went.

TGR: You're not alone. There are people who took positions in these stocks when they thought the market had bottomed and they're still sitting with them in their portfolio. What are you doing with these stocks?

PG: These stocks have sunk way too low. Yet, I believe that this will be like the last dozen or so bear markets. There will be an inevitable bull market rally that will follow. The only justification to be a seller is that the mental stress and anguish has become so acute so that you literally can't take another day of it. In fact, I think that's what we've seen of late.

TGR: Are you still holding?

PG: I believe we've gone way past that level. I know inevitably a bull market will be onboard, but I don't know if that bull market will make us whole. This was so devastating and widespread. Prices should eventually rise higher than they are now, but it will take months.

TGR: In early April, gold bears were out in force after a lengthy hibernation. Are you less bullish on gold than you were a year ago?

PG: A year ago, the technical picture suggested that the market was coming to a major change that could have been several hundred dollars up or down. My brain said it could be down, but my heart said up and I stuck with my heart.

Even after this takedown, I still don't believe that the secular bull market that's been ongoing for 12 years has come to an end. I still believe we'll have a two in front of the gold price before it ends. We're going to have to get to $2,000/ounce ($2,000/oz) before there's any decision on my part about the end of the bull run.

TGR: What's your message to gold bears out there?

PG: The vast majority of so-called professional advisers and the media simply hate gold. Expecting them to rally around it would be similar to going into a Ford dealer and expecting to be told, "If you really want a good car go down the block to the Chevy dealer."

I would be worried about being a gold bear right now. You have to ask yourself what is it going to take to really crack the market? We had an onslaught of bear forecasts. We had an onslaught of selling in the paper market. Yet, as we speak, much of that decline has already been taken back. There's going to be a reversal and these bears are going to have to run for cover.

TGR: Do you have an anecdote on physical buying that illustrates your point?

PG: In a few months' time, I believe that we'll learn that one of the biggest buyers was one or more central banks of significance. That's why I believe the short sellers have a big problem going forward.

"There's going to be a reversal and these bears are going to have to run for cover."

TGR: In December, you said you expected to see restructurings, rollbacks and repricing of options in early 2013. "Then we will have all the classic signs that the worst bear market in some time is behind us," you said. We're four months in. Are you seeing those signs?

PG: My eyesight has been impaired by the severity of the fall. Those of us still breathing in the junior market are in total shock and frozen in our tracks. It's similar to living in New Jersey after Hurricane Sandy. We're just starting to see the enormity of the damage now that the storm has almost passed. The takedown of the gold price a few weeks ago was the last leg of that storm. Now we should start to see the restructuring, rollbacks and repricing of stock options. We'll all gain momentum between here and the end of the year.

TGR: What do the surviving junior companies do from here?

PG: I looked at the exhibitor list of an upcoming mining and gold show and about every company had a share price of $0.10 or less. Share prices are low and share structures are not tightly held—the inevitable has to happen if they're going to continue. But you're not going to see much general financing any time soon.

TGR: In a recent post on *Gradich.com* you talked about the coming collapse of the bond market. Tell us more about that.

PG: U.S. bonds will end up the worst investment for the next decade. The best recommendation I can make is a book that's just been released, "The Coming Bond Market Collapse," by Michael Pento. It clearly foreshadows what's going to happen in the bond market.

TGR: Should the junior resource space forget about the potential for takeovers given that the majors seem to have their hands full with high capital expenditure projects and disgruntled shareholders?

PG: It's not a question of if, but when we will see significant mergers and acquisitions (M&A). The bad news is that the prices will add very little premium. Unless the gold price rises, signaling a new leg in the market, junior market share prices won't get much higher.

TGR: What kinds of resource companies are poised to rebound?

PG: The higher you go up the food chain the more likely you'll see those rebounds. It's going to be very hard for a pure exploration company that has yet to develop a project to attract significant capital any time soon.

TGR: The top of the food chain is the majors. It's pretty difficult to find a major producer without a lot of warts. Do you still think they're going to bounce back?

"A consolidation is coming. It will have to get smaller before it gets bigger."

PG: In 30 years, I've never seen a spread in the valuations of major mining shares and metal prices as there is today. Newmont Mining Corp. (NEM:NYSE) has a 5% yield. Everything that can go wrong has already been priced into the majors at this point. The expectation is that they're going to do the things that are necessary to get better.

However, part of that will include slowing down on some growth opportunities they thought that they had to take. There won't be as much new gold coming into the market and that will support the gold price.

TGR: Tell us about some companies in your book and the progress they're making, despite what's happening in the market at large.

PG: Without a doubt, the best performer among my client companies has been Timmins Gold Corp. (TMM:TSX; TGD:NYSE.MKT). You really have to marvel at what it has achieved. Timmins began its quest to become a significant producer during the worst financial crisis in decades and is now a clear leader in the next generation of major producers.

Three other of my clients have had their shares bloodied, yet the potential for them to be significant producers has never been better in their entire corporate history. Normally these share prices are down because companies have failed at what they set out to achieve, but all three have taken great steps toward, or already achieved, their goals.

The only bad news that could come out of this is they are either taken over or merged without full price appreciation.

Those companies are Geologix Explorations Inc. (GIX:TSX; GIXEF:OTCQX), Oromin Explorations Ltd. (OLE:TSX; OLEPF:OTCBB) and Sunridge Gold Corp. (SGC:TSX.V). Those three are my largest personal holdings.

TGR: You recently posted a Timmins Gold chart on your website. What's that chart telling you?

PG: Unlike many other gold stocks that have gotten creamed, Timmins did not decline close to them percentage-wise. It's a sign that investors have recognized it to be an amazingly well-run company that is either going to be an acquirer or a takeover target. It's doing too well to sit back. I would suggest that in 12 to 24 months we will learn that Timmins has gone on the acquisition trail,or was attempted to be taken over by a larger company.

TGR: Oromin put out a feasibility study earlier this year. What were your thoughts when you started going through that?

PG: Oromin has the single largest set of deposits in a country where gold deposits and gold mining is growing—Senegal. If it were not for this horrific bear market, the share price would be a lot higher. There are concerns of its ability to finance given what's happened to its share price, but I suspect it could combine with its neighbor Teranga Gold Corp. (TGZ:TSX; TGZ:ASX).

Teranga would likely be the surviving company. I don't think Oromin management wants to stay on the production side of the business.

TGR: How would investors benefit from that deal?

PG: This is one of the true rarities where combining is better for both of the companies. Each may not like what I'm about to say, but what Teranga has mostly going for it is its mill. It hasn't been very successful on the exploration side. Oromin, on the other hand, is in partnership with one or more other parties on a series of deposits that have about 5–10 million ounces. It would be fairly expensive to build its own mill and foolish when the company next door has one and can use all the ore it can get in the coming years. The outlook for each company is vastly improved if they combine.

TGR: Is there a potential merger that would benefit Sunridge Gold?

PG: It is insanely discounted, not only because it operates in Eritrea, but also because of what happened in the junior resource market. It would have a share price probably 5–10 times higher if it were operating just about anywhere else in the world.

The bottom line is that any day Sunridge will have an updated resource study that should make it evident to everybody how ridiculously undervalued it is. It is definitely a candidate to be taken out. Unfortunately, it will not get anywhere near the price it could have gotten a year or two ago.

TGR: Sunridge put out a prefeasibility study just about a year ago. That showed a net present value (NPV) of $555 million and an internal rate of return of 27%. Do you expect the feasibility study, which is due out within the next month, to have even better numbers than that?

PG: It's very likely. That's why this market is so frustrating. Something has to give. You just can't keep adding value the way Sunridge has and discount the price. If nothing else happens, a bigger company will come along that is better financed and take Sunridge out. The ore in the ground doesn't know that it has been discounted to the level it has, and it's still being sold around the world for a nice price.

TGR: What about the jurisdiction risk?

PG: Everybody I talk to that works there says it's perhaps one of the best places they ever worked in all of Africa. Unfortunately, Africa creates a lot of negative buzz in the media.

TGR: Geologix is a story that's been around for a while. It has a project in Mexico. What's the path to making money for investors with Geologix?

PG: It's almost to the point where it's giving the stock away for nothing. The market cap is probably not even 10% of the NPV of the project. It's a fairly easy deposit to develop and should not have major hiccups. It's probably on radar of multiple companies as a possible acquisition because it's in a good jurisdiction and has a lot going for it.

Does the fact that the market has taken this one down to a dime cause a problem for the company? Sure, but the management seems to think it has an alternative to raising capital with a general equity financing and says to stay tuned. You've got to give Geologix the benefit of the doubt and give it the time to see what develops.

TGR: Does Geologix have any cash-rich neighbors in Mexico?

PG: I don't know about the cash-rich neighbors, but there are significant mines and miners operating in the general area, the type of companies that are going to be the first to notice this asset is so cheaply priced.

TGR: Do the companies we've discussed have enough cash to wait this market out?

PG: They have enough cash for the very short term, but all these companies are always burning matches. Until they have assets that they're selling and can take in more money than they're spending, they always have to raise money. That's another reason why they're priced where they're at.

TGR: What should investors expect during the remainder of this year and into 2014?

PG: The U.S. stock market is nearing the end of the single largest bear market rally in history. This is what I predicted in 2009 would occur. There won't be a collapse as soon as it does top out because quantitative easing will create a cushion. With the economy rolling over again, I don't foresee the end of quantitative easing.

There will probably be some more shenanigans by the Federal Reserve to give another kick to the can, but the time will come when the world realizes that we cannot afford to pay back what we owe, much less the interest. That's when the financial markets will be hit hard. That's when there will be a collapse of the bond market and a very sharp decline for general equities.

In the meantime, we will see $2,000/oz gold. The recent gold takedown was not driven by fundamentals. It was not fun living through it, but it was actually something that is going to fortify this secular bull market that's been underway for 12 years and is going to mark the next leg of the bull run for gold.

TGR: What's your advice to the average retail investor in this climate?

PG: It's just too late to sell unless you just can't tolerate the mental anguish another day. Companies are down 90% off their highs in some cases, but some are viable. A consolidation is coming. It will have to get smaller before it gets bigger. Eventually, gold will stop making news for going down and start making news by going up sharply. That's something I still think we have in our future. That's why I still have hope for the junior market.

TGR: Thanks, Peter, for your insights.

Financial Adviser and Market Analyst Peter Grandich *started publishing* The Grandich Letter*—now a blog—without a high school diploma or even a day of formal training. His ability to interpret and forecast financial happenings—which once earned him the moniker "Wall Street Whiz Kid"—has led to hundreds of media interviews. He is regarded as one of the world's foremost market strategists.*

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