

Bull run for oil, gas, gold and metals not over

Three junior mining stocks — all at less than \$1 a share — investors should consider buying

By David Chapman



David Chapman

The announcement of Stephen Harper's new cabinet was met with a number of raspberries, first for the appointment of Michael Fortier, an unelected Conservative campaign manager, to the Senate as the minister of public works. Then, the defection of David Emerson from the Liberals and his appointment as minister of international trade.

And while Bay Street was very pleased with the new Conservative team, the market promptly gave the biggest raspberry the day after historically closing over 12,000 for the first time, by falling 263 points. Ouch!

Adding to the rocky start was the fact that the TSX Energy Index fell 17 points or some 4.7 per cent. Equally, the TSX gold index, fell a big 5.9 per cent and the metals index dropped 4.7 per cent. The energy group, in particular, is at the heart of the Conservative power base in Alberta. Metals, golds and energy make up almost 80 per cent of the TSX Composite Index.

While some suggest that investors should ensure they diversify out of these key groups, we beg to differ. These stocks have led the markets up, and yes, they are volatile. But they headed the charge for a good reason.

The U.S. is the world's largest

consumer, burning some 20 to 22 million barrels of oil per day with only five per cent of the world's population. In second place is China, with about six million barrels a day. Trouble is, as China and India, with over two-thirds of the world's population, become more industrialized, their demand for oil rises even faster than that of the U.S.

Overall oil demand is expected to increase 1.7 per cent in the next year. Canada and Alberta are well placed to benefit from this demand, but currently the oil-sands provide only a million barrels per day out of a global need of about 84 million barrels. Even by 2030, the oil-sands are expected to supply only four million barrels per day.

The same holds true for metals, where demand from China and India has sent all base metal prices soaring. Gold has been rising, both for demand and technical reasons, breaking out not only against the U.S. dollar but against all major currencies including the euro, the yen and the Canadian dollar. Gold has become a currency in itself.

The best news we can give investors is that the long-term prognosis for oil and gas, gold and other metals is that the bull market is not over. For long-term investors, we will give you some chart levels to watch, as indicated by the 40-week moving average.

For oil, that level currently sits near \$60. But long-term weekly trendlines come in around \$54. So, as long as we fall no further, we remain in a long-term bull market and these drops present buying opportunities.

We broke the 40-week moving average on natural gas at around \$10. Longer-term support comes in at \$8 and in an absolute worst case scenario, is at \$6. For the TSX energy index, the 40-week moving average is at 300, although trendline support can be seen at 320. Any drop into that zone would be a buying opportunity.

Gold and metals may also be topping out for the next few months. The TSX gold index has support down at 260 and finally at 220. While these are sharp drops from current levels, it would still leave gold in a major uptrend. Gold, itself, has major support at \$525, \$500 and \$480, and only below \$480 would we be questioning the long term uptrend.

Similarly, silver could fall to \$9 or even down to \$8 and still be in a long-term uptrend. Big drops can be very scary. Keep in perspective that this is a decade-type

move, not dissimilar to the tech reign of the 1990's.

So, long-term investors should view these shakedowns as a major buying opportunity and not a reason to head for the exits.

We may not be able to say the same thing for the new Conservative government, as its hold on power could be more tenuous, given the honeymoon is already over. Our betting will be on which occurs first: a resumption of the bull market in the commodity sector or the fall of the Conservatives. Both could be measured in a few months.

Where we do see continued opportunity is in the junior-mining sector, which has over the past few months been in a slow rise from a long base. We find this action very encouraging and very bullish. So, investors who

are willing to take on the volatility and higher risk that comes with junior mining stocks could be duly rewarded.

Three more stocks we recommend are **Greencastle Resources Ltd.** (VGN-TSX/VEN, \$0.29, 416-485-1327, www.greencastlere-sources.com), a gold exploration company with properties in Nevada and the Republic of Niger. As well, Greencastle holds royalties on oil and gas holdings in Saskatchewan.

Another one is **Canarc Resource Corp.** (CCM-TSX, \$0.66, 604-685-9700, www.canarc.net), a gold exploration company with a key property in northwestern B.C., a small producing mine in Surinam and a property being developed with **Glencairn Gold** (GGG-TSX, \$0.55, 416-860-0919, www.glencairn-gold.com) in Costa Rica. Canarc has investments and joint ventures with both Barrick Gold and Kinross Mining.

A third that intrigues us is **Oremex Resources Inc.** (ORM-TSX/VEN, \$0.75, 604-683-5651, www.oremex.com), a company that holds silver-mining properties in the state of Durango, Mexico. Independent studies have indicated silver equivalent of 40.3 million ounces at its Tejaman silver property.

David Chapman is an investment adviser and a technical analyst with Union Securities. E-mail address: david@davidchapman.com.

