

How to Pick Ten Baggers

Most of my writing comes from inspiration. The last eight or so months for stock pickers (and most market participants) has been most challenging and many no doubt would have questioned their strategy whilst wishing they had funds in a term deposit.

The impetus to write this article comes from attending the Gold Symposium at Luna Park on the Monday and Tuesday the 14th and 15th of November 2011. As soon as I saw the name Eric Sprott (Sprott Asset Management) on the key note speaker list I knew I had to be there regardless of living in the most isolated capital city on earth Perth. I have found over the years that hotel rooms can be cold and lonely places (unless you are a rock star) so I decided to take my wife who also works in the industry along with me.

Talk about feeling like a 14yr old girl at a Justin Beiber concert. Despite not bursting into tears and hyperventilating I could sense the sheer excitement throughout the audience that was bursting with gold bugs of every degree.

When you have a key note speaker list that includes David Evans, Louis Boulanger, Egon von Greyerz, Dan Denning, Gavin Thomas, Richard Karn, Alf Field, Ben Davies and rounding off the event with John Embry you are going to come away with more takeaways than Saturday night.

Whilst I always have believed in the strategy and stock selection model I have developed over many years I cannot stress enough how important it is to get out there and amongst investors to at least be vindicated. Sitting in a dimly lit room watching your stock portfolio cut in half eventually will get you and checking your smart phone every five minutes will only make it worse. The one major positive I see emerging from these phones is that those who need to always do something with their hands might be finally able to kick the cigarette habit, and those who are shy, arrogant or plain anti-social can hide behind texting.

Anyway so by now you would have picked up that I am not only inspired but also suffering a bad case of literary diarrhoea so please bear with me.

Starting Out

After selling a 1 bedroom flat in North Bondi in 1994 for \$128,000 or thereabouts I came away with a few thousand dollars. I knew that the stock market existed because my Father would bring home the Financial Review and I would discard it in favour of The Telegraph or even a motoring magazine.

I started to read financial magazines and consulted the Yellow Pages to find a broker and from that moment I was hooked! I was able to shake off mild addictions to card machines and box trifectas and it was the last time I had to sell my Best of Lionel Richie CD to get by.

Luckily I then proceeded to make as many investment mistakes as possible. The major one was paying up to \$90 brokerage for \$600 worth of stock. Even if the gold company found "Lassiters" (the reef and not the local bar in Neighbours) I still would have struggled to make a profit. Perhaps Usain Bolt could win giving a 30 metre head start but for a speculator it was sheer stupidity.

I would often buy what was tipped in newspapers and when I couldn't decide which way to go I would write down the names and pull them out of a hat. If ever I could offer advice to someone about to turn 18 it would be to start saving and never fill in a Lotto coupon. Make the mistake of filling out too many and before you know it you could be seeing \$5,000 plus in after tax dollars disappear.

The turning point for me came when I was seconded to Wynyard Railway Station in Sydney. Our small office was across the road from the stock exchange at Bond Street. Not only was it one of the best peak hour views in Sydney, I also was able to benefit from shift work and soon found myself conversing with other speculators. Carrying no more than crumpled up newspapers, magazines and a brick for a mobile phone they were able to go on with business. These were the good old days when the board flashed up all your companies and if you missed it one there was always another 30 minutes to kill.

The speculators were your typical old school stock pickers. There were no complicated charts, options, straddles or convoluted strategies. It was all about understanding the story and buying low and selling high. I remembered often staring in disbelief at an airline ticket even though it was only an East-West flight from Sydney to Grafton. Flying had a certain romance about it and in the early days so did good old speculation. Pride would be taken in stock ownership and certificates could be framed. I wonder if the computers that are starting to dominate trading activity feel the same way?

In 1997 I made one of my greatest discoveries, a Palsonic Teletext TV. With the help of rabbit's ears I was then able to watch the entire market in alphabetical order and I started to learn how sectors and stocks started to behave. I would still make time for the exchange but I was starting to build confidence in what I was doing. I remember during the Asian crisis marvelling at just how cheap the entire junior mining sector was becoming.

These days with the number of mining and oil companies growing at a rapid rate the stock prices in the newspapers are in dire need of magnification. On night shift or during quiet periods I would have work colleagues or family members test me on 20+ companies and again this was useful in learning how stocks behaved and allowed me to pick up even subtle changes. In our major newspaper all listed stocks are placed in alphabetical order regardless

of sector and I am sure I would now struggle to retain prices on the entire ASX.

The Next Twelve Years

It was my passion for stock picking that eventually led me into the broking industry. The eight or so years I spent in the Police Service were most enjoyable and rewarding and although you might be carrying a baton, handcuffs, and a firearm the weapon of choice was learning how to read people and then defusing situations if required. It must have influenced my future career in some way as I now treated the market as a street fight or psychological warfare.

Sure I would have liked the alphabet to follow my name on a business card, however I doubt years of tertiary education would have made that much difference. Dial up internet led me to Hotcopper and the stock market forum allowed me to share my ideas, develop my writing style and mix amongst fellow stock pickers albeit online. The site has evolved and fourteen years later I remain an avid reader despite not being able to contribute due to restrictions and posting guidelines. If you accept that every internet forum will have its pros and cons then Hotcopper is a useful tool in gauging not only market sentiment but also seeing what others are saying about the companies you are interested in. With any long-term relationship you are going to go through rough periods and even though it is an online site it can get quite personal at times. Nevertheless for those developing their stock picker skills I continue to find it most useful and in five years will be saying the same thing.

Despite advising through the Dotcom bubble I never gave up on stock picking. Sure the junior explorers were fast becoming tech companies to “create shareholder wealth” but after being poleaxed during the Asian crisis many were nothing more than shells looking to be rejuvenated.

Being heavily involved in two IPO’s that ended up becoming 50+ baggers (with dividends) was a valuable lesson in understanding that good things tend to happen to good people. One of these companies purchased a nickel mine for \$15m in 2002 and must be fast approaching the 10 bagger level on tax and royalties alone.

“Even if the right management teams fail to discover a company making deposit they can still attain multiple share price upside through acquisition and near-mine exploration success”.

I found that sticking to the stock selection model was rewarding over the medium-term, however events such as the uranium bubble were always a threat. Watching other companies run on simply mentioning the word, “uranium” was frustrating and it was the closest thing I have ever seen to replicating the Dotcom madness.

The path to becoming a stock picker searching for the elusive a ten bagger is one that is often littered with costly errors and not every stock will be successful, so in order to be exposed to multiple share price upside you also have to take some nasty hits in the order of 50%-100% along the way.

Here are some thoughts and suggestions that I have found useful over many years of speculation and stock picking. It may only take one idea to make a difference so here goes:

Getting Yourself Right and Lowering Stress

- Look at getting a suction mirror in the shower for shaving. This was one of the best things I have ever done. Just makes the mornings much easier than having a face like Norman Gunston when you have to be somewhere. I also take one away with me when travelling.
- We all know what happens to socks when they get together in the washing machine. Rather than wasting time on finding a matching pair I went to a department store and simply bought lots of the same type.
- Having terribly fine hair I was often taunted with, "You're going bald" even in my early teens. I would stand there in front of the mirror for hours and at times it was stressful. Eight years ago in sympathy for a charity event I had my head shaved and haven't looked back. You would also be surprised at how many women discuss their feelings for the likes of Jason Statham and Vin Diesel. Now I can travel light with no need for gel, hair dryer and have no desire to wear something that looks as though it was picked up off the road.
- Despite going through advanced driver training courses I have found that getting reverse sensors/camera was one of the best decisions I have made. Parking and finding spots is one of the most stressful things we go through and if you are not afforded the luxury of a shop window for a visual you can be easily humiliated. (Normally in front a table of the opposite sex).

Get Educated

The three books I often recommend to people that will assist in the search for ten baggers are:

- **The Winning Habits of Warren Buffet and George Soros**, Mark Tier
- **One Up On Wall Street**, Peter Lynch
- **Devil Take The Hindmost: A History Of Financial Speculation**, Edward Chancellor

One of the major threats to the stock picker is information overload and I would suggest keeping it very simple on building the right foundation. Once you are more established there is a plethora of newsletters and writers out there. I quite enjoy the articles from John Embry and have followed other writers over the years. I have a pretty handy back catalogue myself and a Google search will reveal all.

I would also suggest developing a thorough understanding of how the market operates in your region. For those in Australia it could involve the opening and closing phases, extended periods and the symbols that represent a different basis of quotation.

Sticking to Vanilla

If you want to see where derivatives can take something just look what they have done to the humble Tim Tam. The original Tim Tam would rate as one of the greatest chocolate biscuits of all time, yet we have seen an explosion in variety which led to alcohol flavoured Tim Tams in 2004. Luckily for those on a binge it was reported that you would have to consume thousands of biscuits for the alcohol to have an impact (something to aspire too).

I admit to branching out into the double chocs as they were more resilient to dipping in coffee, however, as with most products you are never going to beat the original. These days you will find many failed derivatives in the discount basket at a service station and the time for buying is often after a long liquid lunch or suffering from a massive hangover.

Although a Tim Tam is not going to bring down a major world economy, what is happening in derivative and credit markets is truly frightening.

I have found that keeping speculation as “vanilla” as possible you tend to come through weak markets in excellent shape and are well poised to resume the uptrend in your portfolio. I stick to listed company shares and will only branch out into company options that are either short or long dated. These are often attached free to IPO’s, placements, or come at a very low price in a loyalty issue.

Often if there is major drilling program about to commence I will look to purchase some options if available. When they turn out the leverage potential is exponential, however you need to treat these as wasting assets where the risk of a 100% wipeout is real. I have zero interest in complex gambling options on the ASX and if I want to implode financially I will develop a rampant addiction to sports betting and poker machines. I am also not going to be placing Turkish Delight Tim Tams in my shopping trolley either.

Take a Ride in a Delorean

For those investing/speculating on the Australian market here is a list of companies that

have managed to ten bag and then some. Their case histories and how they got there are excellent examples of what to look for in identifying the next batch to graduate through the ranks.

- Aquarius Platinum (AQP)
- Minotaur Gold (former ASX code MNG)
- Independence Group (IGO)
- Medusa Mining (MML)
- Dominion Mining (former ASX code DOM)
- Integra Mining (IGR)
- Northern Star (NST)
- Silver Lake Resources (SLR)
- Ramelius Resources (RMS)
- Ivanhoe Australia (IVA)

If you really must go have a look at how Allied Medical (AMS) went from 9c to \$131 or thereabouts when it transformed into Fortescue Metals (FMG).

Make Analysis a Part of Everyday Life

I often derive considerable humour from people that will start a fifteen minute conversation on a twenty five second lift journey. I also feel bad for those in their attempts to cater for eight people end up cooking for thirty and suddenly you are pressured to take home a bag of charcoal. Why not make a list of all the people coming to dinner then try and work out what they may eat with the emphasis on “under catering”. We live in a world of waste as it is but applying some simple analysis or “forecasts” will help when you are looking for the next ten bagger.

I have now seen companies that provide data on cars parked at major shopping centres, but often you can sense how some are performing via the enthusiasm of the staff and who is spending what. I admit to a mild JBHiFi addiction, however, I need to look at how much of the good news is already factored in. Being non-technical with zero interest in gardening I am not the one to ask for opinion on motor accessories or DIY products.

For those wondering having a box of Magnums in the fridge works wonders for handling the desert part of a dinner party. I have also found that kids are often far too excitable to eat so you may as well provide a third of what was originally planned.

Since becoming a frequent traveller I am now developing my model of getting through airport security, landing the best seats and if possible a business class upgrade. It is all about taking parts of a process and combining them to create your own model. A similar strategy can be applied to stock selection and the search for the ten bagger.

Finding the Next Ten Bagger

Now that I have provided some background information and hopefully a useful tip or two, it's time to get to the business end. This is what I am looking for now in junior companies,

- Those with a share structure conducive to share price upside. Many of these will have <100m shares on issue, however it should be noted that once a company enters the mainstream at times it pays to have more shares on issue. The ideal scenario for me is a company capped under \$20m that drills into major orebody and goes \$200m+ before the fun begins. Whilst the tighter the structure the better you should not write off other companies completely as speculative bubbles can send many stocks into orbit. Those that continually dilute to weak hands are the ones to avoid.
- **With a junior resource companies the two most profitable phases for investors are buying prior to a major discovery, or getting into a stock during the latter stages of mine construction where you benefit from the production uplift. Buying at the height of the exploration madness may turn out profitable in the end but it is an avoidable waste of your life. Unless the market has completely missed a significant discovery, this is where I will often lock in some profits and look for the next opportunity.**
- Management is critical. I often look towards those who have come from major companies with a history of success in exploration and/or exploration. Some Directors develop "rock star" status and it is best to get involved early before they end up on more boards than Kelly Slater. Over many years I have gotten to know a number of geologists, company Directors and management teams that are focussed on share price growth rather than hanging around for the lifestyle.
- Grade is paramount. Whether it is gold, zinc, lead or even industrial metals I have found that world-class deposits regardless of the Greek crisis will end up being developed or on-sold. Companies that have promised low cost production a number of years out that have actually delivered are the types that tend to twenty bag and then some.
- Pay attention to geological clues that are regularly presented in ASX announcements. Many company announcements are discarded as they come across as being too technical. It is often the low grade RAB hits or even soil sampling that leads to major discoveries. I admit that I didn't see 48m@ 154 g/t gold coming from RMS at Wattle Dam in 2007 but the deposit was showing considerable potential prior to the big one.

- Although quoting similar styles of mineralisation may be seen as over promotion, you should look for references to major discoveries such as Olympic Dam, Prominent Hill, Carapateena, Merlin, DeGrussa or Hillside (major Australian discoveries).
- Be aware that bubbles are dangerous events and are not the norm. When speculative markets fire up there is always the temptation to chase the high flying stocks, however the risk here is becoming addicted to buying stocks lacking in fundamentals. The “fear of missing out” is more powerful than market sell offs so for the stock pickers amongst us it may be prudent to allocate some funds to these opportunities during the blow off phase. The worst thing for your investment career is hold onto the bombed out “fad” stocks. I liken it to sticking to the one poker machine in the hope of winning a mini jackpot on the next spin.

“Resource and mining publications are like swimsuit parades or male reviews. Everyone looks attractive and you would take any one of them home in the immediate-term. The key is to find those who cannot only cook a traditional roast but one suited to a long-term relationship”.

When to Sell and Finishing Up

I have noticed that at a number of recent mining conferences the crowd is dominated by the same old suspects I have mingled with for years. Even with rising precious metals prices I am yet to see even a small shift in demographics. At the risk of using an extreme example I would suggest that when current affairs programs are running stories on people using their baby bonus to flip gold and silver stocks it might be time to sell. When the crowd is starting to look like something you would see at a rave party it may also be time to find your nearest exit. I have found selling all the way up works well, however there are always companies that tend to understate and over-deliver and I am forever hopeful of finding even a handful of shares I may have forgotten to offload.

Being a stock picker and finding the next ten bagger can be immensely rewarding. Let’s face it even striving for a quiet middle class life with air conditioning can be frightfully expensive. You need to have the right temperament, experience and the ability to stomach considerable damage to your spread sheet and confidence. Apart from facing your own demons we all have the proliferation of news sources and negativity to deal with that can be daunting if you are on the wrong side of the ledger. On a more positive note I have found that markets do recover after crashes/panics and world-class projects and companies come through regardless of the European debt crisis.

Studies have shown that when people are sad they make poor investment decisions and are easy prey for con-artists. During the next major sell off why not fire up the iTunes with some

uplifting music. For me it was Linkin Park, Foo Fighters and Jimmy Barnes that helped through the recent malaise.

I am going to leave you with an analogy I came up with in 2006 that I feel is relevant now to the state of the junior resource market in particular.

"The speculative market is like someone busting to go the toilet where they are looking at how much paper is left on the roll. The smart ones would go and get another roll or two out of the cupboard, whilst those stranded yelling, "More toilet paper please!" are nowhere near the smaller end of the market at this point".

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