

- [Home](#)
- [In the News](#)
- [Money Managers](#)
- [Analysts](#)
- [Newsletters](#)
- [Web Sites](#)
- [Directories](#)
  - [The Uranium Directory](#)
  - [The Silver Directory](#)
- [Archives](#)

Search



- > [About The Gold Report](#)
- > [About Streetwise](#)
- > [Legal](#)
- > [Site Index](#)

## Adrian Day: Summertime Bringing "Extremely Good Buying Opportunity" in Juniors

Source: The Gold Report 06/16/2009



*Consistently urging investors to be patient and disciplined, practicing what he preaches has earned Adrian Day a sterling reputation and recognition as an authority in both global and resource investing. In the long term, he anticipates much more upside in gold juniors than seniors, and in the short term—specifically this summer—he looks forward to an "extremely good buying opportunity" among some of the juniors he follows. In this exclusive Gold Report interview, the President of Adrian Day Asset Management also says he sees gold "convincingly" breaking through the "magical big round number" of \$1,000 within 9 to 12 months and expects gold to outperform stocks "fairly significantly" over the next year or so. That doesn't necessarily lead him to an optimistic economic forecast, though. Because the recession gripping the globe is the result of "secular deleveraging contractions" (interest rates too low and money too easy), Adrian thinks it will take a long time to pull free.*

**The Gold Report:** Why do you suppose gold hasn't cracked that \$1,000 barrier yet?

**Adrian Day:** A lot of people are asking why gold hasn't performed better. Frankly, a lot of that goes to a widespread misunderstanding of gold's role. It is not meant as a huge capital gain generator. It's meant as an asset preserver; it's meant as insurance.

Whether you look over 10 or 50 or 100 years, gold really has performed its function as a preserver of assets and purchasing power very well indeed. And since early October, when the credit crisis blew up and the market collapsed, gold has also performed well.

A lot of people have unrealistic expectations for gold. Having said that, gold has a lot of catch-up to do for the last 30 years and I fully believe that it will go significantly higher in the medium and long term. The \$1,000 price is this magical big round number for gold, just as 10,000 was on the Dow, and markets frequently take a while to break through those big round numbers. But at some point over the next 9 to 12 months, I expect gold to break through and be significantly higher.

**TGR:** After that, would you expect \$1,000 to become the new floor? Or will it be a spike?

**AD:** We're likely to get one or two or more attempts at the \$1,000 point, \$20 below or above, before it breaks through convincingly. But I do expect it is going to break through convincingly at some point over the next 9 to 12 months.

**TGR:** Thinking about gold's role in asset preservation, what should we expect the Dow and other major markets to do once gold rises above \$1,000?

**AD:** A lot depends on what is going on in the markets at the same time. If we've seen the lows in the economy and 6 to 12 months from now it is clearly recovering, I am convinced that recovery will be accompanied by inflation. In that scenario, both stocks and gold will perform well. Stocks frequently do well in an inflationary climate, at least in nominal terms if not necessarily in real terms.

If the economy falls back and we get another deflationary cycle, gold is likely to perform relatively well while stocks will perform relatively badly.

But in either scenario, I would expect gold to outperform stocks fairly significantly over the next 12 months or so.

**TGR:** Do you consider precious metals other than gold as having a monetary component?

**AD:** Clearly, gold is the prima donna of the precious metals and has the largest monetary role. Silver has some monetary component, but it is very small compared with gold.

That said, the outlook for silver is also very bullish; silver is much more likely to have sharp upward spikes than gold, particularly in inflationary environments. So we probably will see silver outperform gold for short periods—as it has in recent months—but it doesn't always hold on to those gains in the way that gold is more likely to do.

**TGR:** So would you suggest that investors balance gold and silver equally in their precious metals portfolios?

**AD:** I would out weight gold relative to silver. There are various scenarios in which both gold and silver will do well, and silver may outperform gold in some of those scenarios. But there also are scenarios in which gold will hold up and do well, but silver will not. In a severe deflationary crisis, silver is much more likely than gold to decline in price.

**TGR:** You track a wide variety of investment sectors. In the next year or two we could see a little more deflation; most likely, we'll see inflation at some point. How do the precious metals and gold sectors compare to other sectors for investment opportunities?

**AD:** That's a good question. I should start off by saying that I see near-term risk in gold right now. I would not be at all surprised if over the next six to eight weeks we saw gold down \$50 to \$80. Typically, the summer is weak for gold. Any short-term, temporary recovery in the dollar would see gold decline.

But beyond that phase, gold compares very well, first of all, with other commodities because most of the others rely to some extent on a global economic recovery for sustained moves. Gold can do well either in a period of high inflation, with a strong economy, or indeed in a deflationary period.

But the base metals in particular, and most of the other resources really depend upon an economic recovery. You've also had very sharp moves in some of the commodities, particularly the base metals like copper—up 80%—largely because of optimism that the economy is bottoming. A lot of end users have been restocking because inventories were run down dramatically by this time last year. We've had enormous restocking, particularly from China, but that's a one-off phenomenon. So it's quite likely that unless the global economic recovery shows any kind of sustained momentum—of which I'm dubious—base metals could fall back harder and longer than does gold.

That's not necessarily true on a long-term basis, because of the severe supply constraints with most of the commodities. So I'm not making long-term assessment here; I'm just

talking about over the next 6 to 12 months.

**TGR:** There is a lot in the media now saying that we have hit bottom and recovery will really kick in starting in Q4. But you expect gold to go higher and the recovery will not be as big as the U.S. government is projecting?

**AD:** It's important to remember that we are not in a normal cyclical downturn, where the economy overheated, the Fed raised rates and tightened money and the economy contracted and, oops, we went a bit too far and then went into a recession. Those recessions can be deep, like 1973 to 1974, which was a cyclical recession. We know what took us into it (higher interest rates and tight money), so we knew how to get out of it (easy money and low interest rates).

This is a different animal, a secular deleveraging, such as we had in the 1930s, and such as Japan has been experiencing since 1990 when its bubble burst. Secular deleveraging contractions don't come about because the Fed raises interest rates. On the contrary. They come about because of excesses were caused by interest rates being too low and money being too easy.

So we won't get out of it by lowering rates and easing money. Deleveraging contraction takes a long time to get out of because it's not a matter of businesses and households improving their cash flow, which can come quickly. It's a matter of repairing balance sheets and that takes a long time.

Let's not forget that the Great Depression started in 1929. By 1941, unemployment was 10%. That was 12 years later. Look at Japan. In 1990 the bubble burst, and 18 years later, Japan is still in a recession. Japan has had zero net economic growth, zero net capital investment. These things take a long time to get out of.

That's the sort of scenario we're in. Despite the slight improvement in the number of new unemployment claims last month, it was still a massive number; people are still being laid off in large numbers and that's not even counting new people who are joining the labor pool. Household credit card debt levels and credit card defaults are all still very high. Mortgage delinquencies are increasing again. It's going to take a long time before these balance sheets are repaired.

What is clearly different this time is the massive coordinated global infusion of new money into the system. Japan lowered interest rates and took the "toxic assets" off the banks but didn't increase the money supply so much. There was increased government spending in the 1930s, with no evidence it helped end the recession, but not to such an extent or on such a global scale.

As mentioned, if it's not clear the economy will recover soon, it is clear that if it does, it will be accompanied by high inflation. I am skeptical whether that's going to happen in the near term.

**TGR:** In this environment, are you holding both physical gold and also equities?

**AD:** We do hold physical gold, but for most of our clients, through the ETFs, like the [GLD](#). We've been increasing the physical holdings relative to stocks. The gold stocks have more leverage and more potential, but they equally have more risk. In this kind of environment, holding physical gold or the ETFs, is a more prudent course. But the majority of our gold assets are still in stocks, both seniors and juniors.

**TGR:** How do you compare investing now in the seniors versus the juniors? The seniors have seen an incredible run-up since the lows, the juniors not as much. Is there any upside in the seniors at this point? And how much is left in the juniors?

**AD:** Let's start with the seniors. You're absolutely right because at the end of last year, the seniors as a group were selling at their lowest valuation levels in 20 years...price to cash flow, price to book, price to production, price relative to gold, and so on, on pretty much every metric.

When you look at valuations now, the gold stocks are selling at about average levels, and on some metrics, a little bit better than average. They're still very cheap relative to bullion and this really is a dilemma because right now is a critical point: there is near-term risk in gold. If I'm right in that, then the seniors will come back significantly given that they've had this dramatic move up. But beyond that, over the next 6 to 12 months, the stocks still have quite a lot of upside in them.

The other thing we mustn't forget is that gold stocks are stocks as well as gold assets and they react to both the stock market and to the gold market. Certainly, if the broad stock market were to come back 100 to 150 points on the S&P over the next few months, then most gold stocks will decline, unless gold goes dramatically higher.

**TGR:** What if gold just trades between this \$900 to \$980 range for another year?

**AD:** Then there's not an awful lot of upside left in the seniors, because the valuations are average right now.

**TGR:** And the juniors?

**AD:** Of course, although they certainly react to market extremes and liquidity, they certainly don't react to the overall market in the short term to the extent that the seniors do. Secondly, as a general group they remain very undervalued relative to the gold market and relative to their own internal dynamics.

You can't look at cash flow, of course, because most of them don't have any. But in terms of net asset values and other parameters, they remain very cheap. So I think there's much more long-term upside in the juniors today than there is in the seniors, particularly in a strong gold market.

But, again, we're entering the summer. As we have found out to our chagrin many years in the past, the summer is frequently a weak period for the juniors. July and August is often the weakest period for the juniors. People go on vacation, there's not a lot of retail buying.

So again, there is significant near-term risk, but investors need to be ready to buy over the summer. I don't want to say the train's leaving the station forever, but I do think this will be an extremely good buying opportunity this summer even if prices don't come up that much.

**TGR:** Assuming gold goes above \$1,000, once this train's left the station, how much of a lift will this give the juniors as we enter the fall buying period?

**AD:** Some people have been frustrated within the past that the juniors haven't really moved. First of all, it clearly is going to need a lot of retail focus on the sector. That will come when gold is consistently above \$1,000, stays above \$1,000, and gets headlines on the front page of the newspaper saying that gold is the place to be. I don't think that period is far off.

**TGR:** Basically investors should be ready to start buying back in because the juniors will be leaving the station at the end of the summer. Can you discuss any juniors you're particularly watching?

**AD:** There are several. It's probably worth pointing out that I typically prefer to invest in what I see as good-quality companies with low downside rather than those with a specific near-term trigger. So I don't do a lot of investing in single-property companies that are

about to drill, for example, where the potential might be a lot higher, but the risk is also higher, particularly since I'm not a geologist.

Contrary to what I just said, though, I do like [Allied Nevada Gold Corp. \(TSX:ANV\) \(ANV\)](#). It's not as small as many of the companies we recommend, but is currently producing from the Hycroft mine in Nevada, and developing those resources very rapidly. Essentially, at the moment they're only producing from the oxides, and being valued only on that part of the deposit. If the sulphides turn out to be viable, we're looking at a deposit of maybe 1 million or 16 million ounces. Allied Nevada has already had very strong performance, but is being priced only on the oxides, so that's an attractive buy.

Now, with my criteria in mind, let me just run down the list of the ones that I'm particularly focused on right now. I like several prospect-generator companies very much and they're all a little bit different. I like [Virginia Mines Inc. \(TSX:VGQ\)](#), which is probably the largest of them, [Miranda Gold Corp. \(TSX.V:MAD\)](#), [Rimfire Minerals Corp. \(TSX.V:RFM\)](#) and [Midland Exploration Inc. \(TSX.V:MD\)](#). There are more, of course, but those would be my top prospect generators. We hold, on behalf of our investors, more than % of each of these four companies.

Virginia is the largest with about \$40 million in cash, refocusing on gold exploration in the James Bay area of Quebec. Miranda focuses on Nevada, with arguably the best exploration team in the state, with cash representing two-thirds of the share price. Rimfire has recently announced a deal to acquire Geoinformatics Exploration. They will get an underexplored gold/copper porphyry in Anchorage with huge potential. The plan is for Rimfire to spend some money exploring known targets on the property and, if successful, then joint venture out the property. So while there is risk—it will have to raise some equity to fund the exploration program—the potential on this property is significant while it also picks up many other exploration properties that it can deal out. So, despite the added risk, this is only a modification of the prospect-generator model.

I don't talk about Midland frequently because it is so thin. I've called it the "junior Virginia," with the same business model and focus in the same area, Quebec, which is very mine-friendly. It's got a market cap of \$1 million and is a very thin trader. Let's just say that over time this has as much potential as anything I follow.

**TGR:** What is it about prospect generators that appeals to you?

**AD:** Typically, they do fairly early exploration work, spending relatively little money on properties so that they can present them to potential partners, who then spend the money. You could say this gives them pieces of lots of lottery tickets rather than one lottery ticket.

**TGR:** Could you elaborate on that?

**AD:** Sure. I like to look at what the big risks are in the junior sector. We must never forget that exploration is very difficult and the odds of success are very long, remarkably long. I've heard 3,000-to-1. Of initial targets or indicators, only 1 in 3,000 ever becomes a deposit. And, of course, exploration costs money. If it takes five or seven years to explore, it can be expensive. So the biggest risks are that you don't find anything and that you spend a lot of money doing it.

So I asked myself how we can mitigate those risks and improve the odds. We can do it by looking for companies that don't have only one project or two, but actually have a spread of projects. We can do it by looking at companies that don't spend a lot of money, too, which leads me to the prospect-generator model.

**TGR:** What else do you like?

**AD:** I also like companies that seem to be very undervalued on the ounces they have in the ground, even if there may be no near-term catalysts. One that fits into that category that I like a lot is [Vista Gold Corp. \(TSX:VGZ\) \(NYSE.A:VGZ\)](#), selling in the neighborhood of US\$2.25. It's very undervalued, based on the asset they have. Vista's permit at Paredones Amarillos in Mexico has been delayed, and this has caused the stock weakness, but they're now advancing other projects, particularly Mount Todd in Australia. For anyone who thinks gold is going higher, that's a very good buy.

Given that they have other things going, the delay at Paredones is a setback but not a disaster. And it gets back to the point about having a good balance sheet, too. Vista has been able to ride this out.

**TGR:** It sounds relatively good for investors because that permit problem is a small component of a much larger picture, but at the same time, it has kept Vista's stock price artificially low for the time being.

**AD:** Exactly.

**TGR:** Switching to royalty companies for a moment, could you share any comments about how they might factor into a portfolio these days?

**AD:** That's one area I like a lot. A couple of large royalty companies are among my favorites, [Franco Nevada Corp. \(TSX:FNV.TO\)](#) and [Royal Gold Inc. \(Nasdaq:RGLD\)](#). They're similar in many ways in that they both invest primarily in gold royalties, buy existing royalties and create new royalties, often by funding development companies. Both have good balance sheets and good management. Both also have a spread of properties in politically safe jurisdictions.

The main differences between the two, I think, is that Royal Gold's aim is to be a much more pure gold company; whereas Franco-Nevada has about 40% of its revenue in oil and gas, plus some palladium and platinum and a little bit of base metals. By the end of this year, because of a couple of recent acquisitions, that mix will go up to about 70% gold, but Royal Gold is almost exclusively gold, though they did pick up some copper with the recent purchase of a package of royalties from [Barrick Gold Corporation \(NYSE:ABX\)](#).

Of the senior companies, Royal Gold is the only one I've been buying lately. At current stock prices, I would say that Royal Gold is a better value than Franco, even though I like Franco as well.

**TGR:** That's quite a testimonial. Adrian, do you have any other advice or cautions you'd like to pass along to our readers?

**AD:** Yes. One has to be really patient and really disciplined. I like the Warren Buffett metaphor that investing is like being a batter in a baseball game where there are no strikeouts. You never have to swing; you just wait for the right ball—the right time, the right price. I think that's the most difficult thing for investors. We'll see better opportunities to hit one out of the park in July and August than today, so I would just wait.

***DISCLOSURE:***

*I personally and/or my family own the following companies mentioned in this interview: Allied Nevada, Vista Gold, Midland. We own all companies mentioned for clients of my firm.*

*I personally and/or my family am paid by the following companies mentioned in this interview: None.*

*President of Adrian Day Asset Management and a pioneer in global investing, Adrian Day is a London native who was graduated with honors from the London School of Economics. Adrian's thoughts, opinions, insights and analyses have appeared in the pages of Barron's, Forbes, Bloomberg Markets, [KitcoCasey.com](#), The Stock Advisors, Dick Davis Digest, MSN Money, Financial Times, The Daily Reckoning, The Herald Tribune, The New York Times and—of course, The Gold Report—among many others. He also writes the quarterly Portfolio Review newsletter for clients, serves as editor of Adrian Day's Global Analyst and has authored two books on global investing: (International Investment Opportunities: How and Where to Invest Overseas Successfully and Investing Without Borders).*

---

*Contact: Adrian Day, 801 Compass Way, Suite 207, Box 6643, Annapolis, MD 21401 Tel: 410-224-2037 Fax: 410-224-8229 [Email Adrian Day](#)*