

*"Finding Extreme Value in Small Caps"*

May 2007 Issue No. 4-07

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Prices as of May 16, 2007

## Gold at key juncture

*Diametrically opposed signals make it difficult to call*

I promise to spare subscribers the agony of another depressing gloom & doom book or movie review - for at least another Issue. ;-) Because we have enough items to attend to this time around. It's time to tally up what happened with our stock picks from last year for the record and do some Updating.

For some time now I have been urging subscribers and prospective subscribers to temper their expectations going forward, both for the overall market and my stock picks. An easy call to make, since the odds of yet a fifth consecutive year of above average market returns are long. There are additional reasons supporting this; swelling rising inflation pressures, moderating corporate earnings and the yet to be seen full impact of the US housing sector slowdown.

I did my part to deliver on that promise, bringing our 2006 pick average back down to high double digits (69%) from triple digits in 2005. How we calculated this is on page 4 and have provided brief updates on all last year's picks on page 3 of the May Issue.

### Gold: Strong conflicting signals

Gold is at a key juncture of the seasonal calendar, when strength should turn to weakness anytime now and lasting until August. *"I certainly wouldn't rule it out"* said super gold bull **John Embry** of *Sprott Asset Management* when I asked him if there was anything stopping us from being hit in the back of the head with a two by four, like what happened after gold



peaked this time last year. He felt the outside down side risk was \$600 - but it would be the last time we ever see it there again. His answer for the large swings was to try to use them to one's advantage (we agree wholeheartedly) and for investors to hold an appropriate portion of their holdings in gold assets, i.e.: 10% (not 50% like he does, do as I say, not as I do.:-).

Technical analyst **Bob Hoy** on *Market Matters Radio* the other week, pointed out that when the price action was so far in line with the normal seasonal pattern, then we can expect the pattern to continue. I agree with that too. An object in motion, stays in motion.

I have a couple problems with this. One is **Donald Coxe**. He just keeps making bullish comments about gold, week after week. He talks about how it will break over \$700 and *"not look back."* He raves about inflation - it's coming from the metals and

energy, from food and labour. Unemployment is virtually zero, says Mr. Coxe. Long bonds are Bad - real bad! The US Dollar is going to keep heading down. Gold is good!

Now, the last time that I can recall hearing Don so bullish about anything was right before base metal prices really started going ballistic a couple of years ago. So I have a hard time aggressively selling out of gold stocks when he's so consistently bullish week after week!

A second item would be the shape of the chart above. Not to rule out one more year of consolidation and the completion of a big double top any time now. But it has also taken on the shape of a large ascending triangle. Which can be bullish indeed. I would hate to not have a decent sized position and look back to see a major break-out from this ascending triangle after the fact.

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## NEW PICKS/IDEAS

## Mexican Silver Mines

### MSM.TSX-V

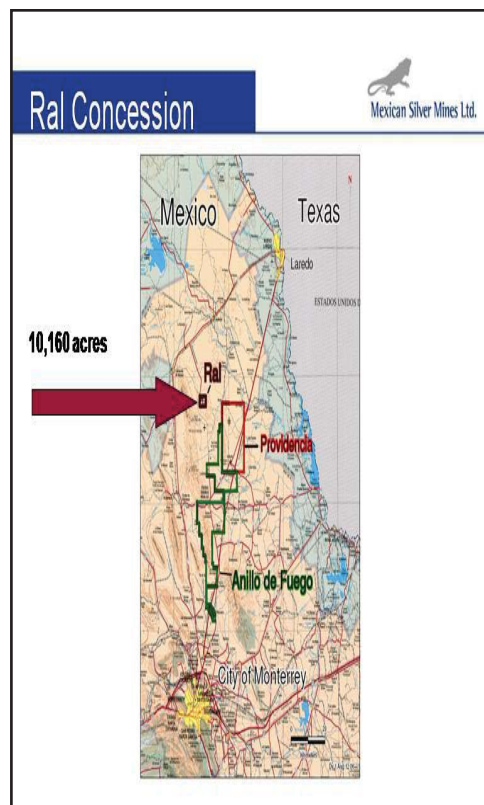
Shares Issued: 27 Million F.D.

52-Wk. H.-L.: \$0.85 - \$0.70

Price May 16, 2007: \$0.80

*New listing as of last week*

There's a lot to like about this newly launched junior explorer. I attended a corporate presentation a week ago and I came away thinking it was the best one I've been to in recent memory.



Their properties skirt the busiest highway in what is likely the world's best place to mine silver; Mexico. They encompass no less than 8 previous silver producers, none of which have been subjected to modern exploration methods. You would think at least one of them might yield economic quantities of ore. So this is way beyond grassroots exploration, but more like the model we used for **Impact Silver IPT** and **Great Panther Resources GPR** which are now generating cash flow and trade several multiples of the prices they were at when we got on board.

I was most impressed with their Geological Consultant, **Michael Thomsen**, who will be heading up exploration. His resume is blue chip, working around the world with **Newmont**, **Gold Fields** and **Freeport MacMoRan**. If economic ore bodies exist on any of the company's properties, this guy will find them. He gives an excellent presentation that will leave brokers and mining analysts wanting the stock.

The private holdings were folded into a halted shell called **Premier Diamond** and began trading under the new name and ticker on May 14th. The price tag of close to a buck may look a little expensive to some who like the real cheapies. To that I would say, you get what you pay for. **Rainy River RR** may have also looked pricey when we introduced it at \$0.80 a year or so ago (since then hitting a high of \$6.70). Turns out, it was real cheap.:-). Contact **Jamie Mathers** at Ascenta Capital 604.684.4743 ext. 236 and the web site is [www.mexicansilvermines.com](http://www.mexicansilvermines.com).

## CZM Capital Corp

### CZM.TSX-V

Shares Issued: 24 Million F.D.

52-Wk. H.-L.: \$0.40 - \$0.15

Price May 16, 2007: \$0.21

*Emerging B.C. Gold-Silver deposit*

CZM has three precious metals prospects in B.C. all of which will be worked this summer. My focus is on the most advanced TAG Gold - Silver property within the Atlin Mining Division of British Columbia. The Property covers a 6km long fault structure lying next to Tagish Lake.

Last season all 23 holes drilled along 1.2km of this fault structure intercepted gold and silver. The company has just completed financing to bring the treasury up to \$1.4 Million. In June they mobilize for an extensive (15,000m) drilling program with results expected September on. By the end of the year the company plans to publish a new resource estimate. There are some higher grade targets to test this year as well as extending what they confirmed from last season.

Besides the fundamentals, the chart looks positive having completed a large bowl shaped formation and appearing ready to challenge technical resistance at \$0.25.

Locals can attend a presentation and meet management in person at the **Keg Cesars' on Dunsmuir (2nd Floor)** in downtown Vancouver at 1:30 Wednesday May 23rd. (I will be there late due to a previously scheduled ROR AGM that day, FYI). For further information on CZM please visit the web site at [www.czmcapital.com](http://www.czmcapital.com) or call **604-642-0115**.



## 2006 PICKS UPDATES/STATUS

Company Name	Gain/Loss	Comments/Status
AMERA RES	-24.55%	Still incubating. Solid management but no interest generating news to date - Holding but growing impatient
CHEMAPHOR	26.67%	Still incubating - Hold for Health Care exposure
FIRST STAR RES	-6.90%	Sold at higher prices.
FRONTIER PACIFIC MIN.	90.00%	Best of both worlds; U3O8 + AU, Sprott holds some - Hold/Buy AT seasonal lows
GOLD BULLION DEV (WAS Con. Big Valley)	-5.00%	Has not met expectations to date, hoping to see some production and cash flow this year and - how are the grades and margins? Hold
GOLD SUMMIT CORP	31.88%	Failed to meet expectations too many shares - Sell into seasonal strength
GRYPHON GOLD CORP	-31.88%	Down hard on resource downgrade but likely fairly priced possible near producer in safe location. Just sitting on it
MANTLE RESOURCES	16.07%	If Lundin likes it...must be okay, Hold if bullish on Zinc
MINERA ANDES	405.27%	Quality Hold/Sell some at seasonal highs
MIRASOL RESOURCES	89.23%	Van Eden big fan, proceeding nicely Hold/Buy at seasonal lows
NAIKUN WIND ENERGY	235.00%	Looks like the real thing. Take money off table at some point Hold balance two years \$10 target?
NORTEC VENTURES	22.22%	Broadened prospects to Nickel (Hot) after disappointing first round of drilling in Ecuador. Hold
RAINY RIVER RES	486.25%	I had a real feeling about RR's CEO after meeting - his geological theory was correct - Rotate to Rampart
RPT URANIUM (WAS RAM-PART VENTURES RPT)	54.72%	No joy from first season of drilling, but company has since beefed Uranium expertise, waiting drill results has spurred volume, I Hold for results
SOLEX RESOURCES	126.00%	Long term core holding for emerging Uranium play, Sprott owns significant portion, selling off now in absense of spectacular news Hold but have taken considerable profits
ST EUGENE MINING	-25.00%	Poor execution by management Sell on strength
TEMEX RESOURCES	66.67%	Another Ontario gold reserve builder Hold Trades seasonally
URACAN RESOURCES	3.49%	Hold for Canadian Uranium exploration exposure
VITAL RESOURCES	-64.04%	No joy with the drill bit, having to finance Sell/Hold
WELLSTAR ENERGY	-45.97%	As above Sell for capital losses against other gains to start over

### Selling strategies - Maximizing Gains

So here are some brief comments in the table above about each of our stock picks from 2006. I'm sure many would agree that knowing what to do with a holding, what exit strategy to use, is at least as challenging as picking them. Some you might expect to do well, don't. Others go way higher than one might expect. There is an almost random nature to these micro caps. The other thing that has occurred to me in my own personal trading is that I've left some huge profits on the table during this bull market in the interests of being cautious.

### Is Buy and hold better?

This led me to wonder how that could be measured and is there another mechanical strategy that could help to capture those gains lost by selling too early. So - I looked at the spreadsheets for our picks from 2004 and 2005 to see how the results might change if we simply sat on each and every position without trading, even at seasonal highs. The results were impressive. The 2004 picks tacked on another 83.5% in each of the two additional years they were held, the 2005 picks tacked on another 118% after an additional year. When I look back at what happened, what we find is that a small number of super performing stocks push

Picks	Average change After 1-Yr	After 2 or 3 Yrs (As of May 11, 2007)
2004	64%	<b>231%</b>
2005	180%	<b>298%</b>
2006	69%	n/a

overall returns higher. It takes more than one year for these puppies to roll out their business plans and to realize their full potential.

### What about sell stops?

A variation on this would be to place stop loss orders on each position we took after buying it. Maybe not trailing stops,



## 2006 PERFORMANCE CHART

Company Name	Last AT	Shares Bought	Price Paid	Value Now	Invested	Unrealized Gain/Loss
AMERA RES	\$0.415	1,818	\$0.55	\$754.47	\$999.90	\$245.43 / -24.55%
CHEMAPHOR	\$0.38	3,333	\$0.30	\$1,266.54	\$999.90	\$266.64 / 26.67%
FIRST STAR RES	\$0.135	6,896	\$0.145	\$930.96	\$999.92	\$68.96 / -6.90%
FRONTIER PACIFIC MIN.	\$0.76	2,500	\$0.40	\$1,900.00	\$1,000.00	\$900.00 / 90.00%
GOLD BULLION DEV	\$0.19	5,000	\$0.20	\$950.00	\$1,000.00	\$50.00 / -5.00%
GOLD SUMMIT CORP	\$0.15	4,166	\$0.24	\$624.90	\$999.84	\$374.94 / -37.50%
GRYPHON GOLD CORP	\$0.94	724	\$1.38	\$680.56	\$999.12	\$318.56 / -31.88%
MANTLE RESOURCES	\$1.30	892	\$1.12	\$1,159.60	\$999.04	\$160.56 / 16.07%
MINERA ANDES	\$2.40	2,105	\$0.475	\$5,052.00	\$999.87	\$4,052.13 / 405.27%
MIRASOL RESOURCES	\$1.23	1,538	\$0.65	\$1,891.74	\$999.70	\$892.04 / 89.23%
NAIKUN WIND ENERGY	\$2.01	1,666	\$0.60	\$3,348.66	\$999.60	\$2,349.06 / 235.00%
NORTEC VENTURES	\$0.22	5,555	\$0.18	\$1,222.10	\$999.90	\$222.20 / 22.22%
RAINY RIVER RES	\$4.69	1,250	\$0.80	\$5,862.50	\$1,000.00	\$4,862.50 / 486.25%
RAMPART VENTURES	\$0.41	3,773	\$0.265	\$1,546.93	\$999.84	\$547.09 / 54.72%
SOLEX RESOURCES	\$1.13	2,000	\$0.50	\$2,260.00	\$1,000.00	\$1,260.00 / 126.00%
ST EUGENE MINING	\$0.195	3,846	\$0.26	\$749.97	\$999.96	\$249.99 / -25.00%
TEMEX RESOURCES	\$0.40	4,166	\$0.24	\$1,666.40	\$999.84	\$666.56 / 66.67%
URACAN RESOURCES	\$0.89	1,162	\$0.86	\$1,034.18	\$999.32	\$34.86 / 3.49%
VITAL RESOURCES	\$0.16	2,247	\$0.445	\$359.52	\$999.91	\$640.39 / -64.04%
WELLSTAR ENERGY	\$0.335	1,613	\$0.62	\$540.36	\$1,000.06	\$459.70 / -45.97%
Totals:				<u>\$33,801.39</u>	<u>\$19,995.73</u>	<u>\$13,805.65 / +69.04%</u>

### Summary for 2006

2006 - 20 Picks

8 Losers

12 Gainers

Values as of May 2007: \$33,801.39

Invested: \$19,995.73

Gain: \$13,805.65 /+69.04%

### Notes:

1. Results are measured in the first or second quarter of the year following, this year, during the week ending May 18, 2007 using a StockHouse.ca Performance spreadsheet to remove the fudge factor.:-))
2. Based on investing \$1,000 into each pick, no trades prior to this cutoff and do not include commission costs.
3. 2006 tally does not include short sale of **De Beira Goldfields DBGF** at \$4.85 in the June 2006 Issue, currently \$1.05 (05-17-07) because the short sale showed an incorrect return in the spread sheet results we use at S/H.

...Continued from Page 3.

but just against the price we paid. If something drops say, 20% from the price paid - the stock is dumped. And then let everything else run long term. Just a thought.

It almost goes without mention, but I must say anyway, that these returns are most unusual and will undoubtedly return to single digits or negative returns. I can almost guarantee it.

...Continued from Page 1.

So with such strong but diametrically opposed signals, it's difficult to make any large bets right now. Getting leveraged to any commodity just ahead of seasonal weakness is the equivalent of walking into moving traffic. Short term technicals have all turned decidedly negative as I go to print. Then again, what if *this* were the year that Central Banks or other investors decide not to fill the 400 odd ton a year supply/demand deficit from mines? Like when the Uranium market finally

ran out of supply from decommissioned nukes? We certainly wouldn't want to be chasing *that* tiger by the tail, but prefer far more to be positioned in advance.

So it's steady as she goes then, we should be psychologically prepared for some lower gold prices. And while it may seem a contradiction to have two gold stocks in this Issue - let me say that these picks aren't as much about positioning for seasonality as they are just the two most desirable looking situations on the short list right now.