



## **Mining the Stock Market**

**A Monday Morning Musing from Mickey the Mercenary Geologist**

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I receive loads of press releases; most of them are not solicited, they just appear in my mail box, the spam box that is. With all the investment shows attended and business cards handed out, it is little wonder that I am inundated with unsolicited news from companies in which I have no interest.

At my last count, there were about 1750 active Venture Exchange junior resource companies. In point of fact, I hold only about 15, closely follow another 20 or so, and have particular knowledge of perhaps another 200 or so.

Nevertheless, they all seemed determined to keep me informed about their various doings and machinations.

But within that tsunami of spam, occasionally a press release will appear that catches my eye and gets moved to the inbox for immediate perusal.

Such an event happened on Wednesday October 8 when a missive from Geodex Minerals appeared in the spam box. Geodex is an interesting company as opposed to most which have me on their hit lists. They have an advanced tungsten-molybdenum play in New Brunswick that macroeconomist and friend Jay Taylor first introduced me to at the NYC Hard Assets Conference in May 2007.

However, it is not a company that I follow closely because of the targeted metals:

Molybdenum is the most fickle of metals. Its price is historically volatile and controlled by by-product and recycled supply and alloy steel demand. About 60% of world production is a by-product from the giant porphyry copper mines of the southwest USA and Chile. China is the largest primary producer and the United States is second with three huge, high grade western mines. That's soon to be four with one of the best and largest orebodies in the world (Climax) re-opening in 2010 and initially scheduled to add over 20% to current domestic production. Tungsten is a specialty metal used mainly in carbide and composite metal alloys. Producing North American mines in California, Nevada, and British Columbia were undercut and forced to close when flooded by cheap Chinese production and imports in the mid to late 1980's. China currently produces over 85% of yearly mine supply.

Both metals are still trading at historically high levels but supply/demand balance and mid to long-term price projections are extremely risky for the reasons outlined above.

But I digress.

The news I received from Geodex was actually a reprint from the Northern Miner. The gist of the story was the difficulty of raising venture capital in our little microcap arena when blue chips are trading at pennies on the dollar in a volatile and tumultuous bear market and with worldwide depression looming.

We all know that. That's not news, is it?

But here is what is *news* and what struck me about the Northern Miner article:

The CEO and all management of Geodex have voluntarily taken a 50% pay cut to preserve company capital and accomplish their goal of completing a pre-feasibility study on the Sisson Brook moly-tungsten deposit.

Wow, now isn't that novel: A company whose management is thinking project and shareholders first and not making a living running a public company for high salaries and the associated perks of travel to world financial capitals, accommodations in five star hotels, wining and dining on the company dole, conducting business on the country club golf course, and going on field trips to exotic project locations with the requisite helicopter fly-overs and guided fishing tours.

Please don't get me wrong. One of the most attractive aspects of my analyst business is exactly those items mentioned above. My latest musing before I went on a real four week vacation espoused on those benefits ([How I Spent My Summer Vacation, September 22, 2008](#)).

But in these bad news bear times, each and every one of us, public companies included, must downsize, cut back an extravagant lifestyle, tighten the belt, dispense of some extraneous toys, eliminate waste and overhead, and focus on what will get us thru the downturn in good financial condition and in a position to profit when the bottom is reached, markets begin to recover, and the raging bull snorts and paws the ground once again.

Contrast this with a particular unnamed junior resource company. Remember that I have a policy of never naming names when disparaging remarks are made.

I was retained to evaluate their operations several months ago. The company is managed by a bevy of lawyers and accountants retained at high salaries and directors who collect an average Canadian middle class income for a few conference calls and local meetings a year. It has an exorbitant G and A burn rate with two fully equipped and staffed offices. They lease an expensive downtown office space with the requisite overhead and management fees to insiders and a field office with ten times the space required for current working personnel.

As far as I can ascertain, the top dogs do little work on the company's behalf. They don't even raise the money. Financings are solicited and arranged by a contracted business development consultant who is likely overworked and underpaid.

I recommended consolidation of all operations to the field office, the downsizing of management to a combined CEO/COO engineer, and that directors give up their cushy salaries. That went over like a lead balloon. Now they are likely wondering: "Why did we hire this guy to tell us this? He's telling us to cut into our own pocketbooks. Why in the world would we do that?"

Evidently the management would rather default on the properties, run the company into bankruptcy by year's end with the meager working capital remaining, and continue to collect salaries and book them as debt. The inevitable delisting will follow resulting in eventual rollback and reincarnation but *with the current management as significant shareholders in the new company*.

They are in the catbird's seat with nothing to lose.

It's the shareholders who will lose. Management has chosen this scenario rather than do the right thing for shareholders.

This, sadly, is the mindset of many financiers, promoters, and insiders in our venture capital business. They have secured ways to make nice livings on the public company dole thru initial financings of cheap stock, boatloads of five year options, high salaries, and management fees. Many have little sense of responsibility to public shareholders.

This is what I call "*Mining the Stock Market*".

But let's be honest and face it: That's the nature of our business. As entrepreneurs, we take the highest risk by starting up a new venture opportunity. To advance our very high risk projects, we sell stock bought at lower prices to new investors for higher prices. Our end game is to sell the company for a profit to a larger company or to make a mine. However, there are many in-between steps during that long process when numerous later investors who participated in private placements or bought their stock in the open market sell at a profit as the company has phased success and its share price increases.

The bottom line is this: We all "*mine the stock market*" to some degree.

However, there is a distinct separation of the good companies whose management's main duty and loyalty is to their shareholders and the rest of the Venture Exchange crowd of *stock miners*.

Have you ever read "Roughing It", which includes stories of the early years of silver mining and the birth of stock promotion in the Comstock Lode of Virginia City, Nevada? Mark Twain dedicates the book to his mining partner and inscribes it: "*In Memory of the Curious Time When We Two were Millionaires for Ten Days*".

At one point he describes his trunk full of then worthless share certificates received for writing positive newspaper reports on the numerous mines (Does that sound vaguely familiar, fellow newsletter writers?).

It makes one ponder if or how our industry actually has progressed in 145 years...

Currently a junior company and my client for the past four years is in a difficult financial position. As a result, the CEO, directors, and yours truly have taken no salaries for the past year. Yes, I recouped tens of thousands of out-of-pocket expenses to pay my annual tribute to Uncle Sam in mid-April and I am grateful to the CEO for helping me out with needed cash flow. And yes, we will continue to book our debt and slowly progress the flagship property until necessary funding can be arranged to start up full force again. But we are determined to succeed, we are confident that the market eventually will recover, and we can either sell out or develop a profitable copper mine to the interest and benefit of our shareholders.

Folks, it must always be about the best interest of shareholders! They have entrusted management, insiders, and the skilled technical team to make their investments ultimate winners.

In my opinion, too many junior company managers operate in the mode of making upper middle class livings from public company funds and this has materially contributed to the early demise of yet another bull market in our sector. Once again, for lack of success, we will lose a significant part of our investor base as happened in the Bre-X and other assay scams of 1997-1998. Have you noticed the great American retail market was largely missing from this bull run of 2003-2007? They never came back after getting burned a decade before.

And this is not restricted to our little niche of venture capitaldom. I abhor recent announcements of parting compensation and outrageous bonuses paid to crooked, immoral, and disgraced CEO's for mismanaging and bankrupting US government secured entities, investment banks, brokerage firms, and insurance companies with their derivative Ponzi schemes. They should be charged and tried for criminal acts rather than walk away as *ricos* with golden parachutes. Instead there will be only class action lawsuits with their equally crooked brethren, Wall Street lawyers in suits, collecting outrageous fees to return a few pennies on the dollar to scammed investors.

What has happened to the good ol' American work ethic of positive reward for positive achievement?

This fundamental capitalistic concept was ingrained in me by my parents at age six. In grade school, my brother and I got paid \$1 for each "A" on the quarterly report card. A "B" earned zip, zilch, nada, nothing. Perform and get paid; don't and don't. Talk about a strong motivation to succeed: "A's" bought slick new baseball cards to trade and fancy wrist rockets and a supply of steel shot to hunt critters; "B's" relegated you to dog-eared cards that no one wanted and a homemade forked stick and rubber band slingshot with round rocks as ammo.

I am calling for other top level managers and insiders in the struggling junior resource sector to follow the Geodex model and take voluntary pay cuts. Make your decisions public with press releases and curry favor and loyalty with your shareholders.

In point of fact, a complete suspension of salaries should be instituted in some instances to allow the company to survive and avoid Exchange delisting. Management can re-price options to reflect current share price, and that, and that alone, should be their compensation. If they perform successfully on behalf of shareholders, windfall profits will be their reward when markets right themselves.

If they don't succeed, they must take the fall with their common stock holders and the concomitant hit in their reputations as entrepreneurs and venture capitalists. As my good friend Tracy Weslosky said to a supposed high-roller in a recent episode of "Deal Flow" on CNBC World: "*I don't consider someone who has bankrupted three companies an entrepreneur.*"

Righto Tracy, we will remember these guys by face and name, eh?

As shareholders, I urge you to contact upper level management of the issuers you currently hold and ask them to detail their corporate plans for decreasing overhead, cutting general and administrative expenses, downsizing project expenditures, and preserving precious capital in these financially precarious times. Be sure and let them know that your future investment decisions will depend on their responses.

***"Mining the Stock Market"*** must end in these bear market times.

Ciao for now,

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The [Mercenary Geologist Michael S. “Mickey” Fulp](#) is a Certified Professional [Geologist](#) with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 22 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey’s professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known throughout the mining and exploration community due to his ongoing work as an analyst, newsletter writer, and speaker.

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