

Too many are too economical with the truth

Surprisingly and pleasingly, the All Ords didn't turn down at the resistance line last week. It pushed through it, as did the Mining and Energy Indices. While that is positive, it doesn't mean a sustained turnaround yet. We watch and hope, but the poor performance of the Dow and the gold price on Friday evening is not going to make our Monday any better.

Truthfulness is evaporating in management, aided and abetted by ASIC's policies missing the mark

I have often said that the most important factor in making an investment decision is management. Substandard management is not an actionable crime, but it nevertheless stands in the way of investors making consistent profits. Poor decision making is a malady that affects so many companies and so far we have not found a formula that enables us to identify the companies affected, other than experience and lessons learned. There is always another wave of uninitiated investors ready to make the same mistakes rather than learn from wiser heads, frequently mistaking luck for smart decision making.

Truthfulness is an important quality that management needs to have if it is going to fulfil its moral duties to shareholders and investors. As if a high level of truthfulness wasn't already a difficult objective to attain, the changes being imposed by ASIC actually make truthfulness harder, if not impossible, to achieve.

The emotively strong argument that we need a level playing field fails when you try to create one. I have no problems with equality of opportunity and the breakdown of stratified social barriers in principle, but that is a starting point. You can't keep restarting the game and bring every one back to the starting gate just to be fair to those who were slow off the mark and not able to survive in a competitive environment. The regulation should be there to limit dysfunctional excesses, not to promote the fantasy that there can be a level playing field, in reality.

Continuous disclosure creates anomalies

Take a look at the effects of continuous disclosure and how it works in practice. Effectively it gags companies and directors from saying anything, to anyone, unless it tells the whole world at the same time. That means it is either pointless, or illegal, for directors to be talking to shareholders and investors. It means that the practice of briefing analysts or presenting at investment forums must be restricted to information already in the public domain. Why should we bother going to these events if it is just a re-hash of what is already out there?

Research is being socialised

The socialisation of research is another example of one step too far. Broking companies are not allowed to distribute research to their best clients in priority. They are not allowed to even let anyone know they are conducting

research on a particular stock. That is classified as inside information even before the analyst has decided what he is going to conclude. Everyone has to receive the research at the same time, so they can have equal access and an opportunity to buy at the same time. Well, markets don't work like that.

It's the human reaction, not the information, that moves prices

Stock prices move through the dissemination and absorption of information and analysis of that information over a period of time. Yet, it is not necessarily the information itself that is the mover of stock prices. It is the reaction to the information and the emergence of a wave of buying, or selling, that attracts investors into or out of a stock. Hence the term FOMO (fear of missing out). It is the movement of the market that makes the money more than the underlying fundamental facts.

Recognition of this causes directors to focus more heavily on flavour rather than form. It encourages promotion and in effect, advertising, rather than truthful reporting of facts. Every director is under pressure from shareholders to pump share prices and information flow is the obvious instrument. Almost no-one wants the bare truth. They don't want the sausage but they do want the sizzle.

So, the system now focuses on delivering what shareholders want. That is one of the reasons why we have such volatility in the markets today. The best promoters get the best share price performances and so the punters flock to these people like the rats following the pied piper. ASIC's lack of understanding of the way markets work has only exacerbated the extension of promotion over substance.

The declining truthfulness is a symptom of the regulation. Directors are not allowed to say what is really happening ahead of public releases so that then you meet them at conferences for example, and ask them a direct question, they aren't allowed to say anything. So the more usual scenario is that they just say good things. Let's look at an example.

There is a junior gold miner that has been one of my favourites. It has both good orebodies and good management. When I casually asked them how the mining was going and how the finances were, they said "good" on both counts. Yet, within 30 days of receiving this assurance, the company announced it was having problems with dilution in mining. It also announced a share placement and an SPP. They had clearly misled me. Was it lying? Probably. Was it being truthful? Definitely not. Has my confidence and loyalty been damaged? Absolutely. Next time I speak to management I won't be naive enough to think that they wouldn't deliberately mislead me, but equally, they could be justified in saying that the law says they couldn't tell me the truth. If that is so, then they should have said nothing.

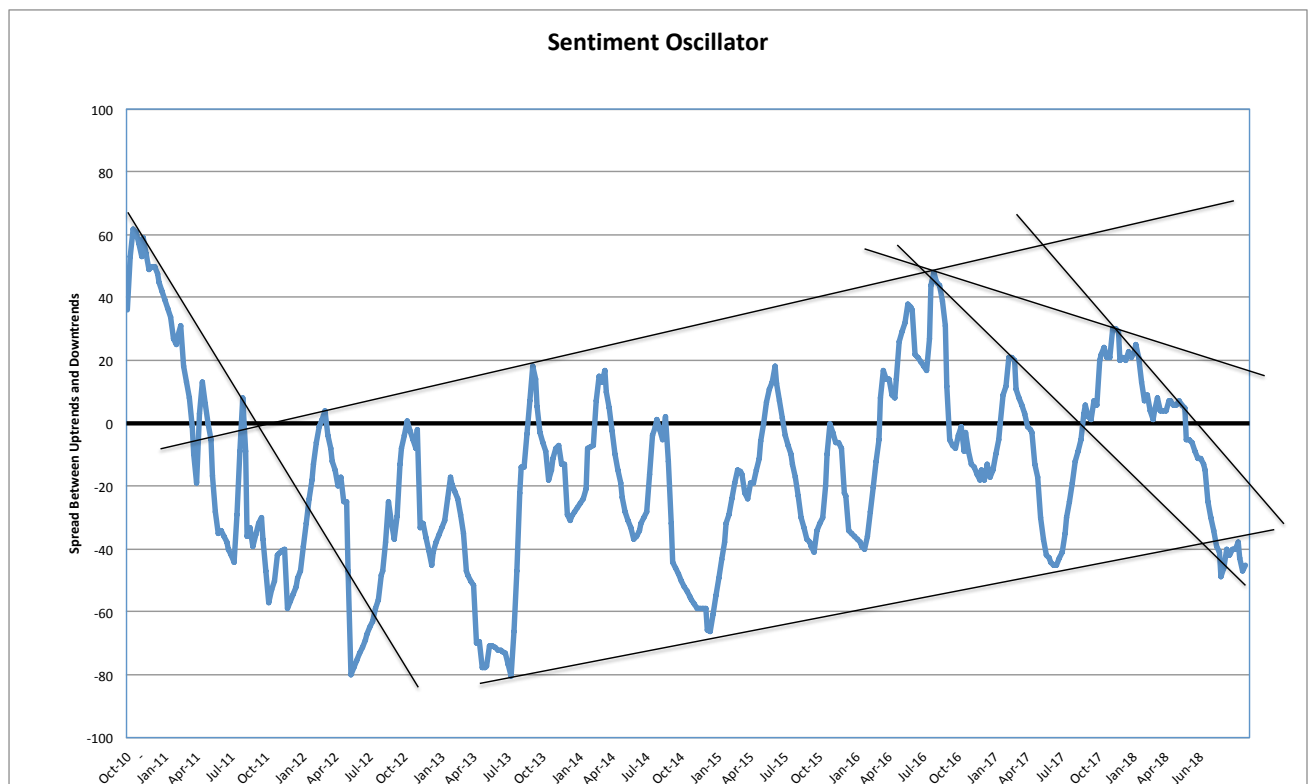
It then becomes an issue of timing. Do you tell the market every time you have a bad day, a bad week or a bad month? When does knowledge accumulate to a point whereby it becomes a significant event in an industry where you will always get changing circumstances? It is not an easy call.

There is another junior gold producer that has projects with plenty of gold and lots of upside, but they haven't been able to successfully convert the potential to reality. The shares ran up by over 500% early this year on new management and proclamations about how everything would be turning around. However, there has been no turnaround and no delivery on promises. Reading the September quarterly I can only conclude that there were many prior ASX releases that were not accurate by a big margin. They were aspirational and promotional. What was said in the quarterly is clearly contradictory of what was said previously. Truthfulness has been absent.

It seems to be that the most important function of an analyst is to be a human lie detector. Quite frankly, after 40 years in the business, I am getting tired of being lied to. The standard is not improving. In fact, it is getting worse.

You might think that what I relay is typical of the junior sector, but you would be mistaken to think it only relates to the junior sector. You only have to look at the banking inquiry and news flow from many of the major companies to realise that the lack of truthfulness has saturated society, be it in relation to listed companies, the media, the governments or just about every other aspect of the world we live in. Where ASIC and regulators get it wrong is that they assume you can legislate to make people honest, but it doesn't work that way. The markets will always be a battlefield.

Disclosure: Nil



Sentiment Oscillator: No real change in sentiment with 14% (13%) of the charts in uptrend and 59% (60%) in downtrend on Friday's close.

Exore Resources to our chart coverage.

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	breached steepest downtrend	
Metals and Mining	XMM	breached steepest downtrend	
Energy	XEJ	breached steepest downtrend	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Adriatic Resources	ADT	uptrend	zinc
Aeon Metals	AML	downtrend confirmed	copper + cobalt
Alacer Gold	AQG	testing downtrend	gold – production
Alkane Resources	ALK	sideways at lows	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Alchemy Resources	ALY	base forming	nickel, cobalt
Alicanto Minerals	AQI	strong rally, then crunched down	gold exploration
Allegiance Coal	AHQ	holding LT uptrend	coal
Alliance Resources	AGS	new uptrend breached	gold exploration
Altech Chemicals	ATC	down	industrial minerals - synthetic sapphire
Anova Metals	AWV	new low on poor production report	gold
Apollo Consolidated	AOP	rallying	gold exploration
Archer Exploration	AXE	breach of support	magnesite, graphite
Argent Minerals	ARD	down	silver
Aurelia Metals	AMI	recovery and a new high	gold + base metals
AusTin	ANW	breached uptrend	tin, cobalt
Australian Bauxite	ABX	sideways	bauxite
Australian Potash	APC	testing downtrend	potash
Australian Mines	AUZ	testing steepest downtrend	cobalt/nickel
Australian Vanadium	AVL	downtrend confirmed	vanadium
Bounty Coal	B2Y	down	coal
BHP	BHP	slump to support line	diversified
Base Resources	BSE	sideways, but softer last week	mineral sands
Bathurst Resources	BRL	slump	coal
Battery Minerals	BAT	sideways at lows	graphite
BBX Minerals	BBX	breached downtrend	gold
Beach Energy	BPT	breached uptrend	oil and gas
Beadell Resources	BDR	testing downtrend	gold
Bellevue Gold	BGL	return to strong uptrend - placement	gold
Berkeley Energia	BKY	collapse - Spanish media	uranium
Blackstone Minerals	BSX	back to lows	gold, cobalt
Breaker Resources	BRB	rising	gold
Broken Hill Prospect.	BPL	down	minerals sands, cobalt
Buru Energy	BRU	slump	oil
Cardinal Resources	CDV	breaching downtrend	gold exploration
Cassini Resources	CZI	gentle downtrend	nickel/Cu expl.


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Celsius Resources	CLA		falling again	copper/cobalt
Chalice Gold	CHN		sideways	gold
Cobalt Blue	COB		free fall on study results	cobalt
Comet Resources	CRL		new low	graphite
Crusader Resources	CAS		suspended	gold
Dacian Gold	DCN		rallying	gold
Danakali	DNK		breached uptrend	potash
Doray Minerals	DRM		rising	gold
Eden Innovations	EDE		new uptrend	carbon nanotubes in concrete
Egan Street Resources	EGA		new low	gold
Emerald Resource	EMR		broad downtrend	gold
Evolution Mining	EVN		higher	gold
Exore Resources	ERX		new company	gold exploration
FAR	FAR		crunched down on dud oil well	oil/gas
First Graphene	FGR		rising again	graphene
Frontier Diamonds	FDX		breached downtrend	diamonds
Fortescue Metals	FMG		rallied out of steepest, but still in LT downtrend	iron ore
Galaxy Resources	GXY		strong rally	lithium
Galilee Energy	GLL		breached uptrend - sideways to lower now	oil and gas, CBM
Gascoyne Resources	GCY		collapse	gold
Global Geoscience	GSC		down	lithium
Gold Road	GOR		breached uptrend	gold exploration
Golden Rim	GMR		new low	gold exploration
Graphex Mining	GPX		rally then retracement	graphite
Heron Resources	HRR		sideways	zinc
Highfield Resources	HFR		down again	potash
Highlands Pacific	HIG		down	nickel, cobalt
Hillgrove Resources	HGO		sideways	copper
Hipo Resources	HIP		testing downtrend	battery metals
Iluka Resources	ILU		down heavily	mineral sands
Image Resources	IMA		downtrend	mineral sands
Independence Group	IGO		back in downtrend	gold, nickel
Jervois Mining	JVR		heavy fall	nickel/cobalt
Jindalee Resources	JRL		downtrend commenced	lithium
Karoo Gas	KAR		new low	gas
Kasbah Resources	KAS		still in downtrend	tin
Kibaran Resources	KNL		breaking higher	graphite
Kin Mining	KIN		heavy fall	gold
Legend Mining	LEG		down	exploration
Lepidico	LPD		continuing down	lithium
Lithium Australia	LIT		continuing downtrend	lithium
Lucapa Diamond	LOM		continuing downtrend	diamonds
Lynas Corp.	LYC		testing downtrend	rare earths
Macphersons Res.	MRP		still down	gold/silver

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Mako Gold	MKG		down	gold
Marmota	MEU		sideways	gold exploration
MetalsX	MLX		down again	tin, nickel
Metro Mining	MMI		down	bauxite
Mincor Resources	MCR		sideways	gold
Myanmar Minerals	MYL		starting down again	zinc
MZI Resources	MZI		downtrend still	mineral sands
Nelson Resources	NES		down	gold exploration
Neometals	NMT		down	lithium
Northern Cobalt	N27		down again	cobalt
Northern Minerals	NTU		new low	REE
Northern Star Res.	NST		still strong	gold
NTM Gold	NTM		testing downtrend	gold
Oceana Gold	OGC		rising again	gold
Oklo Resources	OKU		down	gold expl.
OreCorp	ORR		breached downtrend	gold development
Orinoco Gold	OGX		down	gold development
Orocobre	ORE		strong rally	lithium
Oz Minerals	OZL		testing downtrend	copper
Pacific American Coal	PAK		down	coal
Pantoro	PNR		down	gold
Panoramic Res	PAN		downtrend again	gold , nickel
Peel Mining	PEX		downtrend confirmed	copper
Peninsula Energy	PEN		downtrend again	uranium
Perseus Mining	PRU		improving within a downtrend	gold
Pilbara Minerals	PLS		down	lithium/tantalum
PNX Metals	PNX		lower	gold, silver, zinc
Polarex	PXX		still down	polymetallic
Prodigy Gold	PRX		down	gold exploration
Real Energy	RLE		rallying	gas
Red5	RED		down	gold
Red River Resources	RVR		down	zinc
Regis Resources	RRL		rising	gold
Resolute Mining	RSG		testing downtrend	gold
RIO	RIO		down	diversified
Salt Lake Potash	SO4		re-entering downtrend	potash
Saracen Minerals	SAR		up	gold
St Barbara	SBM		up	gold
Sandfire Resources	SFR		strong rally	copper
Santana Minerals	SMI		new low	silver
Santos	STO		back to highs	oil/gas
Sheffield Resources	SFX		testing uptrend	mineral sands
St George Mining	SGQ		starting uptrend	nickel
Sipa Resources	SRI		sideways	general exploration - Ni,Cu, Co, Au

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Stanmore Coal	SMR		new high	coal
Sundance Energy	SEA		testing downtrend	oil/gas
Syrah Resources	SYR		new low	graphite
Talga Resources	TLG		down	graphite
Tanami Gold	TAM		slump	gold
Technology Metals	TMT		short term down	vanadium
Tiger Realm	TIG		down	coal
Triton Minerals	TON		down	graphite
Troy Resources	TRY		down	gold
Tyranna Resources	TYX		back in downtrend	gold exploration
Vango Mining	VAN		correcting	gold
Vector Resources	VEC		down again	gold
Venturex	VXR		testing downtrend	zinc
Vimy Resources	VMY		down	uranium
Volt Resources	VRC		sideways	graphite
West African Resources	WAF		down	gold
Westwits	WWI		down	gold
Western Areas	WSA		down	nickel
Whitehaven Coal	WHC		testing uptrend	coal
Totals	14%	20	Uptrend	
	59%	84	Downtrend	
		142	Total	

Guides to Chart Interpretations

- Charts usually go pass from one trend (up or down) into the other via a period of indecision and uncertainty during which the trend can either recover or change. This period is signified by the orange colour. The orange represent both the greatest risk and greatest reward possibilities.
- Once a chart is in confirmed up or downtrends it is not uncommon for 10-20% of that trend to have already transpired.
- There are trends within trends. The focus of this chart review is the immediate trend that affects the sentiment i.e. it can be a downtrend within a long-term uptrend.
- Not every chart warrants a new comment every week. The new comments are in bold type. Grey type comments may be dated.
- Individual charts provide a single view. It is valuable to look at charts of other companies in similar commodities, and the overall sentiment is also very valuable. Not many stocks can swim against the tide.
- We periodically add or delete charts, some times for obscure reasons. If a chart consistent gives poor signals or is very erratic, we may delete it. Sometimes we add a chart because we want to see what all the fuss is about. We do have a preference for charting stocks that we cover in our research as well.
- Errors and omissions may occur from time to time, especially in fast moving markets.

Amber Lights in Tables: Just a reminder if when the amber light is used in the table – it is when the charts are ambiguous or when there is a change of trend taking place. If a chart is breaching a downtrend it can either be a positive sign or a trap. Only once it has done more work can it be confirmed as a new uptrend. Maybe it is a new uptrend (or conversely a new downtrend); the risk takers can decide to jump on board early (or sell). They will maximise their profits (or minimise their losses if indeed it is the start of the new uptrend (downtrend). More risk-averse investors should wait a little longer, being prepared to give up some of the gains in return for greater certainty.

Weightings of Sectors Represented in the Company Charts

Sector	No. of Companies	Weighting
Gold	39	27.5%
Gold Exploration	14	9.9%
Graphite	9	6.3%
Coal	8	5.6%

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Oil/Gas	8	5.6%	
Lithium	8	5.6%	
Copper	6	4.2%	
Mineral Sands	6	4.2%	
Nickel	7	4.9%	
Cobalt	5	3.5%	
Zinc	5	3.5%	
Potash/Phosphate	4	2.8%	
Silver	3	2.1%	
Tin	3	2.1%	
Uranium	3	2.1%	
Rare Earths	2	1.4%	
Bauxite	2	1.4%	
Diamonds	2	1.4%	
Iron Ore	1	0.7%	
Other	7		
Total	142		

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