How to Invest in Gold and Silver

A complete guide from an investor's viewpoint

By

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When paper money systems begin to crack at the seams, the run to gold could be explosive. – Harry Browne

Gold still represents the ultimate form of payment in the world … gold is always accepted. – Alan Greenspan; May 20, 1999.

Love makes the world go 'round. Yeah, the love of gold. – Gene Hackman, from the movie *Heist*.

There is no other economic good as marketable as gold. – Hans F. Sennholz

Start now buying gold coins, any kind, and hoarding them. – Dr. John L. King

Introduction

This is a long introduction. Don't skip it. I like to get to the first chapter too, but there is important information here that explains what this book is about. Consider this introduction as part of the book.

I've been investing in gold since 1991 and silver since 2004. I'm not an industry insider or financial analyst, but a real world investor. My profession has nothing to do with investing. I decided to write this book because, when I started investing in gold and silver Junior mining companies in 2004, I could not find a good book on the subject. Thus, I made mistake after mistake and had to learn the hard way.

My experience from investing exclusively in gold and silver assets has given me unique knowledge to write a complete investment guide on these precious metals. I feel I have had enough hands-on experience to let you know the secrets. Once you're armed with these secrets of knowing how to invest in gold/silver, you will likely *make* a lot of money.

I have purchased more than 50 mining stocks, all with the intention of seeing 500% returns. That was my goal from the beginning. I want to average a 500% return when I cash out.

In the gold bull market that we are having today, that is not as difficult as it appears. The key, of course, is finding excellent stocks with a lot of upside (potential to increase in value). Most investors would be satisfied with a 5% to 10% annual return. If you are in that group, then it should be easy to make those returns investing in gold/silver – as long as this gold bull market continues.

When I started investing in Junior mining companies in 2004, gold was under $500 per ounce and the mining sector was depressed. It was easy, back then, to find excellent stocks that were undervalued. That will always be the case in a bull market, but finding a 500% return becomes more difficult as the price of gold/silver increases. Thus, it becomes more important to be armed with the knowledge of how to invest in these metals.

I discovered that it is really not that difficult to find excellent stocks, if you know *what* to look for. However, it took me years to figure out *how* to search for them. When I first started, I depended on the views of others, and that is likely what you will do. You will purchase subscriptions to Internet web sites or investment newsletters, and buy what "experts" recommend. You might do really well. But trust me, they will also recommend a few dogs. You will look back on those and wonder why they ever recommended them.

When I first started investing, *many* of the recommended stocks turned out to be dogs. Now that I know what to look for, I realize that I could have easily identified these stocks as "long shots." Being able to manage the risk in your portfolio by knowing which stocks are "long shots" and which are much more likely to be "winners" is why you need to read this book. It's okay to have a few long shots in your portfolio, but you also need to be loaded up on less risky stocks that have big upside potential.

You will know which of your stocks are winners. These are the stocks that will react in a very positive manner when the price of gold increases. While not all of your stocks will react – depending on their properties and production – some will explode in value every time the price rises. You need to have enough of these winners so that your portfolio rises much faster than the price of gold. Ideally, if the price of gold rises 1%, you want your portfolio to increase by at least 3%.

The only way you can get that kind of return is to heavily invest in Juniors and Mid Tier Producers. Investing in bullion and Majors will only double or triple your money, but that's not where the big returns come from.

Investing in Juniors and Mid Tier Producers isn't that difficult, but it requires knowledge, monitoring, and constant vigilance. These are volatile markets, and you can't just watch them once a week for a couple of hours and expect to be as successful as someone who is putting in more time.

When you are investing – building an investment portfolio – you have to watch the markets *daily*. You have to monitor the price of gold/silver, general market conditions, and watch certain specific stocks. You have to do the work.

Once you are invested, you can “let your portfolio ride” and watch it periodically, if you want. But keep in mind that investing in gold/silver mining companies is a job, and you have to watch the markets carefully for opportunities. I will have more to say about this in the last chapter on “How to Make Money.”

While I have focused this introduction on Juniors (small mining companies) and Mid Tier Producers (mid size mining companies), nearly half of my money is in large cap mining companies, called Majors. This is where I started investing. And most of them pay an annual dividend, which I can then use to purchase Junior stocks.

Thus, I have included a chapter on Majors. I also cover ETFs, options, bullion, and coins. I’m big on diversity. I think you should have a little bit of everything – as long as it is a gold or silver asset!

This book is strictly a practical how-to guide for investing in gold and silver. It’s not a high-level guide that helps you understand *why* to invest in gold/silver, although I do cover that, as well. My focus is more on the *what*. I will fill you in on what you need to know in order to invest wisely. I want to help people who want to take advantage of this bull market and who want to cover all of the angles. Anyone can purchase a gold mutual fund or a gold ETF (exchange traded fund), and then sit back and make a decent return. But how much are you leaving on the table? Do you want to do the work and make the most of this one-time opportunity to make much more?

When I purchased stocks like Hecla Mining at $1.25 and First Majestic Silver at $1.30 after the stock market crash in 2008, I was excited. I knew these stocks were going to roar like tigers and far surpass my ETF and mutual fund holdings. I was right. Today Hecla is trading at $8.07 and First Majestic Silver at $18.17. This allowed me to be diversified with low risk companies that offered a big upside potential, and I wouldn’t be locked into minimal returns when gold/silver rose. Showing you how to pick those stocks and build a balanced portfolio is the main reason I wrote this book.

Now, I am not an expert on picking gold/silver stocks (not even close), but I know enough to help beginners to become competent amateurs like myself. If you have already been investing in the gold/silver mining sector for several years, you probably already know everything I'm going to recommend. Moreover, I won't be going into great detail on how to value a company or project, because I have not graduated to that level of expertise. I will include my very simple valuation methods, which I think are perfectly adequate for these sectors.

This book is for beginners/amateurs who want to know how to invest in gold/silver in order to get the most out of this bull market. It is for people who want to get educated on how to invest in these sectors. It's a short book, so I can't include everything. But once you begin investing, you will quickly pick up any additional information that you may be missing. You will have everything that you need to know to build a portfolio and get started. This is the book I wish I'd had during the first three years that I was investing in gold/silver.

Ninety percent of the books out there on investing in gold/silver are total junk. I know, because I have bought several of them and learned very little. It's especially hard to learn how to invest in Juniors. While my seven years of investing in Juniors does not designate me as an expert in this field, I feel my knowledge is sufficient.

Despite my short experience, you will find lots of good information in this book. The stock lists (refer to table of contents) alone are worth the price of the book. I include nearly all of the Majors and Mid Tier Producers that trade in North America, and over 300 of the Juniors. I also categorize each company into one of twelve groups.

I've tried to make this book extremely readable. I have been writing books since 1991, and this is my eleventh. The good news is that you found this book, and that a writer took up investing in gold and silver.

In other words, this book wasn't written by a professional investor who doesn't know how to write, or a writer who doesn't know how to invest. For that reason, you should find it a very valuable asset.

Donald David Durrett

May 6, 2011

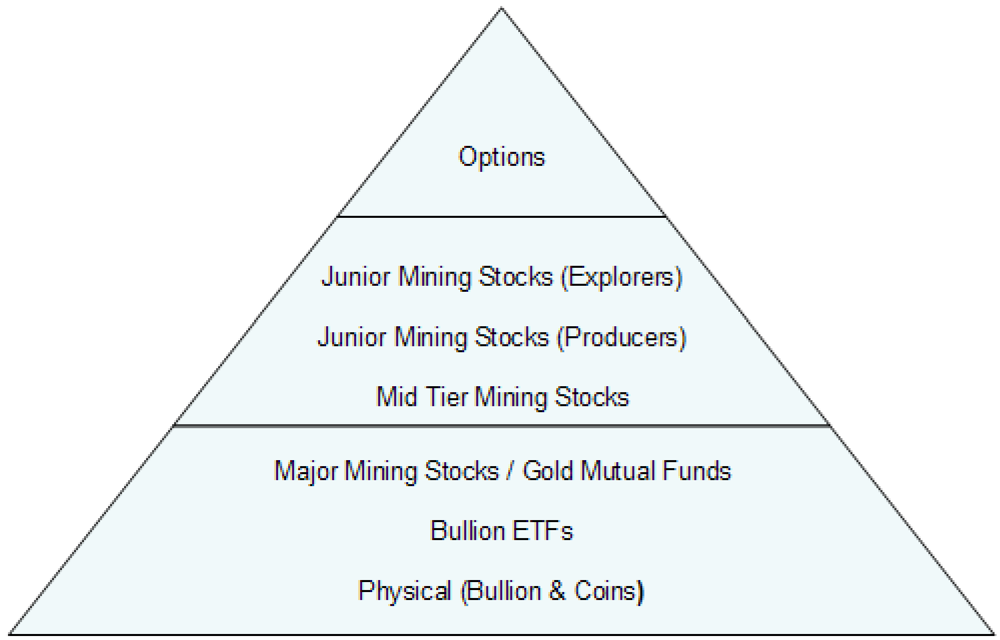
Chapter 6 – Mining Companies: Majors

The asset class of major gold mining companies (Majors) is where I started investing in precious metals. Most investment advisors say to begin with physical metal, and I agree with them that bullion or coins is a good foundation. When you think in terms of managing risk, it is always good to have either bullion or coins in your possession. They are, by far, the safest investment. While physical metal is primarily for maintaining wealth, you should also have a core position to diversify risk.

Pyramid of Risk

I think it is a good idea to use all gold and silver investment opportunities available to you. If you have all gold and silver investment areas covered, you will likely have a balanced portfolio.

The goal is to have a balanced portfolio that diversifies risk by investing in each group. Think of it as a pyramid of risk (see below), with each tier being more risky than the previous one. Your foundation should be bullion or coins. At the top are options, which should be used sparingly, if at all.



I have followed this pyramid to balance my risk. However, I used Major mining stocks as my foundation (back when gold was cheap). Approximately 40% of my portfolio is in this sector.

I did not invest in physical metal, although I did purchase SLV, the silver bullion ETF. This is my only exposure to bullion or coins. Since my focus has been on *increasing* my wealth and not just protecting it, gold bullion/coins did not appeal to me. However, I do think silver is a good investment for increasing wealth. Thus, all of my purchases of precious metal related assets have been with the intent of returning a large profit.

Some of you with this same high profit motive are likely to bypass Majors and instead focus on the Mid Tier and Junior sectors. I don't have any problems with that, if that is your focus. Majors are starting to get expensive, and the returns will not match that of smaller companies. When I began investing in Majors in 1991, I was way ahead of the curve. If I was starting out today, I probably would not invest 40% of my portfolio in Majors. I would want to diversify a bit more.

Goldcorp

The best major gold mining stock today is probably Goldcorp. If you invest in it today (with gold at $1,500), you will most likely triple your money as gold goes to $2,500. It is a relatively safe investment, and a 200% return in these dismal economic times is fantastic. However, it is not a guaranteed investment.

Mining is a risky business, and a lot of things can go wrong. For a company as large as Goldcorp, there are really only two major risks: energy and politics. Energy prices can explode and drive up their costs. Politics (regulations, taxes, etc.) are always hard to predict. Currently, Goldcorp has a *huge* gold mine in Mexico. Mexico could decide that because they can no longer finance their budget with oil exports, they are going to use mining taxes instead. Political events such as these are hard to predict.

Mining Returns vs. Physical Metal

An increase in the price of gold/silver generally increases the value of mining company stocks in an exponential manner. (I will have more to say about this later on.) This is the reason why they generally have a return higher than the price of the physical metal.

For instance, if you invest in Majors, your return as the price rises to $2,500 should be approximately 150% to 200%. That is more than double what bullion will return. For this reason, you should consider creating a large position in Majors.

One caveat is the price of energy, which could hamper their profits. However, I am still bullish that their profits are going to be exploding when we reach the $2,000 level.

Diversifying

I prefer to diversify when I invest in Majors. I do this by using mutual funds and ETFs. By letting a mutual fund manager pick a portfolio of stocks, they can make the adjustments faster than you can. Normally, the Majors are all going to track/follow the price of gold. The big issue is that you want to avoid unknown risks.

For instance, the risk factors that can severely impact a mining company are actually quite numerous: a political event, a strike, a war, an energy shortage, a flood, a local dispute, an environmental issue, etc. These unique events can hammer the stock price. Thus, if you pick three to five major gold/silver mining stocks, you have to watch them and manage them yourself – and react quickly to these events.

Solid Returns

A company like Newmont Mining, which is trading today at $55, will likely make it to $100, and $150 would not surprise me. I think a 100% return to $110 is a foregone conclusion. I could be wrong, of course, but that is what I see coming. Let's make some conservative projections for Newmont:

Gold Price	Stock Price
$1,500	$55
$1,700	$70
$1,900	$85
$2,100	$100
$2,200	$115
$2,500	$130

Mutual Funds / ETFs

There are not that many Majors, so the easiest way to play this sector is to purchase either a mutual fund or an ETF. I own two gold mutual funds, and I like the fact that they send me a dividend check in December. The returns for these funds are slightly decreased by the management fees (about 1.5% per year) that you have to pay. But as long as gold hits $2,000, you won't notice. And from my perspective, these managers earn their fees. That 1.5% fee is like insurance, since they make sure that any blight in the portfolio is purged. They are also professionals with lots of experience, and they know which companies to add.

Below are the top performing gold funds in 2009-10.[1] I own the Franklin Gold A fund and recommend it. I also recommend the Tocqueville and Van Eck Gold funds. All three of these funds are managed by experienced professionals.

Symbol	Fund Name	2 Year Return (%)
TGLDX	Tocqueville Gold	169.4
OPGSX	Oppenheimer Gold A	153.7
UNWPX	US Global World Pr Mns	137.9
INIVX	Van Eck Intl Inv GoldA	135.2
PMPIX	Profund Prec Mtls Ultr	132.4
FKRCX	Franklin Gold & PrMt A	131.7
OCMGX	OCM Gold	125.9
MIDSX	Midas Fund	123.9
VGPMX	Vanguard Prec Metals	123.2

Mutual Fund Research

When you investigate one of these funds, there are a few things to look for. First, go to a web page like Yahoo Finance. Here is the link for the Franklin Fund Gold A fund: http://finance.yahoo.com/q/pr?s=FKRCX. Then pull up the Morningstar rating, the fees to purchase it, the last dividend, and the annual expenses:

[1] http://www.eaglewing.com/compare.html

FUND OPERATIONS	
Last Dividend (1-Dec-09):	2.21
Last Cap Gain (1-Dec-09):	0.59
Annual Holdings Turnover	17.17%
Average for Category:	75.46%

FEES & EXPENSES		
Expense	**FKRCX**	**Category Avg**
Total Expense Ratio:	%	1.47%
Max 12b1 Fee:	%	N/A
Max Front End Sales Load:	5.75%	5.36%

This fund has a nice dividend at 2.8% (including the capital gain, which is included in your annual check) and low expenses that are near the 1.47% industry average. The only downside is that they charge 5.75% to purchase it. But that is normal for these funds, and not really that bad. Currently, you can purchase a share on Ameritrade for $40.51 and it is selling at $38.18. Since you are going to hold it long term, the entry price premium will be paid for by your annual dividends.

After you do some research on an Internet finance site (Google Finance, Yahoo Finance, etc.), go to the fund's web page and check the dividend history and the current portfolio. You also want to understand the portfolio's focus and investment strategy. Some funds are more aggressive with Juniors for growth, and others diversify into silver and platinum. Make sure you are comfortable with the strategy of the fund.

Van Eck Gold Miners ETF (GDX)

In addition to the three mutual funds I recommended, there is an ETF that I recommend. Its trading symbol is GDX. In fact, if I was just starting out, this would be the fund that I would buy. The beauty of this ETF is that the fees are very low and the cost to get in is very cheap. For instance, it is currently trading at $43.73 and you can buy it on Ameritrade for $43.79. That is an unbelievably low premium. If the stock goes up 1%, you make a profit.

The other thing I like about GDX is that it is basically a reflection of the entire gold Major market, since most of its holdings are gold Majors. In fact, it closely follows the HUI, which is a popular gold mining index. You can pretty much follow the HUI and know how this ETF is doing.

Here are the top 10 companies in GDX which make up 68% of its holdings:[2]

TOP 10 HOLDINGS (68.62% OF TOTAL ASSETS)		
Company	Symbol	% Assets
AGNICO EAGLE MINES	AEM	5.05
ANGLOGOLD ASHANTI LT	AU	5.66
BARRICK GOLD CP	ABX	14.08
Buenaventura Mining Company Inc. ADR	N/A	4.97
GOLD FIELDS LTD ADS	GFI	4.45
GOLDCORP INC	GG	11.41
KINROSS GOLD CP	KGC	5.79
NEWMONT MIN CP (HLDG	NEM	8.28
Randgold Resources Limited	GOLD	4.44
YAMANA GOLD INC	AUY	4.49

These companies are basically the top 10 gold Majors. This ETF's holdings include both gold and a few silver mining stocks. There are no bullion or cash holdings. By purchasing this ETF, you have basically purchased all of the Majors. This ETF holds 32 stocks: four of them are silver Majors, and the rest are gold mining stocks.

The downside for GDX is that it pays a very low dividend. But the upside is that you basically get a mutual fund without the high fees and extra costs to purchase it. The other thing I like about it is that they only focus on the best 32 stocks. If they see a stock stumbling, they quickly swap it out.

[2] http://biz.yahoo.com/p/tops/sp.html

From my perspective, if you are going to invest any money in this gold bull market, then a gold mutual fund or gold/silver stock ETF makes sense. It is relatively safe, and will return more than bullion. Again, if you only want to *maintain* your wealth, then bullion is the place to be invested.

If you want to at least double your money, then using Majors is a good way to go. I consider this a good foundation or core position for investing in gold and silver. Once you have your core position, then you can move on to the more risky investment areas: Mid Tiers, Juniors and options.

List of Silver Majors

In the first portion of this chapter, when I referred to mutual funds, I was talking about gold. There are more than 50 gold mutual funds that trade on the U.S. stock exchanges. However, there are zero silver mutual funds and only one silver mining ETF – Global X Silver Miners (SIL) – but it is a Mid Tier silver fund. I know, I was surprised, too. It turns out that there is only one silver Major:

Company	Date of Update	Stock Symbol	Market Cap Fully Diluted (Millions)	Market Cap Value Per oz. (Excluding Inferred))	Stock Price	Stock Price Increase Last 12 Months	Shares Out – Standing Fully Diluted (Millions)	Total Resources Excluding Inferred (Million oz.)
Pan American Silver	4/30/2011	PAAS	$4,045	$16	$36.12	37%	112.00	250.00

List of Emerging Silver Majors

Company	Date of Update	Stock Symbol	Market Cap Fully Diluted (Millions)	Market Cap Value Per oz. (Excluding Inferred))	Stock Price	Stock Price Increase Last 12 Months	Shares Out – Standing Fully Diluted (Millions)	Total Resources Excluding Inferred (Million oz.)
Couer d'Alene	3/10/2011	CDE	$2,954	$13	$33.00	103%	89.50	227.00
First Majestic Silver	3/16/2011	AG	$1,766	$10	$16.20	406%	109.00	175.00
Hecla Mining	3/18/2011	HL	$2,645	$17	$8.70	61%	304.00	160.00
Silver Standard Res.	3/25/2011	SSRI	$2,481	$2	$29.53	8%	84.00	1200.00
Silvercorp Metals Inc.	4/30/2011	SVM	$2,405	$20	$13.59	61%	177.00	122.00

All of the category groupings in the book I have defined using my own criteria. You can find these definitions in Appendix E at the back of the book. Emerging Majors are stocks that have a market cap between \$1.5 and \$3 billion, with gold production greater than 80,000 oz. or silver production greater than 3 million oz.

Tiny Silver Market

The reason there are so few silver Majors is because silver is normally found with other metals, and is primarily mined as a byproduct. This is why Silver Wheaton has the biggest Market Cap. They don't even own a mine. They get all of their silver from long term contracts with base metal and gold producers. Basically, they guarantee a price over the long term that allows base metal and gold producers to hedge the price of silver. As long as base metal production does not come to a grinding halt, this makes Silver Wheaton incredibly profitable.

Best Silver Majors

I own Hecla Mining and Silver Standard Resources. I think owning a few silver Majors is a good way to diversify risk, and I like the upside potential. These are companies that have huge reserves and solid production numbers and will likely do very well in this bull market. In my opinion, they are practically sure things. Why? Because they are the only big players in silver. Once silver jumps past \$50, investors are going to jump on the trend. (Don't they always?) And investors will have no choice but to buy them – for lack of any other choices.

One of my favorite stocks is Silver Standard Resources. Today, it is trading at \$30. My forecast is for this stock to trade at \$150 before this bull market is over. They have more than 1.2 *billion* ounces of silver equivalent ounces in resources (excluding

Inferred Resources).[3] Their silver production reached 7 million ounces in 2010, and will continue to rise. Eventually, they will become the number one silver producer in the world. Once we have a silver shortage, word is going to get out about this incredibly valuable company.

Silver Wheaton also appears good at first, since they have enough contracts to make them the most profitable silver company for quite some time. However, I don't trust their contracts, which are amazingly one-sided. Silver Wheaton gets silver at $4 and then they will be able to sell it at $50, $75, or $100. I can't imagine those contracts holding. Also, I see a depression coming, and that means less demand for base metals. Thus, I see Silver Wheaton as risky. But that doesn't mean this stock won't explode in value. It very well may.

Pan American Silver is going to do well. This is another solid stock with lots of upside. I see this stock going up three times from where it is today ($33). They have lots of reserves and lots of production. Silvercorp Metals and Hecla Mining are mirrors of Pan American Silver, only smaller. All three of these companies are going to do incredibly well, as silver goes north of $50.

This brings us to the last Major: Coeur d'Alene Mines. I don't know why, but this company can't seem to get in gear. It traded at $7 in 2006, and today it is trading at $28. However, this is equivalent to $2.80, because of a recent 10 to 1 reverse stock split. Can they get back to their recent high in 2006, which would be $70 after the reverse split? If they do, the rest of the silver majors are going to do really well. Thus, I would stick my money in the others.

An Ideal Low Risk Portfolio

An ideal $300,000 low risk portfolio, including only the bottom sectors of the risk pyramid, would look something like this:

$50,000	Gold Bullion	BullionVault.com

[3] http://www.silverstandard.com/assets/pdfs/SSR_in_Brief_January_2010.pdf

$50,000	Gold Coins	1 oz. Gold Eagles
$50,000	Gold Mining ETF	GDX
$50,000	Silver Bullion ETF	SIVR
$50,000	Silver Major	Silver Standard Resources
$25,000	Silver Major	Pan American Silver
$25,000	Silver Major	Hecla Mining

I recommend allocating approximately 1/3 to ½ of your portfolio to these relatively low risk assets. This investment should double or triple, as gold rises from $1,500 to $2,500. The key to your profits for this portion of your portfolio will be silver. If silver outperforms gold – which I expect – the silver Majors should do really well.

I excluded silver coins from this portfolio, but if you want some physical silver coins, I think that is smart. A few junk bags of silver pre-1965 coins will come in handy. Also, a few 100 oz. silver bars and some rolls of Silver Eagles make a lot of sense.

If you are an aggressive investor, you might exclude gold bullion or gold coins and allocate this money evenly into the other tiers. That is not recommended, because you need to protect yourself against the demise of the dollar. By owning bullion (especially in another currency) and coins, you are being smart and protecting yourself. Once the dollar goes down, everyone is going to be looking for physical metal.

Which Majors to Pick?

I can give you some pointers on finding the best Majors. But in this bull market, it really is easy to pick the Majors. You buy GDX, which gets you exposed to most of the gold Majors, and it gives you a return that reflects the mining industry as the gold price rises. If you want to substitute one or two gold mutual funds – so that you get a nice dividend – I can't argue with that strategy. Note that a good gold mutual fund will include the best Mid Tiers and some Juniors, and should do better than GDX.

Then you purchase three to five of the best silver Majors to capture silver's upside. This will give you a solid core position of Majors at the lowest rung of risk for mining companies. It pretty much guarantees that you will double or triple your money (if your entry point is $1,500 gold) if gold reaches $2,500. The more you invest in the silver Majors, the better your return will be.

Okay, for you stock pickers out there who want to pick your own Majors, let's look at the factors.

Producing Properties

The most important factor for any company is the quality of their properties. You have to go to their web page and research their properties. You need to check the following:

1) **Size:** How many ounces is the property producing? How many ounces are in reserve? What is the projected mine life? (How many more years will it produce?) Ideally, you want to see several properties that are producing significant quantities and have significant quantities in the ground. An ideal gold property would be producing more than 200,000 ounces per year, with more than 2 million ounces in reserve. Also, you don't want to see a mine life with less than five years remaining. The stock market will punish that stock if production is going to drop in the near future.

2) **Location:**

   Very Safe: Canada, United States, Australia, New Zealand

   Safe: Mexico, Brazil, Argentina, Chile, Guyana

   Moderately Safe: Peru, Columbia, Central America, Indonesia, Middle East, Eastern Europe, Africa, China.

Risky: Bolivia, Venezuela, Ecuador, Russia, Russian Satellites (e.g. Kazakhstan).

Safety is primarily related to threats to the stock price from political issues, such as higher taxation and appropriation. You don't want a Major who has several strategic properties in moderately safe or risky locations. For instance, if a Major has a large mine in Venezuela, you probably want to stay away, since there is a chance it will be appropriated. I will have more to say about location risk later on.

Note: Coeur d'Alene Mines and Pan American Silver both have large mines in Bolivia and this has been hurting their stock price recently.

3) **Local Issues:** Sometimes there are external issues that can impact properties. For instance, in South Africa they have had trouble getting enough energy to run the mines full time. Sometimes there are environmental issues, perpetual labor strikes, native culture issues, lawsuits, etc. Read the past news releases on the company websites and search out recent impacting issues.

4) **Costs:** You always need to be aware of the cost per ounce. Is it a low cost or a high cost mine? Note that costs are always in the local currency. Owning companies south of the border is an advantage, for this reason. The key thing to look for is if it is a high cost mine. That will hurt profitability and hurt the stock price.

5) **Ownership:** Make sure they own 100%. Often these properties are joint ventures, and they only own a percentage.

6) **Country of Incorporation:** If you invest in a company based in Canada, the value of the stock will be in Canadian dollars. If the Canadian dollar gets stronger, the stock price will rise in dollar terms. For example, let's say you buy First

Majestic Silver, which is incorporated in Canada, at $4 a share. If the dollar drops 25% tomorrow, then the value of the stock will rise 25%. Thus, it will trade at $5 per share in the U.S.

Development Properties

The same issues you researched above for Producing Properties, you need to check for their properties under development. If a company has a mine that is going to begin production in the next 24 months, that is a plus. And if they have two or three mines coming online, it makes the stock that much better. All this new, upcoming production will boost the price of the stock.

New mines are one of the most important factors for boosting the price of the stock. It is often the most critical factor, other than the price of gold/silver. But the marketplace will not completely price a new mine into the stock price until production actually begins. Often the stock market will wait until it is proven that the mine will produce what was promised. This delayed price reaction is where investors seize opportunities.

Because the stock price does not completely reflect development properties, you want to analyze these carefully. This is where you can find some gems. When a company finds large reserves, these will eventually be mined and reflected in the stock price. Getting in early – buying the stock before the stock price rises – is the key for making large profits.

For Majors, you want to invest in a company that has a solid production history, and that is not losing any of their mines due to declining production in the near future. You want to make sure their forecast is for increasing production over the next several years. In addition, you want to make sure they have new mines in the pipeline that are scheduled to come online. In other words, production appears to be stable, and is poised for growth. Or, better yet, production is forecasted to grow over the next decade.

I will have much more to say about analyzing development properties later on.

Management

In the mining business, management is crucial. It is much more important than in other industries. The reason for this is that mining/exploring is very difficult. Finding a good management team that has a reputation for good stewardship should be one of your prerequisites before purchasing a stock. When you find one, which also has good properties, you are likely looking at a good stock.

Management for Majors is usually driven by the CEO. Find out how long he/she has been in charge and their track record. Find out by visiting the company stock forums, and also use Google to search their name. Before you invest in a company, make sure you are comfortable with the CEO and perhaps the BOD (Board of Directors).

Some management teams are more focused on shareholders than others. This is not hard to discover, and will be known by other investors. If a management team wants to continuously increase the size of the company by buying other companies, then they are going to take on debt. This can be detrimental to shareholders, as profits are constantly pushed out into the future. Try to find management teams who are shareholder friendly, which will be reflected in their stock price history.

I have found that good management teams who are shareholder friendly tend to keep their share structures tightly held (explained below in Share Structure). When you see companies with more than 200 million shares, this is generally not a good sign for management looking out for shareholder interest. Conversely, it is a good sign – especially for risky Junior mining companies – when management owns a substantial amount of stock. This is a good sign that management has “skin” in the game and wants the stock price to rise.

Another area of concern is hedging. This is the practice of selling future production at fixed prices. There will be many management teams tempted to lock in profits, but this is not shareholder friendly, as profit growth is severely limited. If you see any hedging going on, identify that as a red flag that could impact the share price. Although hedging can sometimes be unavoidable for some Juniors to get financing.

Stock Price History

Always check a company's stock chart. If the stock has done well over the last few years, that is a reflection of good management. You want to look back at least five years and compare the stock price to the price of gold/silver. If they have consistently outperformed the metal, that is a good sign. Next, compare their stock price to their peers. The good companies will stand out. Note that we have been in a bull market this entire decade (since 2000) and the stock growth should reflect that.

You don't want to see a lot of volatility in a stock price chart (excluding 2008). If a company has had an upward price trajectory, it is a good sign that investors know the story of this stock and they are in it for the long haul. You want to find stocks that other investors like, and the stock price chart should reflect this fact. If a company has a good story, the word always gets out.

Reserves/Resources Defined

Inferred Resources: These are resource estimates based on drilling results and geology. The better the geology is understood, the more likely the estimate will be accurate. These are generally unreliable without further drilling.

Measured and Indicated Resources (M&I): These are the gold/silver resources that were determined by drilling and a legal 43-101 report. They are considered to be reliable.

Proven and Probable Reserves (P&P): These are Measured and Indicated Resources that have been validated through a mine plan, usually called a Preliminary Feasibility Study. Thus, the only difference between M&I and P&P is a mine plan.

One of the most confusing things about mining stocks is understanding the difference between resources and reserves. Until a legal mining plan exists in the form of

Preliminary Feasibility Study, all ounces in the ground are considered resources. Once a study is generated, it can turn M&I resources into P&P reserves.

However, it is not that simple. From an investors viewpoint, most of the M&I resources and some of the Inferred resources will eventually become reserves. For this reason, I usually include the M&I resources as part of my valuation for that company.

Because Majors have the funds to plan their projects meticulously, they tend to focus on P&P. In fact, when you hear analysts talk about majors, they only seem to be concerned with reserves.

Stock Valuation

Note: Valuation Formulas can be found in Appendix B.

I keep stock valuation simple. I look at only a few factors: production ounces, reserve ounces, cash, debt, cost per ounce, share structure, and Market Cap. Since the price of precious metals and the reserves in the ground play such a huge role in valuation, fancy financial models are not needed. At least, that’s my opinion.

I recently heard an interview by the manager of a major gold mutual fund, and he mentioned the top five things he uses to value a company: 1) Management. 2) Production Growth. 3) Reserve and Resource Growth. 4) Cost per Ounce. 5) Projected price of gold.

I agree with him – keep it simple when it comes to valuing mining stocks. If the price of gold is rising, the most important thing is that a company is growing (production and resources). Those new ounces are going to be revalued higher. That said, we can still use valuation methods to find undervalued stocks.

The company’s balance sheet (cash and debt) is always important. You want a company who has low to no debt and lots of cash flow going to the bottom line. The more debt that they have to finance, the less profit they can make (and the less cash they will have to expand their business). Thus, debt is a bad thing, so always check it.

Do you remember Microsoft in the 1990s? They had no debt, billions in cash, and were highly profitable each year. As a consequence, Microsoft's stock made many of their employee's millionaires. That is what you want.

Debt Ratio

A good way to measure debt is calculating the debt ratio, which is a simple calculation of debt to cash flow. This is a no-frills method, but it captures numbers that are readily available.

Cash Flow = Production minus Costs

(Production oz. x Current Metal Price) - (Production oz. x Cost Per oz.)

Debt = Debt - Cash

(Always subtract cash, since it could be used to pay off debt.)

Debt Ratio = Cash Flow / Debt

Note: Production ounces are usually converted to equivalent gold or silver ounces, since production nearly always comes from multiple ore types.

Let's use an example:

Production = 100,000 equivalent ounces of gold
Cost Per Ounce = $700
Current Gold Price = $1,500

Cash Flow = (100,000 x 1,500) - (100,000 x 700) = $80,000,000
Debt = $10,000,000 (debt) - $5,000,000 (cash) = $5,000,000

$80 million Cash Flow, divided by
---------------- = 16 Debt Ratio
$5 million Debt

Thus, cash flow is 16 times debt. That is very manageable and not a problem. In fact, they will likely pay off their debt soon with that much cash flow. However, if the ratio is less than 5, you may be a little leery. They may have to raise cash by issuing more stock, which would dilute the stock and thereby limit the upside price potential of the stock price.

Debt is one of the first things I look at. When I think of debt, I think of net debt, which is debt minus cash. Thus, when you look at debt, you also look at cash. If they have no debt, but no cash, that is not good. You want a company with cash to fund operations and growth. Hopefully, they have enough cash to offset their debt, thereby increasing their debt ratio. You don't want a company with lots of debt and very little cash. All of their cash flow is going to be used to pay off debt.

Cost Per Ounce

The next thing to look at is cost per ounce. Cost has a direct correlation to profitability. If a mining company has a low cost structure and the price of gold/silver rises, the stock will quickly rise, reflecting that cost structure. This is the exponential nature of mining companies that I mentioned earlier. This low cost structure allows an increase in the gold/silver price to go directly to the bottom line – increased profit.

Use the stock market's knowledge to your advantage. The stock market will reward companies that are profitable. If you know a company has a low cost structure (such as Hecla Mining), then it has a big advantage over the competition. Compare each Major and see who has a high, medium, or low cost structure.

You will often find that companies focused in Mexico, South America, or other third world countries will have low price structures. But beware of energy costs. As oil prices rise, this will affect the bottom line – profit. Thus, do not assume that a low price structure can be maintained for the medium or long term.

An easy way to determine if a company has low costs is to compare 1/3 of the spot price of gold/silver. If the cost per ounce is approximately 1/3 of the spot price, then the company has low costs. Conversely, if a company has a cost per ounce more than 2/3 of the spot price, it is high.

* * * * *

Majors are relatively easy to value because you know:

1) Market Cap
2) Production Ounces
3) Resource Ounces
4) Share Structure
5) Cost Structure
6) Debt
7) Cash

We have already looked at debt, cash, and costs. Let’s look now at these other factors. I like to focus on resources (excluding inferred) and see how the market has valued them.

Here are four simple valuation methods:

Market Cap Valuation Per Resource Ounce

This is the valuation of the resources in the ground (excluding inferred) on a per ounce basis. This is the most important valuation for identifying cheap stocks. Often you can buy Juniors at incredibly cheap valuations versus their resources.

Let’s use Silver Standard Resources as an example:

$2.33 billion	Market Cap, divided by	
----------------		= $ 1.94 Market Cap Value Per Ounce
1.2 billion	Resource Ounces (excluding inferred)	

Each ounce in the ground is being valued at $1.94. Lower is better, and this is very low for a producer. Buy low, sell high.

Silver Standard Resources has 1.2 billion equivalent ounces of silver in the ground (excluding inferred resources). When you divide that by their $2.33 billion Market Cap, you are paying less than $2 per ounce. Thus, Silver Standard Resources has a relatively low Market Cap with potential for a significant increase. Buying silver at $2 per ounce in the ground is about as cheap as you will find for a Major. You should compare all of the Majors and see what it really costs to buy these stocks on a *per ounce* basis.

Share Price Valuation by Resources in the Ground

This could also be called “Ounces Per Share,” as this is the number of ounces in the ground that each share represents. Higher is better. This valuation is important because it shows the explosive potential of a tightly held stock. (I’ll have more to say about this further down.)

Again, using Silver Standard Resources:

1.2 billion	Resource Ounces, divided by	
----------------		= 18 oz. per share
67 million	Shares Outstanding	

Each share represents 18 ounces of resources.
Each share is worth $684 worth of silver in the ground (18 x $35).

Thus, when you buy a share of Silver Standard Resources, it has an underlying value of 18 ounces of resources. And since silver is worth $35 today, you are buying those 18 ounces for less than $2 each. That is very cheap for a Major.

Note that this share valuation ignores the Market Cap or share price of the stock. It is strictly used to value the resources on a per share basis. As stated above, high valuations are positive because they reveal explosive potential in the stock price.

Resource Valuation as a Percentage of Market Cap

This is the valuation of the resources at current precious metal prices as a percentage of the Market Cap. This is a very useful valuation to see if a company is undervalued. The general rule of thumb is that resources from a producing mine should be priced at 10%, or higher. You will find some companies priced at 20%.

Step 1: Value of Resources:
1.2 billion (Resource Ounces) x $35 (Current Silver Price) = $42 billion

Step 2: Percent of Market Cap
$2.33 billion Market Cap, divided by
---------------- = 5.5%
$42 billion Value of Resources

The resource ounces in the ground are currently valued at 5.5% of the price of silver. This valuation is very low.

Quick and Dirty Market Cap Valuation

It is easy to do a quick and dirty valuation using resources and the current price of precious metals. This is just a guesstimate of its current Market Cap value, but it is considered a conservative estimate.

Step 1: Value of Resources:
1.2 billion (Resource Ounces) x $35 (Current Silver Price) = $42 billion

Step 2: Value of Resources at 10%
$42 billion x 10% = $4.2 billion

Actual Market Cap: $2.33 Billion
The current valuation of the resources is highly undervalued.

Note: Resource ounces should include Proven or Probable, Measured and Indicated, and exclude Inferred.

Share Structure

Share structure is important to understand. I know one analyst (Mickey Fulp) who ranks it in the top three things he looks at to select a stock. Let's begin by defining the terminology:

Shares Outstanding: This is the number of shares that have been issued, excluding Options and Warrants.

Options: These are stock options *given* to employees, contractors, or others who are affiliated with the company. Each option has a specific price threshold, along with exercise and expiration dates, which must be met before the stock can be issued. Legally, stock options must be granted at or above the current stock price. If an option exceeds the strike price, they are usually sold into the market.

Warrants: These are essentially options owned by private investors that can be used to purchase stock at a fixed price. Companies give these to investors to raise money. Investors can then hold the warrants and purchase the stock directly from the company at a later date at this fixed price (before the warrants expire).

Fully Diluted Shares: These are the combined total of shares outstanding, Options, and Warrants. Note: It is a good practice to use this number for calculating valuations instead of the shares outstanding, if you wish to use more conservative numbers.

Float: The float is the number of shares that can be traded. All shares outstanding are not traded. Normally, there is a small percentage of stock held by company insiders who are long term investors. Also, there can be shares that are restricted from trading. For these reasons, companies with tight share structures can have a small float. Moreover, a company with a small float can be highly explosive, since there are fewer shares available to be traded.

Tightly Held: When there are a small number of Fully Diluted shares, a company's share structure is said to be tightly held. I consider anything less than 100 million shares as tight. But some investors prefer to define tight as closer to 50 million shares.

Dilution: When additional shares are issued, the Outstanding Shares total increases. This is called dilution. This reduces the earnings potential of each share (see EPS example below), and reduces the value of each share. This is easy to comprehend. If there are 10,000 shares outstanding and a company is worth $1 million. What happens if they issue another 10,000 shares? The effective worth of each share has dropped by 50%. In all likelihood, the stock will also drop by 50%. Thus, dilution is bad.

$$\text{EPS (Earnings Per Share)} = \frac{\text{Profit}}{\text{Shares Outstanding}}$$

Note: When you think of share structure, think fully diluted shares. Why? Because the stock market is aware of the number of fully diluted shares and will price the stock accordingly.

Importance of Share Structure

Share structure plays a vital role in stock price valuation.

Let me give you an example of two nearly identical companies which have the same Market Cap. (Let's assume they have nearly the same reserves and production numbers.) The main difference between these companies is the number of shares outstanding.

<u>Company A</u>	<u>Company B</u>
Shares 500 Million	Shares 100 Million
Stock Price $1	Stock Price $5
Market Cap $500 Million	Market Cap $500 Million

What happens if the stock price rises 100% for both stocks?

<u>Company A</u>	<u>Company B</u>
Shares 500 Million	Shares 100 Million
Stock Price $2	Stock Price $10
Market Cap $1 Billion	Market Cap $1 Billion

Since their Market Cap is in sync, it appears that nothing is different between these companies. But this is not quite the case. The company with fewer shares had higher earnings on a per share basis. For example, if they both earned $100 million dollars, this would be the result:

Company A	Company B
Earnings $100 Million	Earnings $100 Million
Shares 500 Million	Shares 100 Million
EPS 20 cents	EPS $1
Stock Price $2	Stock Price $10
P/E Ratio 10	P/E Ratio 10

Again, it looks very similar. Even though the company with fewer shares appears to have better earnings, their P/E (Stock Price divided by EPS) ratios are the same. Thus, Market Cap and earnings appear to be the driving force for the stock price.

However, what you need to know is that the company with fewer shares is more likely to be rewarded with a higher stock price. One reason for this is future dividends. If dividends are ever issued, investors in Company A (with 500 million shares) will receive much less money than investors in Company B (100 million shares). That is significant and will be reflected in the stock price.

This is why one of the valuations of a company is based on the number of shares, such as the number of ounces of resources per share. For example:

Ounces per Share = Resources / Shares Outstanding

Company A	Company B
Resources 100 Million oz.	Resources 100 Million oz.
Shares 500 Million	Shares 100 Million
oz. per Share .20	oz. per Share 1

Thus, when you look at EPS and ounces per share, it becomes obvious that share structure matters. This leads to another thing to understand about share structure. Let me give an example:

Company A	Company B
Shares 500 Million	Shares 100 Million
Stock Price $1	Stock Price $1
Market Cap $500 Million	Market Cap $100 Million

Company A has a bigger Market Cap, but it also has a much bigger share structure. If the stock price for both of these companies rises 100%, watch what happens:

Company A	Company B
Shares 500 Million	Shares 100 Million
Stock Price $2	Stock Price $2
Market Cap $1 Billion	Market Cap $200 Million

As you can see, Company B has much more room for growth since it has fewer shares and a smaller Market Cap. The more shares that are outstanding, the faster the Market Cap will rise. This is the main reason people avoid stocks with large share structures, and why smart investors prefer companies with tight share structures.

You have to discount the value of a company if it has a huge number of shares outstanding, because its Market Cap will grow quickly as the stock price increases. This will prevent or hinder the stock price from rising. Conversely, the stock price of a tightly held stock can increase dramatically as the Market Cap rises.

Since share structure is important, you want to count all "potential" shares, or the number of *fully diluted shares*. Companies often have stock options or warrants that could eventually become outstanding shares. You need to research these. How many there are, the expiration dates, the strike price, etc. To confuse you, financial web sites only display total shares outstanding. This understates the fully diluted total. You have to go to the company's web site to get the total diluted shares.

Cash Flow Ratio

The next thing to look at is how the stock market is valuing a company's cash flow. Earlier, we compared net debt to cash flow. Now we are going to compare cash flow to the Market Cap. This is done using the following calculation:

Cash Flow Ratio = Cash Flow / Market Cap

I already showed you how to do a no-frills cash flow (under the Debt Ratio section), so this calculation should be easy to understand. Market cap is simply the number of shares outstanding times the current stock price. The Market Cap is what the stock market thinks the company is worth. Often this is something like 10 times cash flow, or 20 times cash flow. The industry average is 10 times, but strong companies such as Agnico-Eagle can trade at more than 20 times cash flow.

You should use this calculation for each Major you are considering, and see how they are valued versus their actual cash flow. Try to find a company with strong cash flow (or projected cash flow) that is not being rewarded with a high stock price. This will often be an undervalued stock.

Where this calculation really helps is tracking/monitoring a stock. Since cash flow tends to rise in a bull market, it should be reflected in the company's stock price and subsequently its Market Cap. Using this calculation, you can see if increased cash flow increases the Market Cap. If the Market Cap does not rise, even though the cash flow is rising, it is a safe bet that the stock is going to rise. Thus, you may want to add to your position and buy more stock.

The opposite rule is also true. Less cash flow should lead to a lower Market Cap and the stock price heading lower. Using this ratio, you can track cash flow and see how the Market Cap/stock price responds.

This is basically an easy way to identify how the stock market rewards the profitability of a company. This calculation will expose underpriced companies. If a company has a large cash flow and a low Market Cap, then the stock price has to rise. If you use this calculation on all of the Majors you are interested in, the good ones will stand out.

What you are looking for are companies that are either undervalued or overvalued. The undervalued companies, you want to own. The overvalued companies, you might want to avoid. Note: be careful about relying on this ratio if the company has a lot of debt.

Another thing you can do with this calculation is run hypothetical models. What happens to cash flow if the gold price rises to $2,000? If you monitor how the stock market values cash flow for a company, you can have a good idea. What happens if production increases? What happens if costs rise?

All of these factors can be monitored or simulated. Professional stock traders run these numbers all the time. They anticipate how the stock market is going to value the company in the future. They anticipate how changes can affect a company's cash flow. For instance, if you know a company is going to add one million ounces of gold production next year, you can use this calculation to do a quick check. Is that additional cash flow already reflected in the stock's price?

The variables in this calculation are constantly changing (i.e. production ounces, shares outstanding, mining costs, metals prices, and the stock price). So you can keep a history and see how the valuation and stock price move. This ratio should be fairly consistent: more cash flow = higher stock price = higher Market Cap. Over time, you can get a good feel for what affects the price. This is what professionals do. And this is why you want to pay attention to what the professionals are saying. They know these stocks very well, and so can you.

Other Valuation Methods

There are several valuation methods that professionals use, such as net present value using discounted cash flow, weighted average cost of capital, and economic value added. All of these are complicated accounting ratios that are a pain to understand and mock up. For mining shares, I think it is more than adequate to use simple formulas, along with the rising trend of gold/silver.

For gold/silver mining companies, I don't think the PE (Price/Earnings) ratio is important. This ratio is used by a lot of analysts, but I think it is worthless in this case. If a company has a low PE or a high PE, that doesn't mean anything, in my opinion. Because mining companies are valued on their costs, reserves, and the price of the metal, it makes much more sense to focus on cash flow.

Cash flow and the lack of debt are going to drive the stock price higher. The past PE doesn't mean much if gold goes to $2,000. Investors aren't going to be talking about past PE ratios. They are going to be talking about increased cash flow and increased profits. Moreover, as we have seen with technology and Internet stocks, a high PE does not mean that the stock price can't go higher. So cash flow growth is much more important than the PE for gold/silver mining companies.

The mining business isn't that complicated for calculating (or projecting) profits. You mine ore at a certain cost, and then you sell it at the going market rate. If you are lucky enough to have a large gold or silver deposit, it is like printing money. This is why investing in mining companies can be very lucrative in a bull market. These companies can be very profitable.

Partnerships / Joint Ventures

In the mining business, Majors are always looking for Juniors to partner up with in a joint venture. Thus, they let the Juniors do the exploring, but they create a partnership just in case they find something. Most of the Majors have several small partnerships that have the potential to turn into mines. Don't ignore these partnerships. Take some time to see what the Juniors have drilled and what they have planned. The chapter on Junior Explorers will help you to research them.

Analysts / Web Forums / Web Sites

I always want to know what investment analysts are saying about a company that I am interested in. For instance, are there any red flags? There is so much information on the Internet that it makes no sense to purchase a stock without first reading about it. Most of the material available about a company comes from their web site. The other places are web forums, analyst's web sites, and gold/silver web sites. This is the information that uncovers the details about a company that truly identifies its strengths and weaknesses. If you did a good job researching a company by checking all the areas I have outlined, your conclusions should match what the analysts are saying.

If you're new to web investment forums, make sure you don't jump to conclusions or believe everything you read. Remember that people have their own motives and biases, and that you should approach these sites with a healthy dose of skepticism.

Don’t dismiss web forums, and think there is no useful information to be found on a forum of amateur investors. Some of the best news originates on Internet sites like: Yahoo Finance, Google Finance, Agoracom.com and Stockhouse.com.

You can get firsthand information from people who have followed these companies for years. Some of the best information is on web forums. It is often more timely than paid information. And all the latest news about a company is usually available – the good, the bad and the ugly.

The best thing about investing in Majors is that a lot of people invest in these stocks. So there is a lot of information available. With just a little bit of effort, you can find the best stocks, and everything you need to know about them: their strengths, weaknesses, and potential.

Gold/Silver Web Sites

In addition to stock research, you should also read about gold/silver in general. These are sites that are more oriented to news articles that pertain to gold/silver. Many of them are written by analysts who recommend stocks, but the majority of them are economic in nature. I think it is imperative to read these sites if you are a serious investor. It is the only way to time the market for identifying entry prices. My favorite is 321gold.com. This site is biased towards gold, but the quality of material is excellent.

Here is a list of gold/silver web sites to visit:

321gold.com	Excellent daily news articles
TheAuReport.com	Excellent daily news articles
SilverAxis.com	Excellent links on this page
FinancialSense.com	Free Internet radio show
Goldseek.com	Free Internet radio show
Kereport.com	Free Internet radio show

MiningStocks.com	Free Internet radio show
Infomine.com	
Jsmineset.com	
Mineweb.com	
ResourceInvestor.com	
Silverseek.com	
Silver-Investor.com	
SilverStrategies.com	
KitcoSilver.com	

Books / Newsletters

Generally, the above material is sufficient, but if you are a stickler for doing research, there are a few more sources of information. I would recommend the CPM Gold Yearbook and/or CPM Silver Yearbook.[4] These books cost $75 each and are published annually. Try to get a used edition on Amazon. They will tell you quite a bit about each of the Majors.

There are also many good newsletters on the market. Some of them cover the Majors (For Majors, I would recommend John Doody's newsletter at www.goldstockanalyst.com). If you want to do a thorough job of analyzing the Majors, these newsletters can add the missing details and give you a professional's opinion. If you are going to invest in specific Majors, spending $300 to $500 for a subscription service is probably worth it.

I will recommend newsletters for Juniors in the last chapter, but you will probably want to read a few samples and do your own research. There is enough information on the Internet to find the good ones. Most of them allow you to purchase month to month or quarterly when you begin. So if you don't like one, you can always try another. Here is an excellent web page with a list of newsletters: www.theaureport.com/pub/htdocs/newsletters.html.

[4] http://www.cpmgroup.com

List of Gold Majors

Company	Date of Update	Stock Symbol	Market Cap Fully Diluted (Millions)	Market Cap Value Per oz. (Excluding Inferred))	Stock Price	Stock Price Change 1 Year	Shares Out – Standing Fully Diluted (Millions)	Total Resources Excluding Inferred (Million oz.)
Agnico Eagle Min.	2/27/2011	AEM	$13,000	$610	$70.65	20%	184.00	21.30
Anglogold Ashanti	3/30/2011	AU	$36,586	$236	$47.33	27%	773.00	155.00
Barrick Gold	4/2/2011	ABX	$51,116	$243	$51.27	29%	997.00	210.00
Buenaventura Min.	4/2/2011	BVN	$12,150	$810	$42.63	29%	285.00	15.00
Centerra Gold	4/2/2011	CAGDF.PK	$4,119	$317	$17.38	30%	237.00	13.00
Eldorado Gold	4/20/2011	EGO	$10,102	$505	$18.04	30%	560.00	20.00
Gold Fields	4/22/2011	GFI	$13,193	$171	$17.95	38%	735.00	77.00
GoldCorp	4/22/2011	GG	$44,165	$442	$55.00	34%	803.00	100.00
Harmony Mining	4/22/2011	HMY	$6,785	$141	$15.42	63%	440.00	48.00
IAMGOLD	4/22/2011	IAG	$7,773	$486	$20.51	23%	379.00	16.00
Kinross Gold	4/22/2011	KGC	$17,729	$295	$15.35	-15%	1155.00	60.00
New Gold	4/12/2011	NGD	$5,082	$498	$10.86	105%	468.00	10.20
Newcrest Mining	4/28/2011	NCMGF.PK	$21,825	$464	$45.00	50%	485.00	47.00
Newmont Mining	4/28/2011	NEM	$29,160	$314	$58.79	5%	496.00	93.00
Osisko Mining	4/28/2011	OSKFF.PK	$6,078	$553	$14.61	43%	416.00	11.00
Polyus Gold	4/30/2011	OPYGY.PK	$14,179	$192	$36.45	46%	389.00	74.00
Randgold Res.	4/30/2011	GOLD	$8,224	$514	$86.57	5%	95.00	16.00
Yamana Gold	5/4/2011	AUY	$8,944	$218	$11.91	12%	751.00	41.00

Gold Majors Defined

This list above includes most (18) of the gold Majors. These large cap gold mining companies all have a Market Cap over $3 billon dollars. I categorize a company as a Major differently than the professionals. They define a company as a Major from a production standpoint. To them, a Major must have production that exceeds 500,000 ounces per year. (Generally, this requires a Market Cap of at least $5 billion.)

I'm more concerned about how much money I can make. If a company has a Market Cap greater than $3 billion, how much upside is left? The bottom line is that the greater the Market Cap, the less the upside. Thus, if I define a company as a gold Major, I see it as having a small likelihood of achieving my goal of a 500% return.

I might miss some great companies who happen to have a Market Cap greater than $3 billion, but that is the risk I am willing to take. I prefer to spend my time analyzing companies with Market Caps below this threshold. If you are looking for safety, and have less aggressive investment goals, then using gold mutual funds or gold ETFs that include companies with large Market Caps makes a lot of sense.

Profit is profit. And many of these Majors and mining companies with Market Caps greater than $3 billion will make a lot of money in this bull market. It is not foolish to focus on companies with Market Caps greater than $3 billion. You will do very well. Companies like Kinross Gold Corp. and Agnico-Eagle Mines have incredible properties and growth prospects. I don't see how these companies could fail to triple in value.

That said, this is not where I spend my time doing analysis. That begins in the next chapter, looking for companies worth less than $3 billion.

List of Emerging Gold Majors

Company	Date of Update	Stock Symbol	Market Cap Fully Diluted (Millions)	Market Cap Value Per oz. (Excluding Inferred))	Stock Price	Stock Price Change 1 Year	Shares Out – Standing Fully Diluted (Millions)	Total Resources Excluding Inferred (Million oz.)
Alacer Gold Corp.	2/27/2011	ASR.TO	$2,807	$802	$9.45	108%	297.00	3.50
Alamos Gold	2/27/2011	AGIGF.PK	$2,039	$510	$16.58	25%	123.00	4.00
Allied Nevada	3/3/2011	ANV	$2,817	$201	$33.53	8%	84.00	14.00
Aurizon Mines	4/2/2011	AZK	$1,151	$230	$6.69	35%	172.00	5.00
China Gold Intl.	4/22/2011	JINFF.PK	$2,477	$248	$6.24	20%	397.00	10.00
Detour Gold	4/19/2011	DRGDF.PK	$3,453	$99	$33.33	71%	103.60	35.00
DRDGOLD	4/10/2011	DROOY.PK	$2,419	$336	$5.46	6%	443.00	7.20
European Goldfield	4/21/2011	EGFDF.PK	$2,288	$188	$11.98	72%	191.00	12.20
Gammon Gold	4/22/2011	GRS	$1,908	$353	$10.78	52%	177.00	5.40
Semafo Inc.	4/30/2011	SEMFF.PK	$2,417	$403	$8.57	34%	282.00	6.00