



Why I Don't Want to Own Mining Companies

A Monday Morning Musing from Mickey the Mercenary Geologist

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I have long promulgated the idea that the junior exploration sector provides the highest risk / highest reward scenario within the broad category of natural resource stocks.

However, some *speculators* prefer to own senior mining stocks. These people like to think of themselves as *investors* because mining stocks have the possibility of strong incremental returns during bull market commodity cycles and they also may offer small yield dividends typical of the sector.

That said, I beg to differ and will continue to label them *speculators* for reasons detailed below.

I urge you to consider these somewhat sobering figures:

- Four out of ten mines (40%) fail because they never return initial financiers' capital.
- Four out of ten mines (40%) trade dollars until they are depleted of ore and shut down.
- Two out of ten mines (20%) return windfall profits to their initial investors.

Webster's Dictionary defines an investment as *an outlay of money for income or profit*.

Folks, this means that only one of five producing mines posts an income or profit to its owners, i.e., shareholders, and actually qualifies as an *investment*.

Given the above, I will conduct a thought experiment on the process of discovery, exploration, economic assessment, financing, mining, and success or failure:

- A mining or would-be mining company discovers a mineral occurrence, explores it with drilling, posts a series of increasingly confident mineral resource estimates, performs preliminary metallurgical and geo-technical studies, and perhaps conducts small-scale development or test mining.

- Based on technical results from all of the above, said company decides to evaluate the mineral resources with mining, metallurgical, economic, marketing, legal, environmental, social, and government factors to determine if the mineralized body constitutes an ore deposit at that particular point in time.
- The mining company calculates *proven and probable mineral reserves* and tables an economic feasibility study on the project
- The positive feasibility study conforms to regulations of the governing securities administrators and is deemed acceptable.
- Funds are raised via equity offerings, issuance of debt, and/or forward royalty or streaming sales to finance development and construction of a mine.
- With these funds, the mine is permitted, built, developed, and enters into commercial production.

But 40% of these mines do not return initial capital expenditures and thus are deemed economic failures. Another 40% manage to break even over the life of the mine.

Now think about this tidbit: Have you ever read a *negative* feasibility study?

Then recall this adage: *For every failed mine, there was a positive feasibility study.*

Therefore, I conclude that mining is seldom an investment.

Q.E.D.

Folks, this is why I don't want to own shares in mining companies. Instead, I choose to *speculate* in junior exploration companies.

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 35 years experience as an exploration geologist and analyst 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 worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 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 and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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