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The Mining Investment Experts

Weekly Commentary

10 February 2024 *Chart comments not updated since 3 February* Analyst : Warwick Grigor

Sentiment towards South Africa is improving

The chart comments have not been updated this week so there is no change to the Sentiment Oscillator, but a quick perusal of the share prices suggests that there has been no improvement in the smaller end. The same thematics are operating.

West Wits - gold and uranium most popular

The INDABA conference in Capetown was suitably busy in combination with the 121 Conference. In addition to seeing the usual smorgasbord of companies one of my main tasks was to be working on the raising of development funds for West Wits's Qala Shallows Project. WWI is aiming to establish a 70,000 oz p.a. gold mine with a steady state All in Sustainable Costs of less than US$900/oz, ahead of ultimately expanding to the 200,000 oz p.a. level.

Investors were particularly interested to learn of the uranium exploration target, also on the Mining Right. It seems to have slipped beneath the radar of most people along with the fact that these discrete orebodies also have some good gold grades. Nothing in the Qala studies takes into account this potential value. Given that uranium is a hot commodity now, it is incumbent upon WWI to maximise the upside for its shareholders.

Negotiating funding for any mine takes time as candidates sign confidentiality agreements and begin working through the data. The West Wits example is no different. Last week though, there seemed to be a greater sense of urgency as many new parties were being introduced to the opportunity. While WWI is moving to close in on earlier expressions of interest for funding, there is now a new raft of potential funders vying for a seat at the table. That competition will probably work in WWI's favour.

The immediacy of the opportunity is highlighted by the observation that once funding is assured the first ore can be delivered to the stockpile within eight weeks. After five months of building an above-ground stockpile, WWI can begin trucking ore to Sibanya's treatment plant 40 km away. Production will progressively ramp up over a three year period to hit the 70,000 oz rate by the end of year three.

Disclosure: Interests associated with the author owns shares in West Wits. The author is a non-executive director of West Wits and has received capital raising fees.

Theta's shares jumped 54% yesterday

Theta Gold Mines (TGM), another pre-development gold company in South Africa, was a spectacular performer on Friday. The shares jumped 54% before being placed into a trading halt pending an announcement regarding a project update. Any positive news on Theta's progress will probably have a good rub off on companies like West Wits as the sentiment towards South Africa is starting to improve.

Being an Analyst

Given the bear market we have been experiencing there will be many stock market investors who are long and wrong in their portfolios. Some of the more recent entrants into the market place will be wondering how this could happen. How could they have burnt so much money? Perhaps they need a better appreciation of the playing field in which they operate. It might not make them feel much happier, but it will help them put it all in perspective.

Once, going back to before the 1980s, to be a good analyst you needed to be able to understand the essential ingredients of a company. You needed to understand the industry in which it operates and you needed to understand the internal workings of the company; the leadership, the philosophy and the mantra. You had to understand what made it tick and identify why it was successful, or not.

You didn't need a crystal ball if you could understand both the company's culture and how money was made in its sector but you needed a deep and accurate perception. You then needed to know how to articulate your findings and it helped if you could read and understand a balance sheet and a P&L.

Then, in the early 1980s, computers and early Apples appeared on the desktops of analysts. Microsoft released Excel and this software enabled the development of computer models for the forecasting of earnings and calculation of NPVs. At last the broking and finance sectors had a tool for modelling the future.

However, the trouble with modelling is the accuracy of any forecasting is totally dependent upon assumptions. Estimates became more precisely imperfect as intimacy and the understanding of companies became subservient to understanding how to construct and manipulate models. Geeks had a great time but their input was always going to be subservient to market nous.

At the same time as research was becoming more systematic the industry continued going down the path of falling commission rates, eventually taking us to a point where transaction costs were becoming a non-event. You could buy and sell stocks on a change of whim at minimal cost rather than taking time to consider entry and exit costs. Research became uneconomic in most cases as it was still imperfect, and the momentum of money became more relevant in the equation.

Emotive trading became the order of the day. Analysis of markets themselves, as opposed to analysis of company fundamentals, became much more important. Knowing where the money was going to flow, and getting in ahead of the pack, became the priority. Sometimes this was in reference to sectors, but stocks within sectors became a sharper focus. Thus was born the concept of FOMO. It didn't matter what the underlying fundamentals told us, it was all about where money was going to flow and getting ahead of the bow wave.

That brought a new breed of spin-doctors and a dumbing down of technical information. PowerPoint presentations focused on pictures and slogans that could be communicated in 10-15 minute presentations that coincided with the maximum concentration spans of an audience. Punters in the auditorium can look around to see the reactions of others and if they seem positive, they can place an order on their smart phones before the company has finished presenting. The sense of urgency can be immediate, both on the buy and sell side depending on whether it is a positive or negative presentation.

The trouble with research is that it takes so long to play out. It is based on fundamentals and the real world, and no-one has the patience to wait. The dynamics of todays stock market are based on instant gratification rather than patient investing.

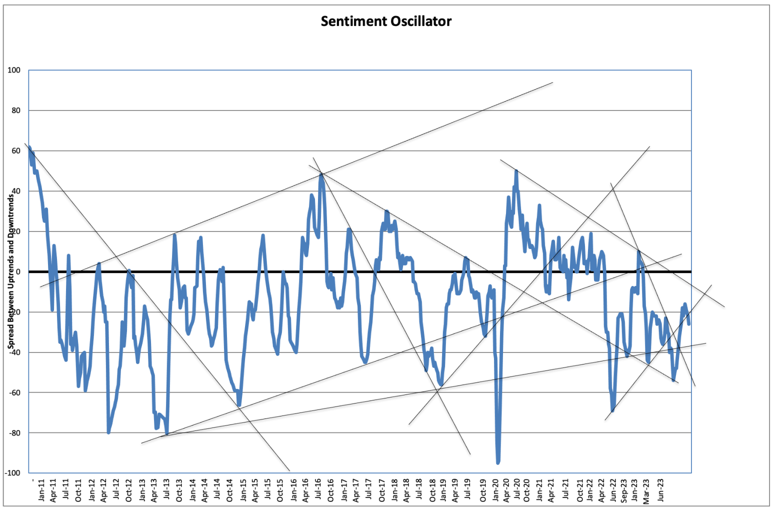
The stock market was once an allocator of investment capital. Now it is more of a casino with every day being a new day. Punters are much more willing to roll the dice than take the time to gain a deep understanding. The spin doctors seek to influence funds to flow their way without concern as to prudence of such movements.

The challenge for a fundamental analyst is to balance the likely long term delivery with short term movements. Being correct is not enough when it can easily take 2-3 years to work through. No analyst will keep his job if his recommendations are consistently swimming against the tide of the weight of money. Arrogance and being fundamentally will not be of assistance in making money.

Research is written to a formula but too often it is a written demonstration of the learning curve that the analyst has been climbing as opposed to an insightful and perceptive piece of work. It is not dynamic enough in that it usually lacks insight into stock market trends, preferring to articulate facts and extrapolate them into the future. It is not a great motivator for investor action in its own right.

Why am I undermining my stated profession? Well, I don't think I am. I am describing the evolution of a function. Analysis has moved on from stock specific deliberation to a more complicated and dynamic appreciation of the changing state of markets and market psychology. It is not information per se that drives markets. It how how information is manipulated that is the driving force. It is something that regulators continue to have trouble coming to grips with. Disinformation is everywhere but it moves too quickly for the public servants that seek to manage integrity in markets. Hot Copper is a great example. Hence my description of markets as casinos.

NB: This commentary is more relevant to the smaller end of the market than the Top 200, but the psychology can still have an influence on larger stocks.



Sentiment Oscillator: Sentiment weakened again. There were 27% (29%) of stocks in uptrend and 53% (51%) in downtrend at the close of the week.

Detailed Chart Comments

NB. Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant. Please note that this list is a cross section of the market. It IS NOT a list of recommendations.

Indices	Code		Trend Comment	
All Ordinaries	XAO		continuing to a new high	
Metals and Mining	XMM		breaching correction pattern	