Never fall in love. Never forget to sell. ABS is the key to making money.

written by Anthony Milewski | November 6, 2024
As I round out my thoughts on many of the strategies and characteristics I use when reviewing a potential investment in the junior space, I want to reiterate a few important points covered in our recent newsletters:

1. Junior mining stocks trade like options
2. Dilution is inevitable and investment considerations should be made to navigate its impact on your investment
3. Last cycles low grade asset is next cycle's high grade asset; large brown field assets have value, no matter their grade
4. Commodity price move is likely the single biggest driver to a project, so take a view on the cycle
5. CEOs need to stand to make money from the success of the company. If the CEO doesn't care, who really does?
6. Digital marketing is critical to modern marketing campaigns: marketing has changed dramatically in the past decade, if management isn't marketing using modern techniques, they aren't using their budgets wisely

With these points in mind, we move on to perhaps the most important point of all!!

ABS, or "Always Be Selling"

It was recently reported that a Canadian man is suing RBC and an accounting firm after his investment portfolio, which had grown from $88,000 to $415 million through Tesla stock and options trading, crashed back to zero.

You read that right!!!!!

From $88,000 → $415,000,000 → $0 !!!

I can't even imagine or comprehend how the guy can be both so brilliant AND stupid at the same time.

This trader's experience brings to mind one of the most important points of investing:

You have to sell to make money

Or, as the old adage goes, "I'd rather make a small fortune selling too early, than lose a small fortuned selling too late." Sometimes the hard thing has to be said out loud, that **commodities are cyclical and if don't sell you won't make money.**

To drive the point home, don't be the bag holder. Retail investors suffer most by not reading correctly and selling the commodity cycles.

The Marketing Spell

Retail investors are the real long term shareholders.

Without exaggeration nearly every executive or fund manager I have spoken with on this topic has observed that, these days, retail interest is key to building a share register in junior companies. Yes, you can get a chunky institutional following in a stock, but these funds increasingly don’t trade junior mining stocks anymore. So, while funds may come and go, retail investors are where the money is – and, sadly, are also most often the primary long-term bag holders. Promises of next quarter’s beat or stories about a fading commodity seem to hold retail in quite a spell.

Don’t get me wrong, there are situations where liquidity or timing make it suboptimal for you to sell but, in the end, in order to make money you need to sell (I am going to keep saying this).

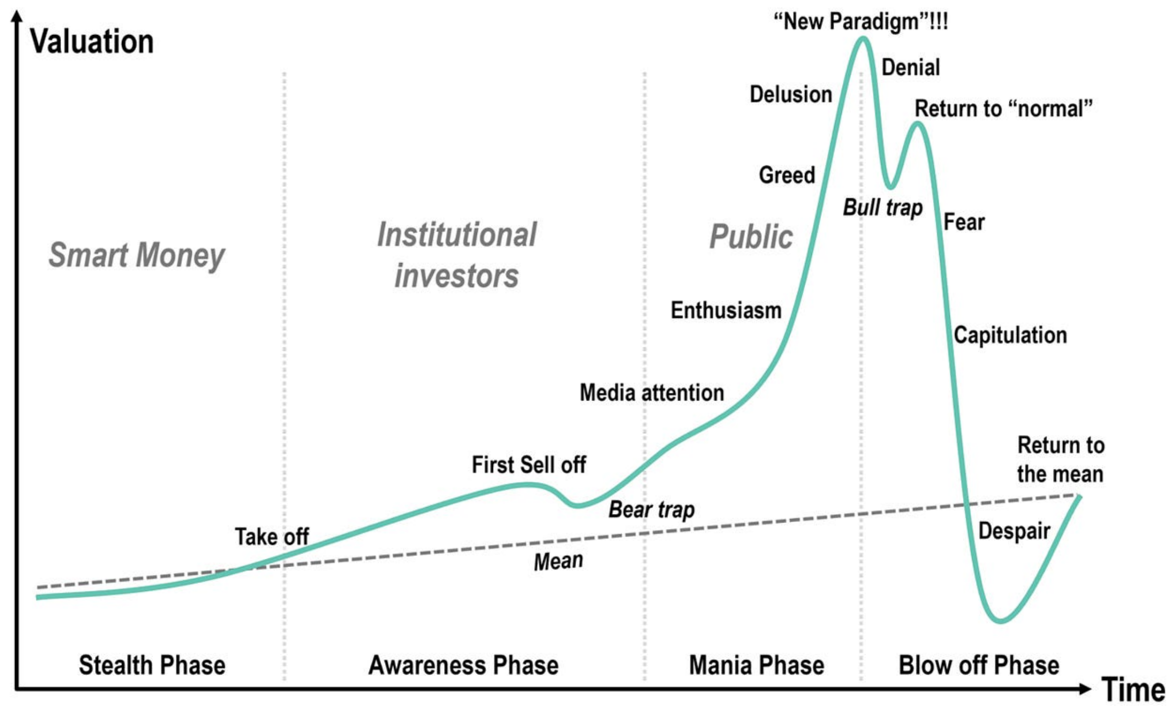
The Board, CEO and their team are getting paid to keep you in the story. There is nothing wrong with that, it is the nature of public markets, but you also need to keep it in mind when deciding to hold.

And, let's be honest, there are plenty of times that fund managers, executives and stock promoters implore retail shareholders not to sell, all the while selling when it makes sense for themselves.

The Cycle

It is critical that, through a given commodity cycle, you continue to ask yourself where we are in the cycle. Ultimately, you are going to live or die by this view. So, the closer you are to a commodity cycle, the better positioned you can be to make that call.

The following graph nicely visualizes what I mean by "*The Cycle*":



Source: Dr Jean-Paul Rodrigue, Dept of Global Studies and Geography, Hofstra University

The key takeaway should be that the round trip nature of commodities means equities go up and down VIOLENTLY.

To apply that to our investing strategy we have been constructing, it means that we need to be realistic about cycles and commodity prices.

The cure for high prices is high prices (i.e. a higher commodity price means more projects are economic and get built thus pushing the commodity price down) and a cure for low prices is low prices (i.e. mines shut down and don't get built creating supply side issues).

The economics of a project is driven by commodity price (check out my newsletter, "[The Art of Betting on Maybe, Junior Miners as an Options Trade]") and this leverage gives massive torque to equities as you move through a commodity cycle – both the dramatic rise and sudden collapse.

So, SELL when you are UP! (!!!!)

The Strategy

There are too many strategies on how to play the cycle for one newsletter, but my favorite is taking your cost basis off the table if a stock makes a strong move upward.

In other words, sell enough shares to recoup your initial investment once the stock appreciates significantly, to protect your original capital while the remaining shares continue to go up in value.

This means, at least psychologically, you are playing with “house money”.

In a really bullish market a favorite of the funds is to put money into a private placement with a warrant, sell the equity, and keep the warrant for optionality.

The Hold

Holding on for the home run, OR what’s more commonly known as, reflecting on what almost was…

It happens to us all.

I was on the second floor, an office of a boutique investment bank in Mayfair in London, and, as I stared out the window at the Fortnum & Mason building across from me, an idea hit me. It was perfect, and I knew immediately that there was potential for a win. I asked several people in the office what they thought, neither cared; I phoned a partner in Florida and another in Toronto, and both loved the idea instantly. Fast forward years later, the company had a share price in the teens! I didn’t sell a share, I thought the share price was going to $100. Today, having not sold a single share, the share price is less than .50.

I got greedy and will now likely lose money which, at any point, I could have sold and made a small fortune. When I look back at different investments over the years, the only ones I regret are the ones I didn't sell. Some I may have sold too early, but I still made money so I don't really care. The ones that sting are the ones I fell in love with.

The Tax Man

Don't get fooled by the tax man.

Each jurisdiction is different, but in many places there is the idea of long-term capital gains tax. What this basically means is that, if you hold a stock for x number of days you are taxed at a lower rate than if you hold it for less days.

While tax planning is important, the cycles for commodities can turn so quickly and aggressively that my view of the asset class is you sell when you can sell. Waiting even 30 days in some cases can be the difference between huge wins and a loss.

As Bernard Baruch famously said "Sell when you can, not when you have to".

The Life Raft

Liquidity is your life raft.

The mining space is littered with "value traps", or investments that are trading at what may look like undervalued prices (eg the price-to-earnings or price-to-book ratios) which can mislead investors into thinking their a bargain, but instead find the stock just keeps going down after you've bought in because of some underlying instability with the company's growth.

There are different reasons for this, but a key reason is that liquidity flows in to mining equities when excitement is building in a particular commodity. Being early can produce huge wins, but being early also means you might have to wait for years.

If selling is key to making money, both anticipating and utilizing liquidity are key to making money. When a commodity is out of favor, an equity can look like a winner on paper, and likely is – but just buyer beware – it make take much longer for the value to come good than you anticipate. It is important to understand that if you are fortunate enough to build a large position in a company, you may only be “allowed” to sell it at certain times – namely when interest and liquidity come in to the stock. The old adage “buy the rumor, sell the news” has a lot of truth it in the micro cap stock space.

Always keep an eye on liquidity, your ability to exit a position may not fully align with your value expectations, but sometimes in order to make money you sell your stock when the market allows you to!

The Summary

To summarize, it is all fine and well to get pick a company that goes up exponentially, but that decision is meaningless if you don’t sell. The junior mining space can produce some of the most spectacular returns, the same is true for losses.

If you are on a heater, make sure you take some off the table!!! You won’t regret it later.