The Atlantic GOLD & SILVER CENTRE

MAY 2014 NEWSLETTER – EDITION 1, VOLUME 3

A Look At The Junior Mining Sector

Written by Jeff Caldwell

We are living on sentiment, really. The sentiment in the markets today is that the Dow Jones Industrial Average is going to 19000, gold and silver prices will continue to fall, the government has everything under control, and most importantly, even if the real numbers prove otherwise, the economy is in recovery mode.

One of the places where sentiment has been most felt is in the Junior Mining sector. Big money (institutions, funds, and pensions) have moved out of the Junior Mining Sector, preferring to plow their money into the Dow. The manipulators are determined to keep the price of gold and silver down, and the stock market up. This drives money into the equity market because it keeps going up, reaching new highs on a regular basis. Money moves to where money is.

Most of the money going into the Junior sector right now comes from the value investor; you and me. With big money leaving, this reduces exploration for future gold deposits resulting in reduced future production. Exploration companies are now just waiting out the bear market, while mining companies are just trying to stay afloat.

The current spot price for gold and silver is barely meeting the price to mine it. Mining companies have had to slash their operating costs, reduce or even eliminate exploration, shut-down mines not producing a high yield/ton, or even close down mines because they do not have the capital to run them. They simply cannot make any money at current prices.

In 2012, global production of gold reached a record 2,700 tons, or 78,750,000 oz. This was certainly influenced by the price of gold at the time, but this record will be hard to beat in the near term, even with upward price movement. With the slow growth in this sector over the past two years, there has been little exploration for new deposits, and where you find gold you usually find silver. What this will lead to is a shortage of both metals, and further declining production of gold and silver in the coming years.

Sentiment may see a beautiful sunny day, but I am standing in the rain waiting for the clouds to break. And break they will. Looking forward, one can only see gold and silver prices moving upwards. When? Don't ask me for certain, but the ***economics*** stress this. For this reason I remain very bullish on gold and gold mining stocks.

When I'm seeking out a junior mining company to invest in, I first look at the resource they are mining. I recommend selecting a company from a resource sector that you believe has potential price upside. For example, a gold mining company, since we know the price of gold will rise considerably in the near to mid-future. Secondly, you want to find a company that has 'staying power', in this case, meaning they be operational and producing gold while the price of gold rises, hence bringing in handsome profits for the company.

The internet is a wonderful tool, full of information that can help you make your decision. Go to the prospective company's web site, it will provide you with a lot of the information you need; Where they are mining (this is important for geo-political reasons), how much gold they estimate they are reaching for, the revenue they currently have, and most importantly, what price per ounce they are basing their current and future revenues on. The more gold they have, the better the pick, of course. You also need to look at how much they are spending to retrieve that gold and what grade of ore they are mining. Lastly, before making your final selection, take a good long look at the people who are managing the company. Do these people have a successful track record? A wise (and wealthy man) once told me that you invest in people, not a company.

Amongst my favorite juniors right now is Integra Gold Corp (symbol ICG: Venture Exchange). They are finding amazing gold deposits in Quebec and their shares are currently selling at $0.24 cents. Also, San Gold Corp (symbol SGR: Venture Exchange) is producing gold in Manitoba and is incredibly cheap at $0.16 cents. I would also be long on this stock. Both are relatively cheap and will move upward with the price of gold.

Keep in mind that stock certificates are not yours unless they are in your hand, and can be very volatile. These types of stocks are a 'buy it and sit tight'. Good luck!

Contributing author Jeff Caldwell has been an entrepreneur for most of his life, owning and operating a successful art gallery in Toronto for many years before returning to Nova Scotia. Jeff has since spent his time taking what he learned from his business experience and instituting a plan to retire at age 50. At age 47, he exclaims he is right on target!

Predicting The Future! Anticipating Silver Moves & Smashdowns Using COMEX Data

Written by Kevin D.

Investing in silver is about expecting future capital gains; in other words, 'buy low, sell high'. Unlike most conventional investments such as stocks, bonds, and rental real estate, silver pays you nothing for holding it – no cash flows, no dividends, no rental income. Silver just sits there until you decide to sell it – hopefully at a higher price! But how can you gauge whether silver is currently overbought or oversold, and therefore whether it is a good time to think about selling silver, or buying more?

A very useful silver price-prediction indicator can be found in the weekly Commitment of Traders (COT) report published by the CFTC (Commodity Futures Trading Commission), which is the US government agency responsible for regulating activities on the COMEX. The COT report, published every Friday at 4:30pm AST, contains a snapshot of the number of outstanding silver futures contracts at market close on Tuesday (3 days prior) for three main categories of traders: Commercial Traders, Small Speculators, and Large Speculators. Commercial 'bullion banks' such as JP Morgan, HSBC, and the Bank of Nova Scotia fall under the Commercial Traders category, Large Speculators are generally considered to be hedge funds and other 'deep pockets' traders, and Small Speculators are retail investors and other smaller traders.

Since the silver futures market is relatively small, it is easily manipulated by traders with deep enough pockets. Independent analysts such as Ted Butler allege that a very small number of Commercial bullion banks have maintained a huge concentration of silver short contracts on the COMEX for many years. If true, this would imply that these Commercial bullion banks could essentially control the short-term movement of the silver price!

In spite of the CFTC's assurances that there is no manipulation in the silver market, footprints for this type of are apparent in COT data, if you know what to look for, **and it can be used to determine if the silver market is more likely due for a selloff or a rally in the short term.** **Figure 1** shows the weekly silver price since Jan 1, 2000, as well as the number of silver contracts that the Commercial traders were net short at that time. This is called the 'Net Commercial Short' position, or NCS.

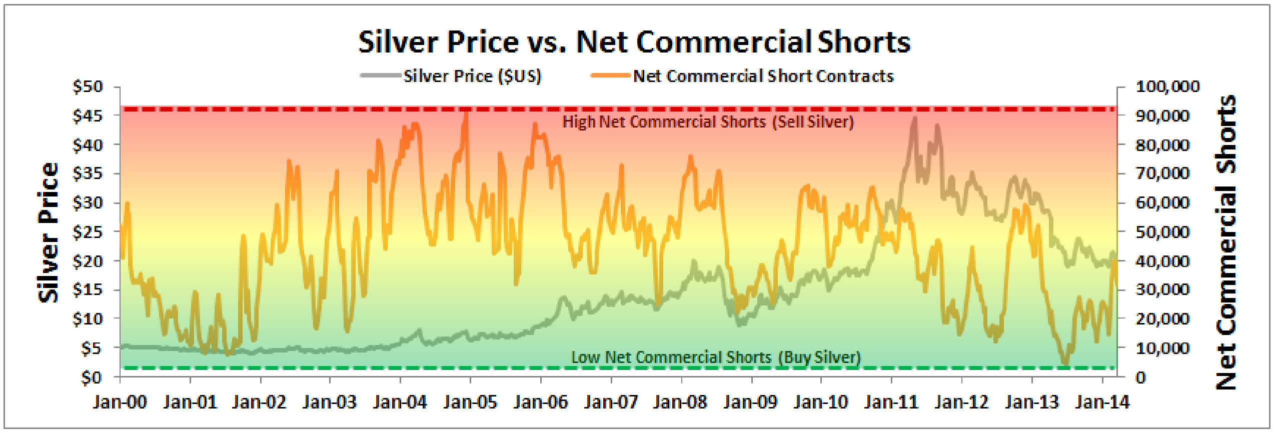

Figure 1

At first glance, there may not appear to be any obvious relationship, but take a look at **Figure 2**, which shows the same data for the time period of May 2011 to March 2014. **Clearly, there is an correlation between the amount of contracts that the Commercials are Net Short (NCS) and the price of silver**; when the price goes up, NCS goes up (i.e. the Commercials open more short contracts), and when the price goes down, NCS goes down (because Commercials are closing those short contracts). You can also see in **Figure 1** that **nearly all of the major price declines over the last 15 years began when NCS was relatively high, and bottomed when NCS also bottomed.**

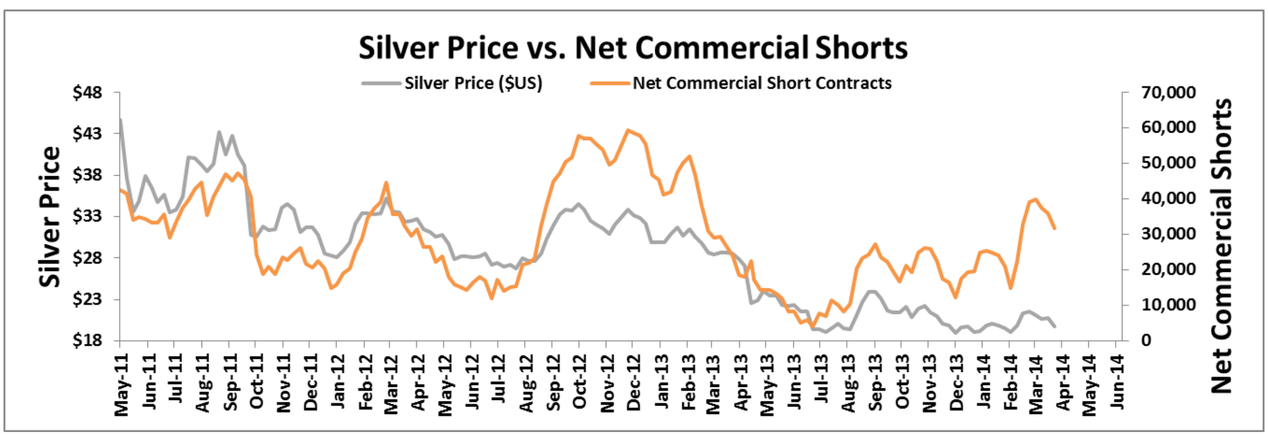

Figure 2

My theory is that as bullish silver speculators open more long contracts and the price begins to rise, the Commercial bullion banks are the primary entities opening most of the corresponding short contracts (every long or 'buy' order must be offset by a short or 'sell' order from some entity on the exchange). As the Commercial bullion banks sell more and more contracts, the number of Net Commercial Shorts increases for a period of between roughly 3-9 months, usually to between 40,000-80,000 contracts (you can see this in **Figure 1** and **Figure 2**). Finally, once the price has had a big increase, bullish sentiment is very high and many new speculators begin to go long silver, expecting even higher prices, the Commercials use their concentration of the market to pull the rug out from under the longs by selling a massive amount of 'naked' short contracts (i.e. unbacked by physical metal) on the COMEX within a few seconds or minutes. This is often timed to correspond to a key 'attack time' such as immediately after the release of some official economic data, when the COMEX first opens, or just before the London Gold Fix. This massive selling overwhelms existing buyers and drives the price down sharply almost instantaneously, in straight-down 'waterfall declines' that are so often observed in the silver market. As the price falls rapidly, 'weak handed' long traders either sell out of fear, are stopped out of their positions automatically, or are issued margin calls which they often can't meet. In any case, they are forced to sell, causing the price to fall even more. The carnage continues to feed on itself until finally most of the longs are wiped out, the silver price bottoms, the Commercials buy back their short contracts at a profit, and the cycle begins again – starting with their number of Net Commercial Short contracts quite low again (usually under 25,000 contracts).

Reviewing historical COT data shows clearly that as a group, the Commercial traders have not only been perpetually 'net' short since at least 1986 when the CFTC first began reporting, but the Net Commercial Short position always moves up and down in a narrow channel between roughly 5,000 and 90,000. In fact, NCS has not gone above roughly 60,000 over the past 5 years.

Therefore, by looking at the current NCS, we can get a good sense of whether the silver price is currently closer to a short-term high, or a short-term low. **When NCS is high (>40,000), then silver is relatively overbought (likely due for a selloff), and when NCS is low (<20,000), silver is relatively oversold (likely due for a rally).** For a physical bullion buyer, since the goal is long-term accumulation at the lowest price possible, a low NCS reading is a 'buy' signal (the green area in **Figure 1**), and a high NCS reading is a 'wait and see' or 'sell' signal (the red area in **Figure 1**).

To the best of my knowledge, this indicator is not published regularly, but you can easily calculate it yourself by going to the most recent **'COT Gold, Silver, and the US Dollar Index Report'** at http://news.goldseek.com/COT/. Simply scroll down to the **Silver COT Report: Futures** section and calculate the NCS by subtracting the Commercial Short number from the Commercial Long number. For example, as of the April 18, 2014 COT report, NCS = 23,294 (Commercial Short = 98,007 and Commercial Long = 74,713, so the NCS = 98,007 – 74,713) which is towards the lower end of the NCS channel and therefore a better time to 'buy' than 'sell'.

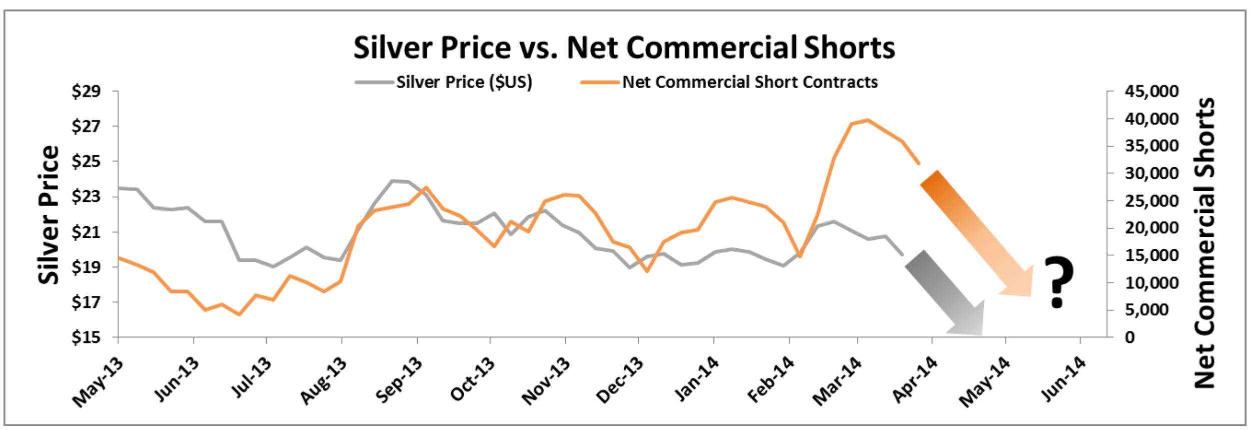

Figure 3

Last summer's 3-year low of about 18US$ corresponded to **a 15-year-low NCS reading of just 4,093**, but I think it rather unlikely that NCS will get that low again this summer. If you don't have your core physical silver stack in place yet, today's silver price at a NCS of around 20,000 still represents a great price to accumulate. However, if we do see another rock-bottom NCS reading this summer, that's a screaming 'Buy' opportunity!

Contributing author Kevin D. has been investing in gold and silver since 2005. He believes that every investor should hold at least 10% of their assets in physical precious metals stored securely outside of the banking system.