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"Is Everything All Right?" — Portfolio Comments and More...

Posted By [Paul Tuccinardi](#) On November 16, 2011 @ 2:04 pm In [Alert](#) | [No Comments](#)

*** **AVC, FMS, UCU, HRE, REO, RMC, CGJ, ICP, WDG**

"Are you OK, Byron?" asked one ESI reader in an email. "Is everything all right?" asked another. "I hope there are no problems," said another correspondent.

Wow, I love my ESI readers. Last week, for the first time in four years, I didn't put out an ESI alert. It was a combination of travel, other work-related commitments and, ultimately, a glitch in my email that stripped the attachments. That, and Friday was Veterans Day (see below).

So yes, I'm fine. And thanks for asking. Meanwhile, don't pay any ransom. I escaped. I'm back. Let's get down to business.

American Vanadium Corp.

I'm finishing up a report on my recent trip to visit with **American Vanadium Corp. (AVC: TSX-V)**, namely its vanadium acreage out in Nevada, near Eureka. Upfront, I have to say that the more I look at this project, the more I like it. It's got great geology. It's very mineable. It'll be the only pure-play U.S. vanadium project out there, and it'll make money. Just by adding vanadium to steel, the market should stay strong (no pun intended). Now add the likely use of vanadium in utility-scale storage batteries? This project is coming along at just the right time, and in just the right kind of way.

Focus Metals

I've spent time researching the fast-evolving uses of graphite and graphene. On technology trends alone, **Focus Metals (FMS: TSX-V)** is a great play. I've also looked at other graphite companies out there, and I don't see anyone that can compete with Focus on the basis of ore quality and grade. I believe that, with Focus, we have the best of the best, right here. Focus offers you a chance to own a part of what may be the world's best-quality ore body, plus a tech angle with stupendous upside, as the uses for large flake graphite and graphene expand.

Ucore Rare Metals

I had a superb visit to Denver about two weeks ago and received an update on what **Ucore Rare Metals (UCU: TSX-V)** is doing. Note that Ucore is focused on producing heavy rare earths (HRE). I'll get into more detail in another update, but for now I'll say that part of the visit was to meet more members of Ucore's technical team — the chemists and engineers who are putting the Bokan Mountain play into action. *I was swept away at the stunning quality of the top chemists — who are so good that I agreed not to identify them, due to competitive reasons.* Suffice it to say for now that the chemistry team is among the best of the best.

Plus, courtesy of Ucore management, I toured Hazen Labs, which has been derisking metallurgical engineering within the mining industry for over 50 years. In fact, Hazen was founded by a guy who used to separate plutonium for the old Atomic Energy Commission. The science out there runs deep. It's serious stuff. The Hazen brief alone was worth the trip and offered a strong sense that there are true pros at work here — and I mean TRUE pros. In other words, the Hazen people are fabulous!

Yes, there's a lot more work for Ucore to do to make this HRE play come together. But Ucore has done a marvelous job of assembling the right team and cashing up to be able to pay for it. My view is that Ucore will surprise a lot of skeptics out there.

Meanwhile, I should mention that shares in former ESI holding Molycorp got CRUSHED last week after the company reported poor earnings. The share price fell from nearly \$40 to the \$32 range. Do not get confused about this. Molycorp is a player for the light rare earths

(LRE) space. Ucore is developing HRE. And for many reasons, LRE and HRE are two separate distinct markets. Don't let Molycorp's issues affect your views on Ucore. Ucore is a strong play on its own merits. The rest of the market is going to do whatever it's going to do. Ucore gives every indication of becoming a survivor of the coming shakeout.

Stans Energy

On the other side of the world, there's excellent news as well from another truly superior HRE player, **Stans Energy (HRE: TSX-V)**. CEO Rob Mackay is still on the road in Europe and/or Russia and/or Kyrgyzstan — I'm not quite sure exactly where. That man gets around.

Wherever Rob may be, Stans just issued a press release confirming that the company has optioned the Aktyuz ore mill, adjacent to the Kutessay II rare earths (HRE, to be precise) open pit. This is a key step toward putting the entire HRE play together. It saves years worth of designing and building a new mill. Meanwhile, Stans has an aggressive drilling program ongoing to confirm, if not expand, the HRE ore body definition. This is important because there's skepticism in the stock markets over the size and grade of the HRE ores in Kyrgyzstan. Well, beware of rumors. This site was good enough for the old Soviets actually to produce HRE ore and finished HRE product. But it's reassuring that Stans is using modern drilling to confirm what I (for one) strongly suspect.

Meanwhile, the folks at the Russian Leading Institute for Chemical Technology (VNIIT), in Moscow, are staffing up to handle the Stans requirements. And on an even higher investment plane, Russia is preparing to enter the World Trade Organization (WTO) in 2012. That will reduce the political risk associated with Stans by a significant measure. It's all good. Think HRE!

Reservoir Capital and Minerals

We're dealing with two companies now. There's the former **Reservoir Capital (REO: TSX-V)**, which is the energy company — hydropower dams and geothermal acreage. And then there's the spinout of **Reservoir Minerals (RMC: TSX-V)**, which holds the copper and gold acreage. Your stock brokerage account ought to include your new holdings of RMC shares. If not, get hold of your broker and ask that the back-office people get rolling. The back-office folks may just need to pick up the telephone and get hold of RMC and its transfer agents. This isn't rocket science, but somebody may have to light a fuse or something.

Reservoir Capital is still working on the engineering side of building two hydro dams in southeast Serbia. There are no problems or issues, but it takes time to do what has to happen. In a sense, the project is turning from a "Canadian junior" resource development into a financially attractive "design-build" effort by either a utility that needs renewable energy and/or a merchant power group. The technical and political derisking is pretty much complete. Now it's finance and execution. This is certainly more complex than, say, building a new shopping mall, but the dam building is very doable. The critical permits are in place. The engineering is getting finished. We ought to see a ribbon-cutting ceremony in 2012, when the construction season starts after winter.

Reservoir Minerals has its own good stories. The copper play at Bor, Serbia, is exactly what it is — "virgin" exploration right next to what was formerly the largest copper mine in Europe, which is saying something. So it's good. But we don't know exactly how good things are, because the joint venture partner, Freeport-McMoRan, is holding the drilling information tight. The thing is, Freeport has been drilling hole after hole, and going deep. I doubt they'd waste money drilling all these holes if there weren't something for which to explore. I expect Freeport to announce some news pretty soon, either by the end of 2011 or early in 2012. They can't sit on the data forever.

Meanwhile, on the gold mine side of things, the Reservoir Minerals joint venture partner, Orogen Gold, has reopened and re-entered several of the old "King Alexander" works to assess safety, collect samples and continue mapping. From what I can see, the London stock market has been quite kind to Orogen, considering that they're working to "earn in" to an ownership share of the King Alexander complex. Right now, title is with Reservoir Minerals. Give everyone time to do their job, but I expect to see a handsome resource announcement in 2012. This isn't just money in the bank. It's proven gold in a proven gold mine. I've been down in the old King Alexander Mine and looked up. The upside is excellent, in my view.

Carlisle Goldfields

Speaking of excellent upside from gold mining, there's **Carlisle Goldfields (CGJ: TSX)**. The share price has drifted downward lately, due to lack of news flow from the company. In this market, silence is NOT golden. Still, my understanding is that management is working behind closed doors to calculate the results of the aggressive summer drilling program.

I was out there in Manitoba with them back in August.^[1] I saw the drills, the drill cores, the surface geology and much more. There's gold in those glaciated hills, and it's just a question of building up the resource numbers. In the past, Carlisle management have been involved in successful mine development programs. This is not their first rodeo. My view is that if the share price is down, it's an opportunity to bulk up your portfolio and buy in cheaper than otherwise. I believe 2012 will be a great year for Carlisle — with good resource numbers, a solid development plan and all the third-party attention that comes with such things.

Intercontinental Potash

There's great news from **IC Potash (ICP: TSX-V)** as well. ICP just announced that it completed a prefeasibility study of its sulfate of potash (SOP) Ochoa Project in southeast New Mexico. The study was prepared by Gustavson Associates of Lakewood, Colo.

This independent report shows impressive positive economics for the Ochoa Project. The estimates include production operations of 568,000 short tons of SOP and 275,000 short tons of SOP-magnesia per year, at a projected operating cost of \$147 per ton, which is among the lowest costs in the world. The numbers indicate that ICP can penetrate the international markets for SOP and SOP-magnesia on a profitable basis. Specifically, the estimates include a projected full capital cost of \$706 million. When you do the math, the project appears to be worth an aftertax net present value of \$1.286 billion, using a 10% discount rate. Just based on those numbers, ICP shares are way undervalued. Eventually, the market will figure this out.

Giyani Gold Corp.

The news out of South Africa just got a heck of a lot better for **Giyani Gold Corp. (WDG: TSX-V)**, and most other mining companies down there as well. It has to do with perceptions of political risk. That is, last week, the African National Congress (ANC) formally sanctioned Julius Malema, the (soon to be former) leader of the ANC Youth League. In fact, the ANC suspended Malema from politics for five years.

As you may recall, I've written about young Julius and his threats to nationalize the mines and factories of South Africa. His Marxist viewpoint has been a source of nervousness to many investors. It's part of that "South Africa Goes Zimbabwe" school of thought.

Still, having visited South Africa twice in the past six months, I was convinced that cooler heads would prevail. Apparently, this is what happened.

So with Giyani, the issue is now less political and more just plain technical and execution. Giyani needs to get the geological team settled in, get working and get the drill bits turning. That's all happening as I write. It'll take time to make things happen, but at least we've got progress in the proverbial pipeline. Now the goal is for the company to build up its gold resources in the Limpopo Belt, north of Johannesburg. As the news filters out, we should see more investor interest in Giyani.

Catching Up

OK, enough investment business. Let's move to other things. I've received some very nice, very kind emails from readers who ask all sorts of questions. Just to restate one key point, I can't give "personalized" investment advice. Here in ESI, I give my views on the energy and resource companies, based on the best information I can gather. I also offer my big-picture views of global trends. But ESI is not a day trading service, by any means.

To answer a few other emails, I can tell you that here in Pittsburgh, we had nice, seasonal weather. It's been just a bit chilly, but not too cold. Plus, it's even sunny on occasion. Of course, living as I do in a leafy suburb, I spent much of my past weekend raking leaves. That, plus I had to do those household chores that need to get done before Mr. Winter shows up at the front door.

The Old Vets

A couple of readers asked about last Friday. I mentioned in my other newsletter, *Outstanding Investments*, that I was going to participate in a Veterans Day ceremony. I won't regale you with too many details, but I have just a few quick comments.

First, I've got to compliment the McKeesport High School "Marching Tiger" band. They played all the right music and hit all the right notes. It was a pleasure to listen to their performance of patriotic music. The band looked sharp as it marched down — appropriately enough — Fifth Avenue.

When the official proceedings were over, a group of gray hairs (some more gray than others) retired to a local cafe for coffee, tea and chitchat. It was Army, Navy, Marines, Air Force, Coast Guard, Merchant Marine and even an old doctor from the Public Health Service. Welcome to all comers.

Among other things, I had the delight of talking with a 92-year-old fellow who's sharp as a tack. He served in the Navy, in the Pacific theater, during World War II. I was intrigued by this older man's story of working with the late George Halas (1895-1983). Halas is well-known today for his time as a football player, coach and owner of the Chicago Bears.

But there's more to the Halas story. Did you know that Halas was the Most Valuable Player in the 1919 Rose Bowl? Or that he played baseball for the New York Yankees? When World War II broke out, Halas — then aged 47 — signed up with the Navy. Halas wound up on the staff of Adm. Chester Nimitz and was awarded a Bronze Star.

Mr. Halas was famous, as you might imagine, due to his efforts in professional football. Still, according to the 92-year-old witness, Halas served quietly and with distinction. Halas worked hard, made good decisions and always showed fairness and respect toward others. After the war, many a former sailor or Marine received free tickets to Bears games, at home and on the road.

It was a pleasure to be reminded of the old-school gentlemanliness of George Halas. Evidently, Halas had a strong sense of duty, and also comradeship. In my view, a lot of that kind of thing has been rubbed out of our current social and business culture.

Also at the cafe post-parade, I was intrigued to learn that the father of the 92-year-old Navy man had served in the Pacific Fleet Navy back in 1898 and afterward. This was under Adm. George Dewey, when he sailed into Manila Bay and captured the Philippines. Thus was I in the company of an "old salt" whose lineage went directly back to the Spanish-American War.

Having Tea With Clio

So there I was, having tea with Clio, the ancient muse of history — at least her local representatives. I was surrounded by guys who fought in World War II, Korea, Vietnam, the Cold War, Desert Storm, Afghanistan and Iraq.

These people did what they had to do. When they returned from war, they put their lives on another track and found other things to do — and many of them worked in the mills and factories of postwar Pittsburgh.

Everyone has his or her story to tell. Indeed, to the more observant or reflective, it's possible that something really important was revealed during their time in uniform. The potential is there, to be sure, because for a time these guys (and a couple of women) were the "men behind the guns." Things look different when you're looking downrange.

When their wars wound down, the soldiers and sailors came home. They packed away their uniforms and had to figure out where to go and what to do next. It's a part of life. It's part of humanity, and it's a phenomenon as old as time.

At any rate, we enjoyed ourselves greatly, as old soldiers are wont to do in the company of others who've been there. Yes, indeed. Some days are good. Some days are really good. And I hope you all have a great week.

Best wishes...

Byron W. King

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URL to article: **<http://energyandscarcityinvestor.agorafinancial.com/2011/11/16/is-everything-all-right-portfolio-comments-and-more/>**

URLs in this post:

[1] back in August.: **<http://energyandscarcityinvestor.agorafinancial.com/2011/08/24/my-visit-to-a-manitoba-gold-mine-its-not-a-fish-story-if-you-really-catch-the-fish/>**

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