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FAR EAST C A P I T A L The Mining Investment Experts

#### Charts on Friday's Close

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Weekly

Commentary

# Gold shines while everything else is uncertain

There should be no doubt in your mind; the great US bull market is over. We should not be looking to US markets for any joy in the next month, and perhaps the next year or two. The volatility we are seeing in the Dow, with extreme intra-day movements, is only scaring investors away while we wait for them to acknowledge the writing that is on the wall. It is time for these investors to look elsewhere.

The front end cyclical stocks in the US are down heavily. The automotive sector is down 30% from its high. Banks are down 25%, the building sector is down 35% and retail is down 20% on their respective highs. At the same time economically defensive stocks are up. These movements tell us one thing very clearly; the US is headed for a recession. Whether or not a recession actually happens, and if it does, how bad it will be, is very much dependent upon how the Fed and the US government reacts from here.

Credit is tightening up in the US. The M2 money supply growth has fallen from 7.5% to 4% p.a. over the last few years. The recent interest rate hike may have been one step too far, coming at a time when everything seems to be slowing. Unemployment is still at multi-decade lows, but employment is a lagging indicator. In the past full employment has frequently been a leader to a recession. Maybe it is doing so again.

#### The silver lining in the weakening US markets

So, does this mean that the Aussie and other markets will go down along with the US markets? Perhaps not. If the Fed wakes up to what is really happening in US industry and decides to back off from raising rates again, or if its publicly stated guidance starts to point to a shaving of rates, then the US dollar will start to fall and US investment funds will move offshore in search of underpriced stocks and assets elsewhere in the world. There will be a reversal to the trends that have dominated money flows over recent years, to the benefit of our market.

#### Gold is showing its benefit

The A\$ gold price is powering ahead with the falling A\$ and the rising gold price. The slight improvement in the Sentiment Oscillator this week can be attributed to the gold sector receiving greater interest. The strongest stocks have been the established gold producers while many juniors with good gold resource inventories continue to struggle. We should be expecting that many of these will be gobbled up by the producers where there is operational logic and geographical compatibility in the first instance. More exotically located resources will be less attractive the Australian-based producers at this juncture.

#### When is a placement good news, and when it is not

It is usual for punters to scroll through Appendix 3B statements at the end of each quarter to see if companies have plenty, or not enough cash, to see them through for

another three months. If the cupboard is looking bare and a capital raising is imminent, they will immediately sell down the offending company's shares. After all, no-one really wants to be around when there is a placement happening - especially if you can sell now and get placement stock at a cheaper price.

Share prices don't have to fall when a placement happens, but the aforementioned behaviour is self fulfilling. When a share price starts falling the broker wants a cheaper price "for its clients", with the discount often being 10-20% on a 5 day VWAP. The larger the discount the more likely that the placees flick the shares out quickly, bringing the share price down to the placement price, or even lower.

Because of ASIC's "wisdom", that only sophisticated investors (s708) can take a placement without a disclosure document, many smaller guys never get the benefit of the lower price. Often it goes to aggressive traders and too many times it goes to principals and associates of brokers themselves. Thus, the stock goes into weak hands. Some brokers out there are notorious for this type of behaviour. Investors should take note of who these are and be very cautious about taking placements from them.

The reason why so many companies go into a Trading Halt when they do a placement is that they have to protect the price of a share whilst they build a book for a placement. Too many traders will cheat and sell stock as soon as they get wind that a placement is imminent, so the Trading Halt is designed to limit this type of behaviour.

Last year was very tough. Many companies put off doing placements for as long as they could, hoping for a better market. But that better market never came. It was amazing how many companies were out there raising money in the last six weeks of the year, wanting their balance sheets to look better for the December 31 balance sheets and the Appendix B statements that are due by the end of January. Not only was this a seasonally difficult time of year to raise money, but the swarm of companies going to the market just pushed down overall sentiment even further, across the board.

#### More on s708 restrictions

The most basic test for s708 qualification is an investible portfolio of \$2.5m, and an accountant's signature on a certificate. Yet, there are tens of thousands of investors that don't have this much money. That means they can't benefit from the discounted prices of placements. If the government thinks these guys are too poor to understand what they are getting into (which is very condescending), that same government seems very happy to keep them poor.

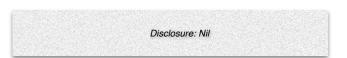
No disclosure document is going to protect stock market investors. These are process driven and designed as job creations schemes for accountants and lawyers. They are absolutely useless when it comes to informing investors.

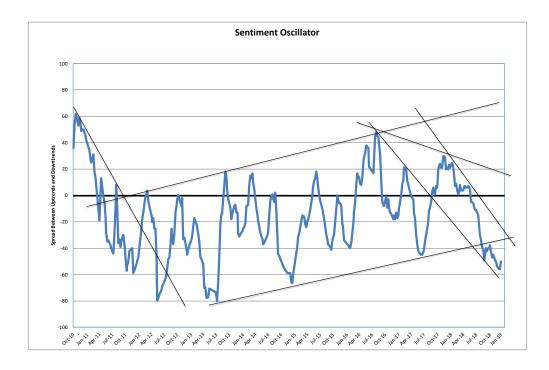
They are too long to read and too expensive to produce. They slow down the capital raising process in denial of the maxim that "time is money".

Further, they are in contradiction to the continuous disclosure provisions. If continuous disclosure rules are being properly pursued, all information should be in the market already, in the company announcements that everyone can read.

It is time for ASIC to abandon the s708 requirements that are blatantly discriminatory against the smaller or the less well-endowed investors. Let the little guys have the same opportunity to make money as the richer investors. Stop pretending that a disclosure document protects anyone (other than protecting the income of lawyers and accountants). After all, the stock market is at best, sophisticated gambling. Acknowledge that now and redesign the regulations accordingly.

We have added Musgrave Minerals to the chart coverage, and deleted Crusader (a gold hopeful for a gold miserable).





**Sentiment Oscillator:** Sentiment strengthened a little over the past week, with 15% (13%) of the charts in uptrend and 65% (69%) in downtrend on Friday's close. The improving gold price can take the credit for this.

## **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	rallying	
Metals and Mining	XMM	breached steep downtrend	
Energy	XEJ	rallying out of steepest downtrend	
Stocks	Code	Trend Comment (updated comments in bold) Main Interest	
Adriatic Resources	ADT	testing uptrend	zinc
Aeon Metals	AML	downtrend confirmed	copper + cobalt
Alacer Gold	AQG	higher, about to test long goer resistance line	gold – production

Alkane Resources	ALK	s
Acacia Resources	AJC	S
Alchemy Resources	ALY	s
Alicanto Minerals	AQI	b
Allegiance Coal	AHQ	h
Alliance Resources	AGS	re
Altech Chemicals	ATC	d
Anova Metals	AWV	n
Apollo Consolidated	AOP	b
Archer Exploration	AXE	b
Argent Minerals	ARD	b
Aurelia Metals	AMI	te
AusTin	ANW	d
Australian Bauxite	ABX	te
Australian Potash	APC	te
Australian Mines	AUZ	d
Australian Vanadium	AVL	d
Bounty Coal	B2Y	d
BHP	BHP	ri
Base Resources	BSE	d
Bathurst Resources	BRL	s
Battery Minerals	BAT	s
BBX Minerals	BBX	s
Beach Energy	BPT	d
Beadell Resources	BDR	s
Bellevue Gold	BGL	te
Berkeley Energia	BKY	С
Blackstone Minerals	BSX	b
Breaker Resources	BRB	d
Broken Hill Prospecting	BPL	te
Buru Energy	BRU	d
Cardinal Resources	CDV	d
Cassini Resources	CZI	S
Celsius Resources	CLA	ra
Chalice Gold	CHN	ra
Cobalt Blue	СОВ	fr
Comet Resources	CRL	b
Dacian Gold	DCN	s
Danakali	DNK	b
Davenport Resources	DAV	S
Doray Minerals	DRM	s
Eden Innovations	EDE	d
Egan Street Resources	EGA	n
Emerald Resource	EMR	b
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sideways at lows	gold, zirconia
Sideways at the bottom	coal
sideways	nickel, cobalt
back to lows	gold exploration
holding LT uptrend	coal
resting on support line	gold exploration
down	industrial minerals - synthetic sapphire
new low on poor production report	gold
breached support	gold exploration
breach of support breached steepest downtrend	magnesite, graphite silver
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down	gold + base metals tin, cobalt
	bauxite
testing uptrend	
down copin	potash
down again	cobalt/nickel
down heavily	coal
	diversified
rising again	
down	mineral sands
siump	coal
sideways at lows	graphite
secondary downtrend	gold
down	oil and gas
secondary downtrend	gold
collapse - Spanish media	gold
back to lows	gold, cobalt
down	gold
testing downtrend	minerals sands
down	oil
drifting lower	gold exploration
stronger	nickel/Cu expl.
rallying	copper/cobalt
rallying	gold
free fall on study results	cobalt
breached downtrend, but correction down	graphite
steeply higher breached uptrend	gold
	potash
steep rise	potash
sideways - merger	gold
down	carbon nanotubes in concrete
new low	gold
breached steepest downtrend	gold

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Evolution Mining	EVN
Exore Resources	ERX
FAR	FAR
First Graphene	FGR
Frontier Diamonds	FDX
Fortescue Metals	FMG
Galaxy Resources	GXY
Galilee Energy	GLL
Gascoyne Resources	GCY
Gold Road	GOR
Golden Rim	GMR
Graphex Mining	GPX
Heron Resources	HRR
Highfield Resources	HFR
Highlands Pacific	HIG
Hillgrove Resources	HGO
Hipo Resources	HIP
Iluka Resources	ILU
Image Resources	IMA
Independence Group	IGO
ioneer (was Global Geoscience)	INR
Jervois Mining	JVR
Jindalee Resources	JRL
Karoon Gas	KAR
Kasbah Resources	KAS
Kibaran Resources	KNL
Kin Mining	KIN
Legend Mining	LEG
Lepidico	LPD
Lithium Australia	LIT
Lucapa Diamond	LOM
Lynas Corp.	LYC
Macphersons Res.	MRP
Mako Gold	MKG
Marmota	MEU
MetalsX	MLX
Metro Mining	ММІ
Mincor Resources	MCR
Musgrave Minerals	MGV
Myanmar Minerals	MYL
MZI Resources	MZI
Nelson Resources	NES
Neometals	NMT
Northern Cobalt	N27

	Weekly Commentary
higher	gold
rising	gold exploration
crunched down on dud oil well	oil/gas
rising again	graphene
breached downtrend	diamonds
rallied out of steepest, but still in LT downtrend	iron ore
heavy fall, then a new uptrend	lithium
turned down	oil and gas, CBM
rallying from lows	gold
breached uptrend	gold exploration
sideways	gold exploration
rally then retracement	graphite
sideways	zinc
rallied to meet resistance line	potash
down	nickel, cobalt
sideways	copper
rallied to meet resistance line	battery metals
down heavily	mineral sands
downtrend	mineral sands
back in downtrend	gold, nickel
down	lithium
heavy fall	nickel/cobalt
surge higher	lithium
new low	gas
still in downtrend	tin
testing downtrend	graphite
heavy fall	gold
down	nickel exploration
continuing down	lithium
continuing downtrend	lithium
continuing downtrend	diamonds
new low	rare earths
still down	gold/silver
testing downtrend	gold
sideways	gold exploration
down again	tin, nickel
down	bauxite
sideways	gold
rising	gold exploration
bg	zinc
downtrend still	mineral sands
slump back to lows	gold exploration
down	lithium
down again	cobalt

Weekly Commentary

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Sheffield ResourcesSFXSt George MiningSGQSipa ResourcesSRIStanmore CoalSMRSundance EnergySEASyrah ResourcesSYRTalga ResourcesTLGTanami GoldTAMTechnology MetalsTMTTiger RealmTIGTriton MineralsTON	Santana Minerals	SMI
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Stanmore CoalSMRSundance EnergySEASyrah ResourcesSYRTalga ResourcesTLGTanami GoldTAMTechnology MetalsTMTTiger RealmTIGTriton MineralsTON	St George Mining	SGQ
Sundance EnergySEASyrah ResourcesSYRTalga ResourcesTLGTanami GoldTAMTechnology MetalsTMTTiger RealmTIGTriton MineralsTON	Sipa Resources	SRI
Syrah ResourcesSYRTalga ResourcesTLGTanami GoldTAMTechnology MetalsTMTTiger RealmTIGTriton MineralsTON	Stanmore Coal	SMR
Talga Resources     TLG       Tanami Gold     TAM       Technology Metals     TMT       Tiger Realm     TIG       Triton Minerals     TON	Sundance Energy	SEA
Tanami GoldTAMTechnology MetalsTMTTiger RealmTIGTriton MineralsTON	Syrah Resources	SYR
Technology Metals     TMT       Tiger Realm     TIG       Triton Minerals     TON	Talga Resources	TLG
Tiger Realm   TIG     Triton Minerals   TON	Tanami Gold	ТАМ
Triton Minerals TON	Technology Metals	тмт
	Tiger Realm	TIG
Troy Resources TRY	Triton Minerals	TON
	Troy Resources	TRY

	Weekly Commentary
new low	REE
new high	gold
back into downtrend	gold
rising again	gold
down	gold expl.
breached downtrend	gold development
down	gold development
heavy fall	lithium
new low	copper
down	coal
testing downtrend	gold
downtrend again	gold , nickel
down	rare earths
breached downtrend on drill intercept	copper
downtrend again	uranium
improving within a downtrend	gold
down heavily	lithium/tantalum
lower	gold, silver, zinc
still down	polymetallic exploration
down	gold exploration
testing uptrend	gas
rising	gold
down	zinc
moving higher	gold
rallying	gold
down	diversified
re-entering downtrend	potash
ир	gold
ир	gold
new low	copper
new low	silver
short term down	oil/gas
down	mineral sands
breached support	nickel
crunched down	general exploration - Ni,Cu, Co, Au
new high	coal
downtrend again	oil/gas
new low	graphite
down	graphite
testing downtrend	gold
short term down	vanadium
down	coal
down	graphite
down	gold

Tyranna Resources	ТҮХ		back in downtrend	gold exploration
Vango Mining	VAN		down	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		down	coal
Totals	15%	21	Uptrend	
	65%	93	Downtrend	
		144	Total	

Weekly Commentary

#### **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	38	26.4%			
Gold Exploration	14	9.7%			
Graphite	9	6.3%			
Nickel	9	6.3%			
Coal	8	5.6%			
Oil/Gas	8	5.6%			
Lithium	8	5.6%			
Copper	6	4.2%			
Mineral Sands	6	4.2%			
Zinc	5	3.5%			
Potash/Phosphate	5	3.5%			
Cobalt	4	2.8%			
Tin	3	2.1%			
Uranium	3	2.1%			

Rare Earths	3	2.1%	
Silver	2	1.4%	
Bauxite	2	1.4%	
Diamonds	2	1.4%	
Vanadium	2	1.4%	
Iron Ore	1	0.7%	
Other	6		
Total	144		

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