Louis Paquette's

EGS EMERGING GROWTH STOCKS

*"Finding Extreme Value in Small Caps"*

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# Gold breaks $800

## *Managing risk, Hedging strategies*

### Not standing in front of moving locomotive

As I begin this Issue, Gold has broken over $800 with its sights set firmly on the all time nominal high of $850. The price has risen 25% just from the August lows and the HUI Index is up 50%. COT data-watchers and chart readers alike have been confounded by the gold's continued strength. The mid-cycle correction I anticipated failed to appear. Fears of rising food and fuel inflation are partly to blame. But the main culprit remains a crashing U.S. Dollar, spurred on by terrible third quarter results flowing from the Citibanks and Bear Sterns of the world and the realization that Housing sector is nowhere near a bottom. All this combined is causing many to question the health of America's financial system.

What I've really noticed lately is how the *mainstream* is really starting to see now what is at risk here. It's no longer just the **Doug Caseys** (*Crisis Investing)* or **Jim Puplavas** (*Financial Sense Online*) of the world who are calling for the biggest economic setback since the Great Depression. I was amazed watching a pretty mainstream weekly debate program on PBS this past Sunday morning (*McLaughlin*). First topic off the top was concerns over the U.S. financial system, crashing banks and the dollar and runaway Gold prices.

One of the four debaters, one-time presidential candidate, **Pat Buchanan**, was actually *bragging* about how much gold he owned. Two of them were indeed asserting that the U.S. financial system is at serious risk.



Can you believe that? The public is finally starting to get it. The nasty truth is being exposed for all to see. The biggest debt bubble in history has burst and nothing can stop it from running its course. And Gold is working out to be about the best beneficiary - the proverbial safe haven after all.

To be sure, all the technical indicators are showing gold is over bought and the US Dollar Index is oversold. So I would be cautious about adding new positions going forward. See the charts above; notice how they have both moved all the way from the very bottoms of their trading channels, almost to the tops, in just three months. That's a long way to move in a very short time. We should expect to see sharp reversions to the mean without notice.

On the other hand, we don't want to start under weighting gold too much yet because for one, it's too early in the season - small caps and gold tend to do their best in Q1 or Q2. And second, gold is taking on a life of its own now, and we don't want to stand in front of a moving locomotive. It seems to be suggesting it's capable of a melt-up, something like what the Internet stocks did in 1999 to March 2000. We certainly wouldn't want to be jumping off and then back on that train at higher prices and higher risk.

So, if it's too early to sell to reduce our risk, what other alternatives are there to mitigate risk? For one, **we should gradually stop buying as these charts approach the top of their channels.** This is hard for people to do. Because as they take profits, the positive reinforcement encourages them to plunge right back into the market.

If you are doing this and finding yourself fully invested by the time the seasonal high rolls around, you're setting yourself up to give it all, or a good portion of it, back. In fact, the time for preparing for risk, is well before that risk arrives, by deliberately doing more of your gold stock buying during the slower summer months. Look at the charts of Goldcorp, Newmont, Barrick. They all bottomed in August, not by coincidence. Use the seasonal Force.

But what else can we do right *now* to mitigate risk as prices rise? Many subscribers have been asking about this. So while I don't consider it my forte' I will mention a couple of strategies. If not previously experienced with Options or ETF,s it goes almost without saying that you should seek the guidance of a licensed financial advisor before proceeding with anything like these.

## 1. Buy Put Options

I find the Goldcorp chart easy to do technical analysis on and it is optionable. So, each time it looks like the price is near the end of a leg up, I start placing stinker bids on Puts, such as the ones expiring in January with a "*strike price*" of $28, giving me the option to sell 100 shares of G.TSX at $28 until the option expires. For this privilege, I am paying $0.85 X 100 costing me $85 per option (Ticker is: GMB). Here's some other examples:

| Ticker | Expires | Strike | Last at | Cost Per Per Contract |
|---|---|---|---|---|
| GMF | Jan | $30 | $2.15 | $215 |
| GPF | April | $30 | $2.65 | $265 |

I'll warn you now - they seem illiquid with big spreads and if you don't time them perfectly, they begin losing value almost immediately. Indeed, we almost want these to expire worthless. Because if they do, the rest of our portfolio should be doing exceedingly well. Kind of like life insurance, it's something we'd rather not have to cash in. On days however, when the price of Gold nose-dives $10 or $20, the option price starts rising.

I am going slow with very nominal amounts to get a feel for this. By rights we should only try doing this when everything is in our favour, at the ultimate highs or lows of the seasonal cycle, as opposed to trying to time ever zig-zag of every commodity. It takes patience and is not for everyone. And they haven't delivered any returns of course because the market is still rising. But they are allowing me to sleep better at night, knowing that regardless of what the price of gold does tomorrow, I'll be ahead, one way, or the other.;-)


## 2. Buy ETF: HGD.TSX*

**Close Nov. 2, 2007: $13.26**

The next obvious hedging strategy might be to buy the Exchange Traded Fund that goes up if the TSX Gold stock Index goes down. Here's a list of Canadian ETF's.

### Some Canadian ETF's

**HGU-t - for long gold**
**HGD-t - for shorting gold***
**HED-t - short energy stocks**
**HXD-t - short TSE**
**HEU-t - long energy stocks**
**HXU - long TSE**

Note that these give double leverage - if the sector moves up or down a per cent, these are supposed to move by twice as much for two times the leverage (and twice the risk if you hit them wrong). For instance in the example above, while the gold price has moved up around 23% since the August low, this ETF has moved down about 41% in the same period.

Next Appearance:
**Vancouver Resource Investment Conference:** Jan 20 - 21
www.goldshow.ca

*"Week in Review with Lou"*
Is on hold for a while...**stay tuned.**

**Coming Soon:**
**A NEW POTASH listing, within a month or so, you'll hear it here first.**

**NEW PICKS**

# Helio Resource Corp

# HRC.TSX-V $0.75

*Diverse Portfolio of Southern Africa Mineral Exploration Projects*
Shares Issued: 43 Million F/D
Cash as of 11-07: $3.0 Million
52-Wk. H.-L.: $1.28 - $0.52


HRC has a larger market cap than some of the juniors we look at - because of its vast array of first class prospects - I count 26 of them, encompassing everything from gold to base metals and diamonds, across four Southern African countries. If they are overweight in anything it is gold. I sat down with HRC's CEO **Richard Williams** and a laptop for an hour last week and got acquainted with his company's prospects. Nine of the Namibian licences have been farmed out have already been farmed out and the company hopes to JV all of the non-Tanzanian licences, while advancing these themselves.

It's the **SMP gold project** in Tanzania which interests me at the moment. This property encompasses 4 Colonial Era Gold mines and other widespread gold showings over a 25 km strike length of known auriferous structures. A 10,000 meter drilling program is underway with results expected through November and December and with the first resource calculation expected by the end of Q2-08.

And they are only scratching the surface of this large property. Given enough capital and time, they should be able to assemble a million ounces in fairly short order and the property could easily host multi-million ounces. This is less a grass roots exploration situation than the development of a very well known mineral occurrence.

For more information call Contact Financial at **604 689-7422**, ***kirk@contactfinancial.com*** or visit **www.helioresource.com.**

# Journey Resources

# JNY.TSX-V $0.30

*Advance stage projects*
Shares Issued: 36 Million F/D
Cash as of 11-07: $2.0 Million
52-Wk. H.-L.: $0.51 - $0.22

JNY has a suite of late-stage mineral exploration projects. They're earning a 50% lease interest in the **Empire Mine Project,** a former **copper/gold/silver** producer, near MacKay, Idaho, a 100% lease interest in the **Musgrove Creek gold** exploration project near Salmon, Idaho, a 75% equity interest in the Vianey Mine, **silver/lead/zinc** mineralization in Guerrero State, Mexico, and they have recently added the right to acquire 100% interest in a previous **silver** producer in Peru. The Musgrove gold project located 12 miles from **Meridian Gold's** mine produced 650,000 ounces between 1996 and 2001 at a cash cost of $190 per ounce. It contains a 43-101 compliant resource of over 400,00 ounces. A nine-hole drill program is underway in a highly prospective area with results anticipated in Nov/Dec.

Contact **Jack Bal** at **604.633.2442**, *info@journeyresourcescorp.com* or visit: ***www.journeyresourcescorp.com.***

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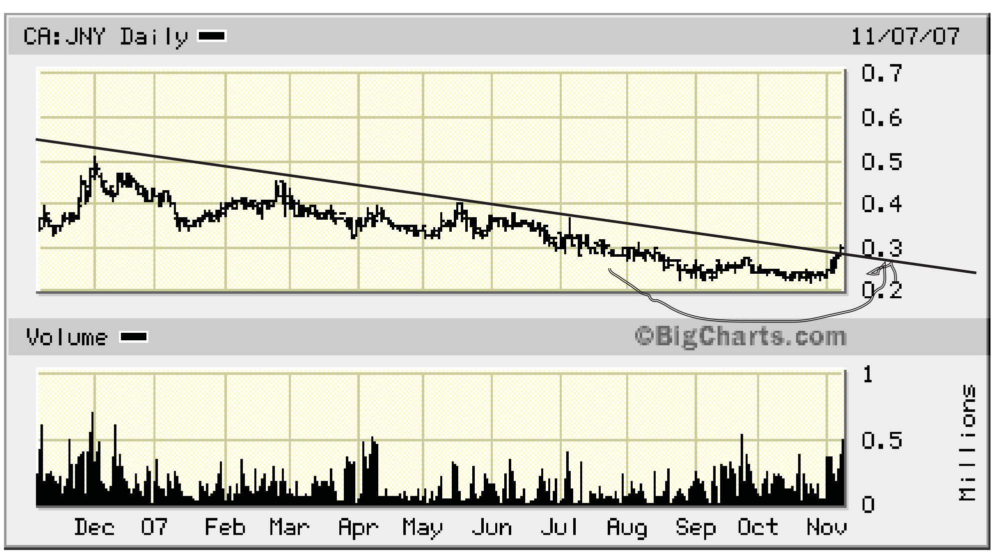
# TECH SOLUTIONS CAPITAL

# TSL.TSX-V $0.48

Shares Issued: 17 Million
*New Listing*

TSL is a newly trading "CPC" (Nov. 7th) that just got approval for its qualifying transaction - a gold property in Valdor, Quebec. **Len De Melt,** who was instrumental in sourcing **Norsemont's** copper project will be running this. As the largest single shareholder he has all the incentive he needs to deliver another success.



## Technical analysis and Cautionary notes:

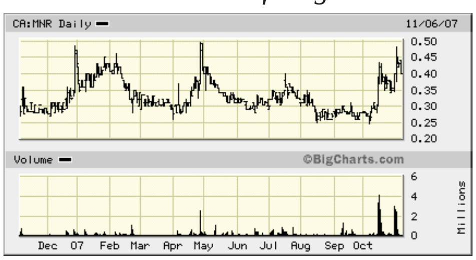
For the last Issue or so including this one, I've gone out of my way to find new stock picks with charts that haven't moved up a lot already, but are still considered quality situations. Maybe they had a slow period for news, or something else allowing the price to decline to its natural, unpromoted levels. And then ideally, it should be timed in advance of an increase in positive news flow. This has worked well in recent Issues. If however, or shall I say when, gold retraces some of its gains, expect these latest picks to decline as well, even retesting recent lows depending on the depth of a correction in gold prices.

UPDATES

## Mediterranean Resources MNR.TSX-V $0.38

*Picked: Sept/Oct Issue @ $0.27*

*Intersects 19 meters of 20 grams AU!*




Two weeks and a day after picking MNR, they shocked the market with a large intersection of high grade from a hole spotted at the western edge of known mineralization - intersecting ***19 meters of 20 grams of gold per ton.*** I caught up with Dr. Guest who was just back from the site in Turkey. He claims his operation is unaffected and far from any tensions in the region. Many institutional types are demanding of his time right now, sitting up and taking notice of this new discovery. There are results to come from 3 more holes roughly 50-100 meters from that hot hole. If one of these were to duplicate these results it could blow the lid off this stock. Not that it's necessary for this project to fly. MNR is barely scratching the surface of this huge gold belt. We await more results and a new larger resource calculation by Q1-08.

## Timmins Gold TMM.TSX-V $0.93

*Picked: June/July-07 Issue @ $0.56*


I visited management a few weeks ago and if there was a change it was that the emphasis was moving from proving out 43-101 resources, to starting production as early as possible, currently targeted for this time next year - 80,000 ounces per year. Canaccord has done an in-situ value estimate of $1.45 per share on the stock. They've been spreading the word, appearing on the front page of **StockHouse** last month as well as hiring **Peter Grandich** in August. **Jay Taylor** had them as a top pick on BNN last month. It's all good, we want to continue holding a nice basket of near producers as the gold market continues emerging.

## Western Wind Energy WND.TSX-V $1.93

*Picked: Feb. 7-07 @ $1.26*

*Adds solar, recommended by newsletter, revising target*


WND was making an interim high at $1.70 as the last Issue was released on the news that their legal troubles had been settled. After consolidating to the recently closed financing price of $1.40, on November 1st it rocketed to new highs on the announcement that they are getting into the solar energy business. What a great way to use the space between wind turbines. Then, late last Sunday, (Nov. 4th) the Owen Sound Ontario-based *Resource Stock Report* newsletter recommended it.

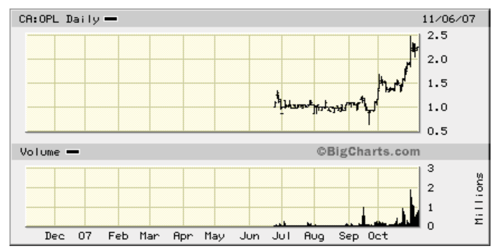
**New Target**

The stock has now reached the lower end of my initial target of $2 to $3 if they could just get their legal troubles behind them. Now that they have, based on a market cap weighting of $4 Million per 35 MW of capacity, I raise my initial target to $4 to $5. Keeping in mind this is only with their existing 500 turbines and not including any of the grandiose growth plans or this new solar initiative. These could give WND more of a "sky's the limit" target price, depending on how quickly they can successfully convert plans into reality.

## Opel International OPL.TSX-V $2.05

*Picked: Aug-07 Issue @ $0.99*

*Getting recognized*




No big fundamental break out news yet, but OPL continues to appreciate and is getting noticed by the institutions; a broker back east for one, and lately Canaccord has been mentioning it in their "*Morning Coffee*" email to clients. It was also called into BNN by a viewer and mentioned favourably by the analyst in the studio that day.

As long as renewable energy remains the flavour de jour, and depending on how well these two (OPL and WND) can convert their grandiose growth plans into reality, I maintain they both have potential for blue sky, 5 to 10-bagger returns from our initial entry points, in no small part due to their superior share structures compared with others in this space. Sooner or later we should all take our initial investment off the table. But I would also plan on holding some for the longer term as well.