

MINING

Volatility dampens miners' optimism

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TORONTO — Metal prices remain strong, but many junior mining companies find they have little to smile about these days.

The annual Toronto Resource Investment Conference started on Thursday, and this year's event feels a bit downcast. The gathering of junior mining promoters, gold bugs and retail investors is usually a high-energy affair, and with gold at US\$1,800 an ounce, there should be plenty to be excited about.

But the stock prices of junior mining companies tell a different story. As financial market volatility and sovereign debt concerns escalated through the summer, the junior sector was battered. The TSX Venture Exchange is down more than 25% since April, and many juniors have fared far worse.

If these companies were told a decade ago that gold would reach US\$1,800 an ounce and copper would be US\$4 a pound, they would probably have been overjoyed. They have learned that when market volatility increases and investors run for safety, speculative resource stocks get crushed no matter what the underlying commodity prices happen to be.

"Juniors have 99 reasons to go down, but only about one or two to go up," said Peter Grandich, publisher of the Grandich Letter and a longtime gold bull. "It's an industry where failure is the norm."

A few commentators said that the current situation for juniors feels similar to 2007 and early 2008, when the financial market volatility that pre-dated a full-blown recession was just kicking in. Junior miners were hit hard in that period despite strong commodity prices and good performance by the senior producers. The juniors proved to be an early indicator of the severe market turmoil to come.

"They're at the leading edge of the commodity cycle," said author and market commentator Danielle Park.

Two of the keys for juniors are liquidity and access to capital, and companies at the conference said that capital is widely available for projects with a good story that stand out from the pack.

It also doesn't hurt if they have gold in them. Gold and precious metal companies appear to easily outnumber all the others at the show this year, which is to be expected at current prices.

Mark Kolebaba, chief executive of Diamonds North Resources Ltd., has spent years working on a diamond project in Nunavut. But he focuses more on his gold prospects than his diamonds these days because that is what investors want to hear about.

"We're still looking for diamonds, but it's tough right now. For gold, the market will reward discovery," he said.

When it came to discussing gold bullion itself, the speakers were more bullish than ever. Hedge fund guru Eric Sprott's presentation, in which he described Armageddon in the banking sector and predicted vastly higher gold prices, was especially well-received.

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