Juniors Operating from the Driver's Seat: Adrian Day

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Adrian Day has spent years making money for clients by steering them into and out of positions in precious metals equities. While higher commodity prices are always welcome, the founder of Adrian Day Asset Management says in this interview with *The Gold Report* that he maneuvers toward more telltale fundamentals like strong balance sheets and sound business plans. He believes investors should shift toward companies helmed by experienced managers with skin in the game and with exceptional projects, and names a handful that fit the bill.

COMPANIES MENTIONED: *ALMADEN MINERALS LTD. : ASANKO GOLD INC. : CALLINAN ROYALTIES CORP. : EVRIM RESOURCES CORP. : FRANCO-NEVADA CORP. : GOLD ROYALTIES CORP. : GOLDCORP INC. : MANDALAY RESOURCES CORP. : METANOR RESOURCES INC. : RIVERSIDE RESOURCES INC. : ROYAL GOLD INC. : RYE PATCH GOLD CORP. : SOLITARIO EXPLORATION & ROYALTY CORP. : VIRGINIA MINES INC.*

***The Gold Report*:** In an interview with *The Gold Report* after the March Prospectors & Developers Association of Canada convention, you said that gold had bottomed and that it would be a mistake to sell it too soon. Since then the ongoing situation in the Ukraine and mixed buying and selling news from China has further blurred the gold picture. What is your near-term forecast for gold?

Adrian Day: When you have a market that's declined the way gold has, it would be a mistake to imagine that it's going to bounce back quickly. There's little question that gold has bottomed. I think we're going to see higher prices for the rest of the year.

TGR: Gold fell back in late March. What was behind that?

AD: Two major items hurt gold in March. One was the Chinese economy. The manufacturing and export numbers have not been good. History tells us that recessions are bad for gold and if the Chinese economy went into a recession that would have a negative impact on gold.

The second item was concern over monetary tightening, particularly in the United States. U.S. Federal Reserve Chairman Janet Yellen initially made statements that focused on ending additional bond buying. That set a negative tone. More recently she and other Fed people have made it clear that monetary policy is going to remain easy for some time.

I think the market grossly overacted. China is still growing at over 7% a year with under 2% inflation. That's real growth of more than 5%. Frankly, it's not that much different from when China was growing at 10% with 5% inflation.

TGR: What's the trade in gold now?

AD: At the early stage of a bull market or a recovery from a correction, we tend to see everything move. But the senior miners go first for obvious reasons: they have more liquidity and the names are well known. We saw that in the rally from December through March when even names like Barrick Gold Corp. (ABX:TSX; ABX:NYSE) and Kinross Gold Corp. (K:TSX; KGC:NYSE) moved up.

Frankly, we can talk about everything that's wrong with the senior miners but they're very cheap and they're the ones producing. If the gold price moves up, the companies that actually produce gold should move up too.

TGR: What is your prognosis for investors in the junior gold sector?

AD: In May or June we'll probably see gold move up to $1,350–1,370 per ounce ($1,370/oz) and I suspect we will begin to see some of the juniors move up more. The juniors move more rapidly as a recovery develops.

TGR: With so many juniors out there, where should investors focus?

AD: Investors should focus on companies that have good balance sheets because that enables them to move ahead with their plans without excessive dilution. They should also look for projects that could potentially be taken over. The senior gold producers are hungry for both reserves and mines. We've seen this recently with the takeover of Osisko Mining Corp. If you're Barrick producing 7 million ounces a year (7 Moz/year), that means each year you have to find another 7 Moz. That's difficult. Juniors and exploration companies with coveted assets will be in the driver's seat.

TGR: Investors want to know how they should manage their gold portfolios through the summer months. Refresh? Reload? Rebalance? What's your advice?

AD: A little bit of everything. If there are stocks that have moved ahead of themselves, it would be a good idea to sell them and raise the cash for any additional market weakness, which I would expect to see over the summer.

Another strategy, unless you are trading in an individual retirement account, is the opportunity to take tax losses. That's always a sound tactic in the gold space.

TGR: Adrian Day Asset Management (ADAM) has had some success with the prospect generator model. These companies find economic deposits and then bring in partners to help or fully fund further exploration. Is that the biggest asset of these companies?

AD: Prospect generators' biggest asset is their ability to preserve their balance sheet. The average exploration company has to spend a lot of money to find economic deposits. By its nature an exploration company constantly has to go to the market to raise more capital. The prospect generator model obviates that huge downside by using other people's money. The other big asset prospect generation gives these companies is exposure to multiple mining projects. A lot of exploration companies might only be able to drill one or two projects at a time. While the majority of a project likely belongs to someone else, some of these prospect generators have 5 or even 10 drill programs going on at the same time using other people's money. If investors buy a basket of prospect generators, they are getting exposed to perhaps 60 or 70 drill plays, which is a good thing.

TGR: Please tell us about some prospect generators that you're following and may even be buyin

AD: Another is Solitario Exploration & Royalty Corp. (SLR:TSX, NYSE: XPL). Solitario has three main assets. One is the majority-owned Mt. Hamilton gold project in Nevada. Money is being raised to put that into production. The second is the Bongará zinc project in Peru. There's not a lot of a big zinc mines coming onstream over the next three or four years. Solitario is carried to production on Bongará but I would not be surprised if it converted its 30% interest to a royalty. The same goes for the joint-venture Pedra Branca platinum-palladium project in Brazil with Anglo American Platinum Ltd. (AMS:JSE), the largest platinum producer in the world. Solitario is carried to production there, too, and if you're a South African platinum producer with all the headaches in South Africa, you're looking for platinum deposits elsewhere.

TGR: It's noteworthy that you're long on all these names.

TGR: Parting thoughts for investors?

AD: If gold goes to $1,800/oz, Barrick, Kinross, Newmont Mining Corp. (NEM:NYSE) and others are all going to do well. But until then you need to stick with companies that have good people, good balance sheets, and strong business plans. Stick with the best whether it's the seniors, juniors or exploration companies. Don't be too quick to take profits, but keep an eye on companies that deviate from their business plan.

TGR: Adrian, thank you for your insights.

Note: This article has been edited for inclusion on Solitario Exploration & Royalty's website. To read the entire article, please click here: http://www.theaureport.com/pub/na/16009?utm_source=delivra&utm_medium=email&utm_campaign=Gold+final+5%2D12%2D14

Adrian Day, London born and a graduate of the London School of Economics, heads the eponymous money management firm Adrian Day Asset Management (www.adriandayassetmanagement.com; 410-224-2037), where he manages discretionary accounts in both global and resource areas. Day is also sub-adviser to the new EuroPacific Gold Fund (EPGFX). His latest book is "Investing in Resources: How to Profit from the Outsized Potential and Avoid the Risks."