

# Growth Stocks Weekly

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**Performance:** Year ended April 1996 **116.9%**; 1997 **28.1%**; 1998 **36.4%**; 1999 **39.4%**; 2000 **180.9%**; 2001 **-50.5%**; 2002 **18.7%**; 2003 **28.8%**; 2004 **166.7%**

## Junior Gold and Natural Resource Sector Analysis

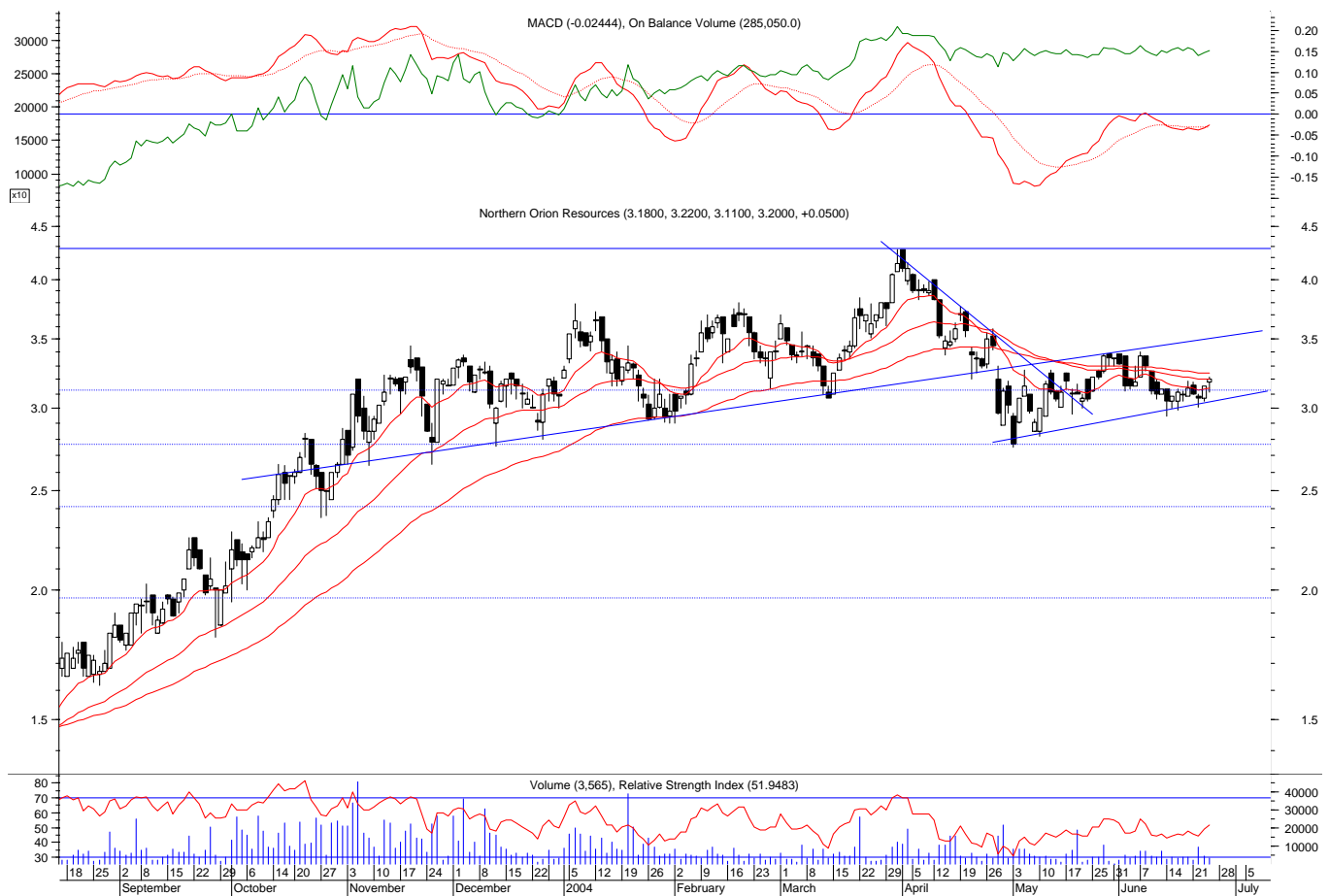
*(A supplementary report to the Growth Stocks Weekly newsletter)*

June 24, 2004

### UPDATE

#### Northern Orion Resources (NNO-TSX, NTO-AMEX)

*Daily chart, Semi-log scale, High C\$4.28, Low C\$1.20, Last Trade C\$3.20 (June 24 close)*



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### 20% Increase in Ore Reserves at Alumbra

**Northern Orion Resources Inc.** (NNO-TSX, NTO-AMEX) is a low-cost copper and gold producer with a 12.5% interest in the Bajo de la Alumbra mine in northwestern Argentina. Alumbra gives Northern Orion an estimated annual cash flow of US\$45 million.

Adjacent to Alumbreira, the company is also developing its 100%-owned Agua Rica copper/gold deposit, containing more than 10 million ounces of gold and 18 billion pounds of copper. Agua Rica has similar metallurgy to the Alumbreira mine, located only 34 km away. More than US\$50 million has been spent on Agua Rica to date.

Management's goal is to increase shareholder leverage to metal prices through accretive transactions and by developing world class deposits such as Agua Rica with no further dilution.

NNO reported net earnings of US\$9.13 million (\$0.09 per share) for the three months ended March 31, 2004 compared to a loss of US\$836,000 (\$0.04 per share) for the same period in 2003. Highlights of the quarter include:

- Equity in earnings of the Alumbreira Mine was US\$10 million (\$0.09 per share (basic) and \$0.07 per share (fully diluted)), up 34% from the previous quarter.
- Attributable share of operating cash flow (before interest, depletion, depreciation, amortization and tax) at Alumbreira was \$17.7 million or \$0.17 per share for the three months ended March 31, 2004, up 18% from the previous quarter.
- Average realized copper price was \$1.20 per pound (up 32% from the previous quarter) and average realized gold price was \$401 per ounce (up 6 % from the previous quarter).
- Cash cost (net of gold by-products) was negative \$0.03 per pound of copper.

**Latest Developments:** NNO's co-owner in Alumbreira, Wheaton River Minerals Ltd., (37.5%) announced on June 22 an upgrade in the ore reserves at the Minera Alumbreira mining operation in Argentina, extending the mine life at Alumbreira by 2.5 years and ensuring gold production until mid-2015.

An ongoing ore delineation drilling program, undertaken within the existing ore envelope and for extensions at depth, has confirmed in excess of 80 million tonnes of additional ore reserves. Following re-optimization of the mine plan, based on a new geological model and improved metal prices (\$350 per oz of gold and \$0.90 per lb. Copper) and cost improvements, reserves have increased by an additional 350,000 tonnes of copper and 1.2 million ounces of gold. The grade and cost profiles of the additional ore are expected to be in line with the previous life of mine plan. The additional ore was found predominantly in the north-western and northern domains of the pit, both inside and outside previous pit limits.

Ian Telfer Chairman and CEO of Wheaton said: "the extension of the mine life at Alumbreira adds significant value to Wheaton with the addition of over 450,000 ounces of gold reserves and over \$200 million in additional cashflow over the life of the mine."

Alumbreira will continue the intensive in-pit resource definition program with the objective of adding further ore reserves in the coming year. A new ore reserve statement for Alumbreira will be made available in the second half of the year based on the new geological model and the update of the pit topography at June 30, 2004.

NNO's share of this additional mine life equates to over 150,000 ounces of gold reserves and over \$67 million in additional cash flow over the life of the mine.

Technically, share price is working through resistance with solid support now just under \$3.00 and rising. The 13-week /80-day moving averages at \$3.24 mark resistance. Near term upside target is the \$3.60 area once remaining short-term resistance is overcome. Gold is starting an apparent breakout to test the recent highs around the US\$430 area and will once again attract new money into the sector.

What we said in our May 3<sup>rd</sup> Update: *"The first thing to note on the daily chart is the supportive nature of the 50% Fibonacci Retracement line. What was once resistance at the C\$2.75 area became much-tested support after the early November 2003 price breakout. No less than 4 tests can be counted after which we saw a succession of higher highs and higher lows. You will recall that old resistance becomes support and vice-versa – the "memory effect" so often found and of use by TA practitioners ... Given the gold and copper corrections, it is easy to see why NNO broke down. But you have to believe that anticipated Q1 financials are going to benefit handsomely from that exceptional price run up in the metals, providing a further windfall of cash flow to NNO.*

*Yes there could be further downside to NNO, mostly dependent on commodity prices. Next support levels are found at C\$2.41 and C\$1.98. Do I think we'll see these prices this cycle? Frankly no, but one can wish! It would offer an opportunity to reset at bargain prices. The only spoiler would be to be wrong on the demand for the metals. Given the fundamentals for gold and copper (see my separate reports on this), I'm betting on NNO. We are re-establishing one-half of our intended position (5,000 shares) with a purchase at C\$2.76."*

What we said in our May 21<sup>st</sup> Update: “Readers will be very well briefed from our last full report on the fundamentals of this company, and the opportunity they have created from a standing start to becoming a cash machine and potential buy-out candidate with a strong, acquisition-oriented management team. Given our premise for the metals, severe corrections offer excellent opportunities for (re) entry.”

*Based on this latest quarter’s attributable share of operating cash flow at Alumbreira of US\$0.17 per share projects to US\$0.68 annually (C\$0.94). The current share price is trading at 3.25 times annualized cash flow ... a ridiculously cheap level even if commodity prices were to go back to last year’s trough, a highly unlikely event.*

*MACD and the RSI are both lifting out of over-sold territory. The C\$2.75 Fibonacci retracement line held, and marked the bottom of the price correction. We now have a series of higher daily lows. The OBV indicator in the upper chart window confirmed continuing accumulation of the stock (versus distribution) as it powered higher, with the so-called “smart money” holding fast. The recent downtrend line was broken to the upside last Friday with the strong opening at C\$3.20, although the price faded back to test the lows and breakout area at C\$3.05. We purchased the balance (5,000 shares) of our 10,000 share full position at C\$3.06 as the close confirmed the change of trend. A stop-loss will be established under C\$2.75. The C\$3.20-3.30 area continues to offer short-term resistance, requiring some volume to be overcome.”*

The *daily chart* on page one provides a shorter-term perspective of Northern Orion’s correction and base-building.

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#### **Supplementary Information**

##### **Technical Analysis**

If we were all totally logical and could separate our emotions from our investment decisions, then fundamental analysis, the determination of price based on future earnings, would work magnificently. And since we would all have the same completely logical expectations, prices would only change when quarterly reports or relevant news was released. Investors would seek “overlooked” fundamental data in an effort to find undervalued securities. “Efficient market theory” states that security prices represent everything that is known about the security at a given moment. This theory concludes that it is impossible to forecast prices, since prices already reflect everything that is currently known about the security.

If prices are based on investor expectations, then knowing what a security should sell for (i.e., fundamental analysis) becomes less important than knowing what other investors expect it to sell for. That’s not to say that knowing what a security should sell for isn’t important ... it is. But there is usually a fairly strong consensus of a stock’s future earnings that the average investor cannot disprove.

Technical analysis (TA) is the process of analyzing a security’s historical prices in an effort to determine probable future prices. This is done by comparing current price action (current expectations) with comparable historical price action to predict a reasonable outcome.

In my experience, only a minority of technicians can consistently and accurately determine future prices. However, even if you are unable to accurately forecast prices, technical analysis can be used to consistently reduce your risks and improve your profits.

The price of a security represents a consensus. It is the price at which one person agrees to buy and another agrees to sell. The price at which an investor is willing to buy or sell depends primarily on his expectations. If he expects the security’s price to rise, he will buy it; if the investor expects the price to fall, he will sell it. TA is based almost entirely on the analysis of the resulting price and volume as evidenced via a chart. A picture truly is worth a thousand words.

Think of security prices as the result of a head-to-head battle between a bull (the buyer) and a bear (the seller). The bulls push prices higher and the bears push prices lower. The direction prices actually move reveals who is winning the battle. Support and resistance areas form, and are areas where strong “emotions” occur. Support and resistance levels can be penetrated by a change in investor expectations (which results in shifts of the supply/demand lines). This type of a change is often abrupt and “news based”, and often emotional.

A trend represents a consistent change in prices (a change in investor expectations). Trends differ from support/resistance levels in that trends represent change, whereas support/resistance levels represent barriers to change.

Moving averages are one of the oldest and most popular technical analysis tools representing the average price of a security at a given time. Many other indicators exist that are beyond this simple overview, including several of our favorites: Fibonacci retracements, relative strength and on-balance-volume. There are three distinct types of indicators, which provide insight into:

1. The external monetary conditions affecting security prices. This tells us what security prices should do.
2. The sentiment of various sectors of the investment community. This tells us what investors expect prices to do.
3. The current momentum of the market. This tells us what prices are actually doing.

Some key observations investors should consider:

1. A security's price represents the fair market value as agreed between buyers (bulls) and sellers (bears).
2. Changes in price are the result of changes in investor expectations of the security's future price.
3. Support levels occur when the consensus is that the price will not move lower. It is the point where buyers outnumber sellers.
4. Resistance levels occur when the consensus is that the price will not move higher. It is the point where sellers outnumber buyers.
5. The penetration of a support or resistance level indicates a change in investor expectations and a shift in the supply/demand lines.
6. Volume is useful in determining how strong the change of expectations really is.
7. Traders' remorse often follows the penetration of a support or resistance level as prices retreat to the penetrated level.

TA provides a basis or frame of reference using a logical and consistent approach that minimizes risks and maximizes opportunities. Most investors spend their time looking for easy money (which is not an easy search) instead of learning the key factors to security prices--supply and demand.