Rick Rules of the Road

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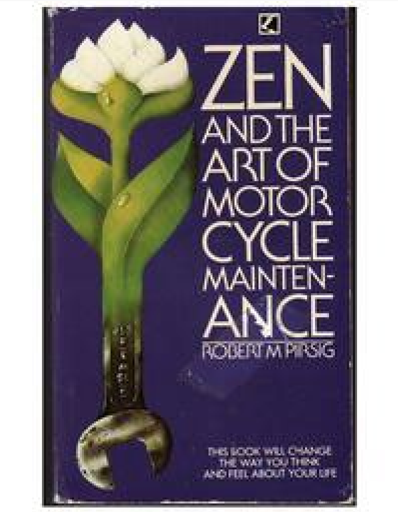
0 Comments

"Quality tends to fan out like waves." Robert M. Pirsig



#**Sprott U.S. Holdings guru, Rick Rule,** believes that the mergers and acquisitions cycle that the #mining sector is experiencing will accelerate and create a zen moment for investors.

American writer/philosopher, Robert M. Pirsig introduced his Metaphysics of Quality (MoQ) concept in his 1974 classic "Zen and the Art of Motorcycle Maintenance: An Inquiry into Values".

Pirsig's oft-quoted principle that *"Quality tends to fan out like waves"* sits comfortably with Rick's current investment philosophy.

"The environment is going to be ripe for identifying quality people and quality assets that shake out when these cycles occur. This should provide a banquet for smaller market cap companies."

It could be the MoQ moment. Rick identifies the next two years to be a prime opportunity for the junior players to be capitalizing from a superior vantage point.

“The quality of people that will be made redundant will be a huge resource for smaller companies. Added to this will be the projects and properties that will be ignored and/or discarded by the majors that could provide huge returns to those in a position to exploit this advantage.”

Rick believes that the best positioned junior players should be able to move quickly to snap up the high calibre personnel who will emerge from the restructuring.

This will in turn put them into the position to be able to identify or develop assets that might be peripheral or of little interest to the larger companies.
“We’re talking about the potential for hyper performance.”

Rick believes that the mega merger trend underlined by the talks between #Barrick Gold and #Newmont, the dominant talking point at last week’s #PDAC Conference in Toronto, is in its infancy.

The proposal of the Nevada joint venture provided little surprise for Rick who spent a good part of 2018 predicting a broadbrush rationalisation within the mining sector, starting with the gold companies.

“I think it’s the start of a healthy development and have no doubt that there will be more to come. To get the large investors back into the sector the subject of administration expense has to be addressed.

“There are too many management teams and the duplication of overheads is obvious. Saving a dollar is as good as making a dollar.”

Rick believes it is going to be an exciting time for the smaller groups who will be able to capitalize from the fall-out to pick up quality individuals across a broad spectrum of capabilities.

“It is going to be a time to back teams and identify and fill in gaps in technical skills. The renewed market cachet among the smaller companies should also result in easier access to capital which will allow them to pursue new opportunities.”

That the gold sector would be singled out for particular early attention is for good reason, according to Rick.

“The gold mining industry stands out because the cost of capital for the gold miner is lower than for their base metals mining counterparts and they have access to far broader development financing options.”

He feels the lowest hanging fruit will be the more recognized producing mines although they might not offer the optimal upside potential because of the extent of the research coverage they attract and the resultant attention.

“Of more interest to me are the companies that are less well followed and which might have certain elements of perceived risk that I have assessed and am prepared to tolerate. This is where we will get the 10-fold returns.”

He offers the example of Mariana Resources, taken out at a huge premium by Sandstorm Gold for its part-ownership of the Hot Maden copper gold project in Turkey, one of the highest grade deposits in the world.

After the initial attention on the gold companies he expects the trend to spread across all sectors of the industry as, per the MoQ concept, the flight to quality fans out like waves.

“Any top quality asset, irrespective of commodity will be up for grabs in this environment, even uranium. I am agnostic on this issue. Anything that has a tier one asset will get attention.

“I have been sceptical about #lithium for a couple of years as the market is awash with it but first class assets will get the attention of speculators and investors as they chase the moment.

“#Cobalt is an area that intrigues me because it has fallen so far although that will require a strong will politically given the involvement among opportunities of players like Congo and Russia.”

On the subject of the #gold price, Rick is ebullient about the outlook.

“The bull market is just beginning. I think the gold price is most likely to surprise on the upside.”

A key factor behind the view is the extent of underinvestment in precious metals.
“In 1981 there was 8.5% of investable savings in precious metals. It is currently running at somewhere between one-third to one-half of 1% and compares with a 3-decade mean of 1.5-2%. I think its easy to make a case for demand for precious metals to triple.”

Added to that is his view that the bull market in 10 year U.S. Treasury bonds is nearing an end and that the strength of the U.S. dollar will continue.

“I don’t believe the 30-year bull market in the 10 year Treasury is sustainable. It is over or almost over.”

His believes the U.S. currency will retain its position as the main measure of global purchasing power.

“I think the strength of the U.S. dollar will remain, less because of fundamental reasons but more because of other factors like global geo politics and a lack of faith in the other currencies.”

Robert Kennedy

Rob moved into the corporate relations sphere after 30 years in financial markets in Sydney, London and New York. He ran the Australian, Japanese and Asian equity sales operations in the US for Barclays Capital andis on the international advisory board of the Melbourne Mining Club.

Before entering the securities industry, he worked in financial journalism with the Sydney Morning Herald, the Financial Times of London and the South China Morning Post of Hong Kong. He is a weekly contributor to the #Mining Journal.