

Growth Stocks Weekly

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Performance: 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%; 2005 28.2%; 2006 153.3%; 2007 8.8%; 2008 -25.2%

Junior Resource Sector Research

October 22, 2008

"The next phase of history's greatest commodity boom ... should make commodity stocks even greater out-performers" – Don Cox, BMO Chief Global Strategist

Has anyone else noticed that the prices of minor metals – cobalt, molybdenum, tungsten, etc – have *dramatically* outperformed the major base metals of copper, nickel, zinc and lead recently? In fact, these "strategic" metals are holding up relatively close to their recent highs, even as the more widely known and traded metals have plunged to multi-year lows.

Price charts of the major metals look like they could be used as the ledge for Acapulco cliff divers: a five-year-long walk-up culminating in a 3-month swan dive.

If a business (i.e. a minor metals producer) can keep their pricing power, then it follows that they will be seen as good value and become a preferred investment.

Cobalt is actually up over the last few months, from \$20 per pound to over \$30. Tungsten continues to trade around \$9 per pound as it has for the last two years. Molybdenum has moved down from a high of \$35 per pound to roughly \$25. But compared to the more widely held metals, these are heady days indeed:

BASE METALS	USD/t	From high	From low
Copper	5300	-40.7%	16.0%
Aluminium	2282	-32.5%	6.1%
Nickel	12800	-63.6%	16.4%
Zinc	1410	-56.0%	11.0%
Lead	1640	-57.8%	19.3%
Tin	14995	-41.2%	15.3%

CHART SOURCE – MINEWEB, Oct 15 2008

One of the main reasons for the minor metals' out performance is that they are traded in relatively closed markets. Speculators and hedge funds didn't buy them up to ridiculous levels from 2005 – 2007, and so they can't be forced to liquidate them, as is happening in copper, and especially uranium, in these de-leveraging markets of late. Thus their rise was based on real demand as opposed to investment schemes and leverage.

Another reason for the continuing price levels of these metals? Many of the minor metals (go to the minor metals trading association website: <http://www.mmta.co.uk/metals/>) are byproduct metals of other mines. For example, 97% of cobalt production is either a byproduct of copper or nickel mines. Junior nickel mines are now starting to shut down with the price of nickel under \$5 a pound. Thus, the supply of these metals is being affected by the low prices in the primary group of metals. Companies that are primary producers of these strategic metals should fare well in this environment.

- Canada's First Nickel Inc recently suspended production at its Lockerby Mine and FNX Mining Co Inc suspended contact nickel production in its Levack complex, citing low commodity prices.

- In another news report, copper producers were said to be preparing for lower prices and the world's largest listed copper producer, Freeport-McMoRan, said it would curtail planned mine expansions.
- The Russian Copper Company has temporarily shelved separate projects to expand into nickel and build a zinc plant with a rival miner due to the global financial crisis. That takes 10,000 tonnes of nickel and 1,000 tonnes of cobalt out of the market annually.

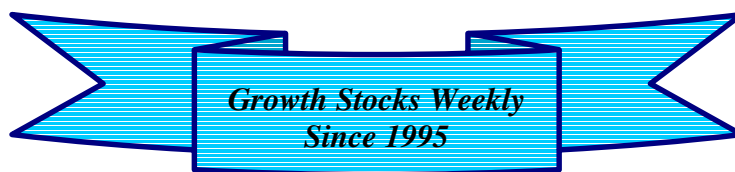
A third reason for the out performance of these metal prices is their strategic uses. Moly and cobalt are both used to enhance metal hardness, and work well at high temperatures. As world production has slowly increased for these metals and supply became more reliable, more uses are developed for them. Cobalt use in batteries for cell phones and other personal electronic devices has skyrocketed in the last decade. Molybdenum laced steel is now being used to replace pipes in nuclear reactors around the world. The most avant garde outdoor and health food stores are leading the way in bottled water containers made of molybdenum laced steel – no plastics of any kind allowed. Moly is also used extensively in military hardware, which of course is largely recession proof.

The lack of speculative buyers and investors, continuing legitimate demand and dwindling supply bodes well for this area of the metals market. In these turbulent markets, the strategic metals look poised to not only survive, but become big beneficiaries of investment capital flow, once the freeze comes off market sentiment.

Primary producers of these strategic metals are scarce. The most high profile is Thompson Creek Metals (TCM-TSX). This molybdenum producer continues to generate large **and increasing** cash flows for investors, and now trades at \$8 compared to a high of \$25 earlier this year. Molybdenum is \$25 per pound and they produce it for between \$6 - \$10 per pound.

North American Tungsten (NTC-TSX) has actually improving financials (moving from a marginal loss to a marginal profit in the coming quarters) as the Canadian dollar plummets, reducing their costs and increasing their margins with the tungsten price staying constant.

There are no primary cobalt producers –yet. The most likely “pure play” will be Geovic Mining Corp. (GMC-TSX) which has the world’s largest primary cobalt deposit in Cameroon, Africa. They are trading at cash value of 75 cents, and are about to begin construction of their quarry operation. With their deposit right at surface and only 16 metres deep, the operation is more like a gravel company than a mine. Their cash costs are projected to be \$3 per pound, compared to the current cobalt price of \$30 per pound.



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