

## **BNN BLOOMBERG MARKET CALL**

**eResearch Corporation** is pleased to provide two excerpts from Tuesday's BNN Bloomberg Market Call Newsletter.

Set out below are the respective Market Outlook commentaries from two leading investment analysts, plus Links to their respective 45-minute video interviews.

---

### **MARKET OUTLOOK**

**Brent Cook and Joe Mazumdar, Co-Editors at Exploration Insights**

**Focus: Junior Mining Stocks**

---

**Mega-mergers:** Newmont and Randgold were the outperformers while Goldcorp and Barrick were the underperformers over the past several years. It is not surprising that the latter executive teams are leading the shrinking gold sector.

Barrick's motivation for a no-premium merger with Randgold back in September was to add more tier 1 assets while gaining a management team with a more streamlined approach and focus on returns. Newmont's mega-merger with Goldcorp is an opportunity for it to increase its relevance with generalist investors in the gold sector and compete directly with ETFs: the combination will be the largest gold company and the only one listed on the S&P 500. The focus of both mergers is on generating free cash flow from sustainable production levels with less emphasis on growth and be able to deliver stable dividends. Generalists prefer passive funds because they are highly liquid, anonymous, and have trading flexibility.

Barrick Gold's no-premium bid for Newmont maybe is its last chance to ensure that company does not become the biggest gold producer and turn the tables on them. The value of combining the two companies lies in the synergies in Nevada, which also could be realized with a joint venture. Neither, however, can agree on who operates.

**Divestitures:** Divestitures will be the focus of many investment bankers over the next couple of years and provide opportunities for smaller producers, private equity, and financing companies like streamers to fund acquisitions.

**Financing trends:** Precious-metal-focused assets under management (AUM) by active institutional equity funds such as VanEck and passive ones such as GDX and GDXJ, peaked at about US\$54 billion in 2011. At the time, 94 per cent of it was actively managed and 6 per cent passive. Over the past six years, actively managed funds fell by about 80 per cent to US\$10 billion and now represent only 33 per cent of the total AUM (around US\$30 billion).

**Exploration trends:** The long-term issues for supply remain, as there is a lack of high-quality deposits in the commodity sector. Therefore, a significant discovery adds value in the junior mining sector.

**VIDEO:** Cook and Manzumander's 45-Minute Video Interview <CTRL-CLICK> [HERE](#)

**WEBSITE:** [www.explorationinsights.com](http://www.explorationinsights.com)

---

## MARKET OUTLOOK

**Rick Rule, President and CEO of Sprott U.S. Holdings**

**Focus: Natural Resource Investments**

---

Precious metals and precious metals equities continue to strengthen at a measured, healthy pace. Concerns about the continued strength in the purchasing power of the U.S. dollar in light of aggregate U.S. debt and deficits combined with a cessation of Fed tightening led to measured growth in gold sentiment. Gold equities benefited from a stronger gold price (a recovery from oversold levels) and very strong operating performances by Australian producers. The near-term catalyst is a greatly increased level of M&A activity.

The mergers can be very beneficial for gold investors as they add both hope and liquidity to markets. Larger post-merger entities can have lower general and administrative expenses relative to assets and cash flow, are generally more liquid which leads to higher share prices and a lower cost of capital, and managers can often reduce acquisition costs by selling off assets that are not strategic to the acquiring entity. An interesting "unseen" advantage is that these cast-off assets and redundant people can be effectively recycled in the junior community to accelerate the growth of successful smaller developers and companies engaged in roll-up or acquire-and-exploit strategies.

Base metals, industrial materials, and conventional energy have exhibited a more mixed outlook. Extended periods of low commodity prices after 2011 have led to decreased exploration, development,

sustaining capital and expansion spending. This deferral of capital expenditure is beginning to show up as "supply destruction," where the ability of the industry to supply commodities, at least in the current pricing environment, begins to fail. This can be very bullish for commodities pricing, given the long lead times necessary to restore productive capacity. But fears that a nine-year economic recovery is long in the tooth and that factors like increasing interest rates and populist politics could cause noticeable reductions in demand might offset supply concerns.

**VIDEO:** Rick Rule's 45-Minute Video Interview <CTRL-CLICK> [HERE](#)

**WEBSITE:** [croftgroup.com](http://croftgroup.com)

**TWITTER:** [@croftgroup](https://twitter.com/croftgroup)

#####

## BNN.CA

To access the BNN Home Page, <CTRL-CLICK> here: [BNN](#)

To go to BNN Market Call Afternoon, <CTRL-CLICK> here: [Market-Call-Afternoon](#)

To go to BNN Market Call Tonight, <CTRL-CLICK> here: [Market-Call-Tonight](#)

BNN's Morning Newsletter and evening Market Call Newsletter can be delivered to your inbox by going to <CTRL-CLICK> here: [www.bnn.ca/subscribe](http://www.bnn.ca/subscribe).

---

## *e*Research Corporation

**eResearch** was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, our Subscribers (*subscription is free!!!*) benefit by having written research on a variety of small- and mid-cap, under-covered companies. We also provide unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis. We complement our corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals. We provide our professional investment research and analysis directly to our extensive subscriber network of discerning investors, and electronically through our website: [www.eResearch.ca](http://www.eResearch.ca).

Bob Weir, CFA: Contributing Analyst

<p><b>Note:</b> All of the comments, views, opinions, suggestions, recommendations, etc., contained in this Article, and which is distributed by eResearch Corporation, are strictly those of the Authors and do not necessarily reflect those of eResearch Corporation.</p>
--