NEW YORK TIMES BESTSELLING AUTHOR

MARIN KATUSA

RESOURCE MARKET MILLIONAIRE

How to Invest Like an Insider and Make a Fortune in the Natural Resource Market

"Marin Katusa is a genius... the best stock picker in the natural resource field, ever."

DOUG CASEY

RESOURCE MARKET MILLIONAIRE

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MARIN KATUSA

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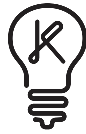

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ABOUT KATUSA RESEARCH

Katusa Research is an independent investment research firm founded by professional investor Marin Katusa.

Starting from scratch, Marin has built a large personal fortune… all through his ability to find great investments.

During his career, he has sat on the board of a public company, arranged over $1 billion in financings, and written the *New York Times* bestselling book, *The Colder War*.

Marin’s insight has been featured in *The Wall Street Journal*, *Fortune* magazine, Bloomberg, and CNN. He has traveled over one million air miles visiting over 500 resource projects in more than 100 countries.

Unlike some financial firms, Katusa Research does not accept money from companies in return for coverage. We turn down all offers of kickbacks, brokerage commissions, and referral fees. We have no hidden agenda and we are not for sale.

We work for our subscribers, not big corporate advertisers. And the investment guidance we provide is the guidance we follow ourselves.

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INTRODUCTION

On the morning of December 7, 1941, a destroyer operating off the coast of Hawaii, the USS Ward, was alerted to an object in its area that appeared to be a submarine.

The Ward's skipper, Lt. William Outerbridge, and his crew located the object. A periscope was sticking out of the water, which meant it was a submarine. The Ward fired her 4-inch deck gun at the suspicious sub and dropped several depth charges. When it was all over, the sub was at the bottom of the ocean.

The crew of the Ward didn't know it at the time, but the submarine was a small part of a much larger attack headed its way. Just over an hour later, the sky over the nearby naval base at Pearl Harbor was swarming with attacking Japanese planes.

The planes delivered a devastating blow to the United States. Over 2,000 American lost their lives. Over 200 planes were destroyed or damaged. All eight battleships of the U.S. Pacific Fleet were sunk or damaged.

The attack, which Japan called "Operation Hawaii," brought an enraged participant into World War II… one that went on to defeat Japan in the largest naval conflict in history.

Most people don't know the USS Ward fired the first shots at Pearl Harbor and, thus, in the entire Pacific theater. It's a story you only learn if you dig deep into history. And if you dig even more, you learn another largely unknown aspect of the Pearl Harbor attack… only this one is much larger. And it teaches an important lesson…

Japan didn't attack Pearl Harbor to send a political message. It didn't attack Pearl Harbor because it was itching to fight the U.S. in a massive global war.

The attack on Pearl Harbor, one of the most audacious, most infamous military operations in history, ***was an attempt to secure natural resources, <u>specifically oil</u>***.

In the years leading up to the attack, Japan had committed atroc-

ities all over East Asia. In response, the United States froze Japanese assets held within its borders. The United States and its allies also instituted an oil embargo on Japan.

Since Japan was an island nation with little oil of its own, the embargo was a huge blow to its territorial ambitions. Without oil, Japan's formidable war machine would stop in its tracks.

In a desperate move, Japan's military leaders decided to punch America in the nose, stagger its naval might, then make a dash for the huge natural resources of the Dutch East Indies (modern-day Indonesia).

You know the rest of the story. America mobilized in a short time and on a great scale. It devoted its enormous mining and industrial base to the production of aircraft carriers, submarines, battleships, guns, bombers, tanks, and fighter planes. America launched more naval vessels in 1941 than Japan did throughout the entire war. In 1944, America built more planes than Japan did from 1939 to 1945.

America's incredible mobilization is one for the history books, but fighting over natural resources is nothing new or unique.

In 31 BC, the Romans invaded Egypt and made it a province of the empire. The biggest allure of the conquest was securing Egypt's vast wheat fields, which were one of the world's largest sources of food at the time.

Europe's famous "Age of Discovery"—when explorers like Columbus ventured to the far-off lands of North America, South America, Africa, and East Asia—was a brutal age of conquest. It was largely conducted to acquire spices and precious metals.

Control of resources was a major cause of the U.S. Civil War. The reason the South wanted to retain slavery was to support its vast cotton industry, which generated enormous export earnings.

Control of resources was a major reason Hitler attacked Russia during World War II, one of the pivotal events of the Great War. Hitler wanted Russia's vast grain and oil resources to supply his war machine. The German army was crushed in its attempt to take them. Shortly after that attack, Hitler committed suicide.

In 1990, Saddam Hussein ordered the invasion of Kuwait. The

move was a naked grab for Kuwait's vast oil wealth. The result was the humiliating eviction of Hussein's forces in the Persian Gulf War.

These conflicts (and hundreds of others) serve as bloody reminders; natural resources are the ultimate keys to economic and military power. He who has the resources makes the rules. To many, resources are worth killing over.

Even today's high-tech world of apps, tweets, and iTunes is built on a "low-tech" foundation of steel, concrete, copper, lumber, and aluminum.

Every day, our cars, trucks, and airplanes consume millions of barrels of fuel. Our lights turn on because we burn coal and natural gas.

Feeding, clothing, and housing billions of people consumes enormous amounts of agricultural products like corn, wheat, soybeans, rice, cotton, sugar, coffee, lumber, and livestock.

Mining, extracting, planting, harvesting, processing, refining, and transporting these vital resources is a multi-trillion-dollar business that affects every area of your life. You are only reading these words because someone cut down a tree, or more likely, burned coal or natural gas to produce the electricity that is powering your computer.

Mankind's constant demand for raw materials ensures that the natural resource sector will always be one of the world's biggest, most important industries.

It also ensures that *the ownership* of the world's resources will always be an incredible source of wealth and power. Those who own the resources will always enjoy incredible benefits and privilege.

Katusa Research will show you how to own the resources.

We're not going to recommend you pick up arms to acquire ownership of the world's most valuable resources. There are more peaceful means to own them these days.

But every special report… every issue… every urgent alert we publish is done so with a simple goal in mind: *To help you turn the world's limitless appetite for raw materials into your own personal source of wealth and power.*

We hope you'll your start your campaign with this book…

which we consider the ultimate "buyer's guide" for the world's most valuable assets.

The True Story of How I Turned a Teacher's Salary Into Millions

In 1812, a German geologist named Friedrich Mohs created a special list that ensured children would see his name for centuries.

You may remember Mohs' list from grade school science. Called the "Mohs scale of mineral hardness," it's the globally recognized measurement of the scratch resistance of minerals like quartz, graphite, copper, gold, and nickel.

Mohs gave the hardest mineral, diamond, a value of 10.

Talc, a very soft mineral, was given a value of 1.

The Mohs scale can be used to measure the hardness and durability of any material. With a value of 9 on the Mohs scale, a substance called "tungsten carbide" is one of the toughest, most durable substances known to man. It's much tougher than steel and almost as hard as diamond.

Tungsten carbide is a mixture of the elements tungsten and carbon. Because it is so hard, it was used in artillery shells in World War II.

The harder and tougher an artillery shell is, the more damage it does. Shells fortified with tungsten carbide could tear through heavy steel tank armor. The book *Tungsten: The Story of an Indispensable Metal* notes that German tank rounds with tungsten carbide cores "melted the famous British tanks" and was "the most awesome, most destructive armor-piercing missile yet invented by man."

Because tungsten was so useful on the battlefield, securing supplies of it was a vital part of military strategy in both World Wars.

Thankfully, peaceful demands dominated the tungsten market in the following years. Tungsten isn't just very hard. It also has the highest melting point of any metal. This made it an ideal material for the filament in light bulbs.

Demand for tungsten in light bulbs soared in the 20th century.

But as more efficient light bulbs came on the scene, tungsten's biggest role in the economy went back to something that required incredible durability: machine tools.

Machine tools are the unsung heroes of our modern economy. The world's factories produce billions of cars, toys, appliances, electronic devices, and machines every year. Doing so requires a staggering amount of cutting, grinding, and drilling. None of it would be possible without durable cutting tools and drill bits, like the kind made with tungsten carbide.

Some people go their whole lives without hearing about tungsten and its vital role in our economy.

But the metal is near and dear to my heart…and always will be.

In 2003, I performed an enormous amount of research on the tungsten market. I determined that due to soaring demand from China and the U.S. military, the tungsten market was about to experience a supply/demand crunch that would send tungsten prices much higher.

At the time, I was a Calculus teacher in my early 20s. I didn't have access to much cash. So I took out a $180,000 loan on my house and put the money into a small group of tungsten stocks.

Over the next two years, the price of tungsten soared more than 500%. One of my positions climbed from $0.25 per share to over $6 per share (a 2,300%+ return). When it was all said and done, I made over one million dollars on the investment.

Soon after that big win, I spotted another opportunity in the natural resource market. It was in uranium.

At the time, the uranium market was seriously depressed. Uranium is the fuel we use in nuclear power plants. After high-profile accidents at Three Mile Island (1979) and Chernobyl (1986), nobody wanted anything to do with nuclear power. Uranium spent 20 years in a bear market. Uranium mines closed, politicians wouldn't talk about it, and no companies explored for new sources.

After years of depressed prices, uranium was 're-discovered' as a cheap form of energy. The stigma of nuclear meltdown began to wear

off. Suddenly, uranium demand started to rise. But after decades of almost no investment in the sector, there was no new supply.

My research indicated uranium was due for a big rally…so I bought a group of tiny uranium stocks. I was right. After I took my position, uranium soared more than 600%. Many uranium stocks skyrocketed over 1,000%. I made over one million dollars on my uranium investments.

Because of the gains I made in tungsten—and then uranium—I quit teaching to focus full time on investing.

Since that time, I've made a lot of quadruple-digit and triple-digit percentage gains for myself and a small group of investors. These gains are listed below:

- **1,920% on VMS Ventures**
- **1,901% on Midas Gold**
- **1,650% on Lithium One**
- **1,480% on Primary Metals**
- **1,476% on Challenger Deep Capital**
- **1,450% on Ryan Gold**
- **1,200% on Laramide Resources**
- **903% on Rare Earth Metals**
- **862% on Energulf Resources**
- **781% on Ventana Gold**
- **730% on Sterling Resources**
- **660% on Africa Oil**
- **656% on Salares Lithium**
- **777% on Stream Oil and Gas**
- **620% on Caudrilla Resources**
- **620% on Aben Resources**
- **511% on Ventana Gold**
- **498% on North American Tungsten**
- **452% on Hathor Exploration**
- **420% on Reservoir Minerals**
- **400% on Dauntless Capital**

- **376% on Bayfield Ventures**
- **364% on Realm International**
- **322% on Shamaran Petroleum**
- **301% on Pan Orient Energy**
- **300% on Blackpearl Resources**
- **300% on Contact Exploration**
- **266% on Blackbird Energy**
- **185% on Newmarket Gold**
- **168% on Novus Energy**
- **167% on Reservoir Capital**
- **160% on JNR Resources**

I don't say any of this to brag. My hope is that by relating my background to you, you'll see just how profitable natural resource investing can be, and you'll be ready to benefit from this book. Knowing how to successfully invest in natural resources can provide a huge boost to your net worth.

Learning how to make big money in natural resources doesn't have to be complicated or time consuming. That's why I've kept this book relatively short. There are only a handful of "core" concepts you need to know.

In this book, I'll cover all of those concepts. I'll show you how to become a great resource investor in as little time as possible.

Of course, true mastery only comes after years of practicing a craft. But I believe this book will get you on the path to mastery faster than anything else out there.

It takes most investors many, many years to learn and use the most powerful secrets of the natural resource market. But by learning the concepts in this book, you will massively condense your learning period. You'll learn in just a few weeks what most people learn in years (or never at all).

We'll start with what is by far the most important concept in natural resource investment…

Chapter 1

THE BIGGEST KEY (BY FAR) TO MAKING HUGE MONEY IN RESOURCE STOCKS

Before we get into the biggest key (by far) to making huge money in resource stocks, let's quickly go over what natural resources are, why they are so valuable, and how to group them.

As I mentioned earlier, our high-tech world is built on a "low-tech" foundation of steel, concrete, copper, lumber, and aluminum.

Plus, every day we:

- Burn massive amounts of fuel in our cars, trucks, and airplanes.
- Generate electricity by burning coal and natural gas.
- Consume incredible amounts of agricultural commodities like corn and wheat.

The constant demand for vital resources means the sector offers tremendous opportunity for investors.

Natural resource investments include: gold mines, oil wells, copper mines, diamond mines, farmland, water rights, iron ore mines, gravel pits, plantations, timberland, natural gas fields, and uranium mines.

Essentially, it's investing in the building blocks of our world.

I break the natural resource sector down into five basic groups.

Group #1: Energy

The energy group consists of crude oil, natural gas, gasoline, coal, heating oil, uranium, solar energy, wind energy, hydroelectric energy, and geothermal energy.

This is the group that powers our factories, fuels our vehicles,

heats our homes, and makes our lights turn on.

Much of the world's energy comes from "fossil fuels." Fossil fuels are the remains of plants and animals that died a long time ago.

In addition to fuel, crude oil and natural gas are also used to produce chemicals, plastics, motor oil, and fertilizer.

Uranium is not a fossil fuel. When refined, it's a metal. When uranium is broken down, it produces large amounts of energy. This is why it's used in nuclear weapons and nuclear power plants.

For years, "clean" energy sources like solar energy and wind energy were much more expensive than "dirty" energy sources. But incredible technological advances in the past decade have made them much, much cheaper.

Group #2: Precious Metals

The precious metals group consists of gold, silver, platinum, and palladium.

Members of the precious metals group are pretty to look at. They are used in jewelry, industry, and healthcare.

Platinum and palladium play a huge role in the auto industry. They are used to make catalytic converters, which reduce air pollution from cars and trucks.

Precious metals have also served as currency for thousands of years. People have stockpiled gold as a source of wealth and power for a long time.

Group #3: Base Metals and Construction Aggregates

The base metals and construction aggregates group consists of copper, zinc, iron ore, aluminum, lead, tin, tungsten, nickel, gravel, sand, and many other minerals and metals.

If precious metals are pretty to look at, this group is generally not pretty to look at.

Members of this group are used to build roads, cars, appliances, bridges, skyscrapers, factories, power lines, ports, and railroads.

Group #4: Agriculture

This group consists of the things we grow, like corn, soybeans, wheat, rice, sugar, cotton, coffee, palm oil, orange juice, cocoa, tobacco, hogs, cattle, and timber.

Most agricultural products become food. However, some members of the agriculture group are used for other purposes, like tobacco, cotton, and lumber.

The agriculture group can be broken down into sub-groups, like "grains" (corn, soybeans, wheat), "softs" (orange juice, sugar, cocoa), and "meat" (cattle, hogs).

Group #5: The Grab Bag

More than a dozen natural resources don't fit neatly into one group…so I created a group called "The Grab Bag."

This includes diamonds (used in jewelry and cutting tools)…water (for drinking and agriculture)…lithium (used to make batteries)… fertilizer (which is mined and used in agriculture)…and rare earth elements (metallic elements used in industry).

Now that we've covered the basics, we're ready to talk about the biggest key (by far) to making huge money in natural resources…

Why Resources Go Through Big Booms and Busts

On June 18, 2014, the price of crude oil traded for $106 a barrel.

Just 19 months later, the price had plummeted 73% to $28 per barrel.

After reaching the $28 per barrel, oil then skyrocketed 88% in just four months.

What sort of asset regularly goes through massive price swings like that?

Not your house… and not government bonds.

Natural resources do.

More so than any other asset, natural resources go through extraordinary price booms and busts.

One year a resource like oil, silver, or copper will skyrocket 75% in value. The next year, it will fall 50% in value.

Because natural resources cycle through huge booms and busts, they are said to be "cyclical" assets.

Many things in our world move in cycles.

The weather moves in cycles.

The planets revolve around the Sun in cycles.

You also see cycles in the financial markets… especially in the natural resource sector.

Because resources cycle through booms and busts, they are said to be "cyclical" assets.

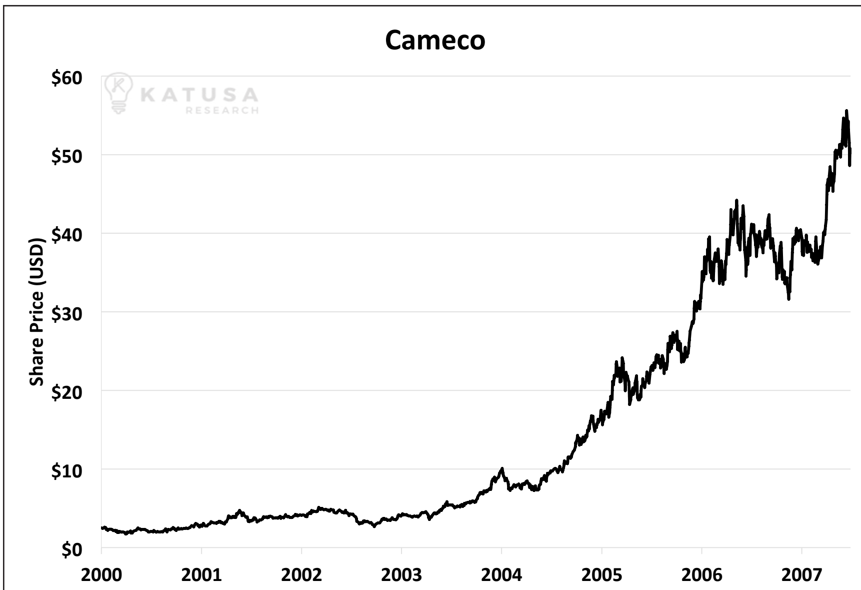
And understanding this secret can make you 10… 30… even 50 times your money in the natural resource sector.

The cyclicality of natural resources is in contrast to "non cyclical" business like those that sell toothpaste, toilet paper or food.

Demand for everyday things like these is relatively constant. No matter what is happening with the economy, you're probably going to brush your teeth, go to the bathroom, and eat lunch.

Natural resources, however, exhibit extreme cyclicality. **And their massive price moves produce massive opportunities to profit.**

For example, in the year 2000, shares in the world's largest uranium mining company, Cameco, traded for $1.78per share. Seven years later, Cameco shares increased in value by 3,100% and reached $55 per share.



Gains like that are possible in natural resources because of their unique supply/demand dynamics…

When the price of a natural resource soars, it encourages lots of new production. Natural resource producers always want to cash in on high prices.

For example, if corn soars in price, farmers will plant a lot more corn.

If oil soars in price, oil companies will pump a lot more oil.

This natural response to high prices leads to an increase in the supply of the natural resource.

The soaring price also encourages consumers of that resource to find cheaper replacements.

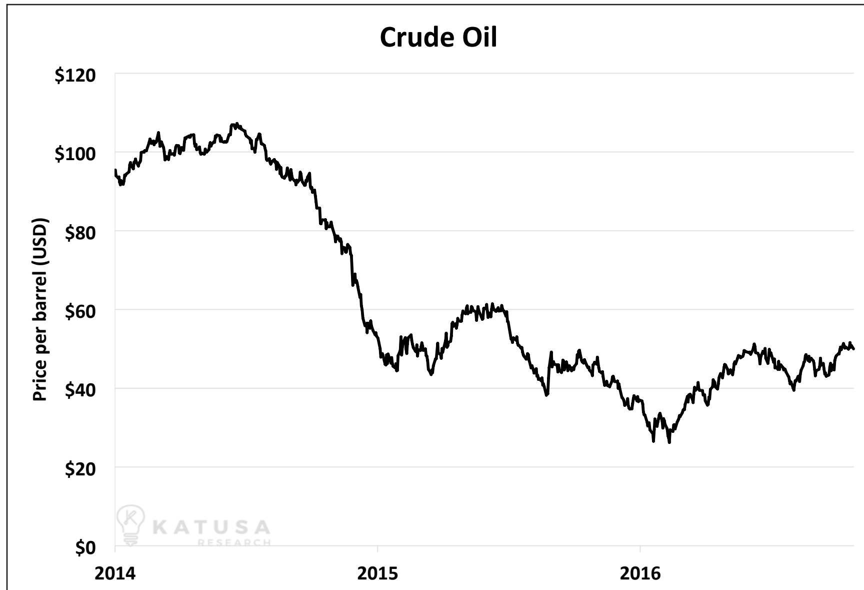
For example, if gasoline were to triple in price, you're more likely to take the bus or cut down on car trips. If the price of coffee soars, you might drink tea instead.

This natural response to high prices leads to a decrease in demand for the natural resource.

When the supply of a natural resource increases and demand for it decreases, you get much lower prices. You get a bust. In other words,

a resource bull market eventually sows the seeds of its own destruction.

When a boom ends, it's not unusual to see the value of a natural resource plummet in a short time. Remember, the price of oil plummeted 73% in less than two years.



A natural resource boom is the mirror image.

When the price of a natural resource is very low, it discourages production.

After all, why ramp up production if the price is in the toilet?

The farmers who planted as much corn as they could when prices were sky high will plant a lot less corn if prices are low.

The oil companies that produced as much oil as they could when prices were high will produce less if prices are low.

Low prices also encourage consumption. For example, you're probably going to drive more if the price of gasoline plummets.

When the supply of a natural resource shrinks and demand climbs, you get a boom. In other words, *a resource bear market eventually sows the seeds of its own destruction.*

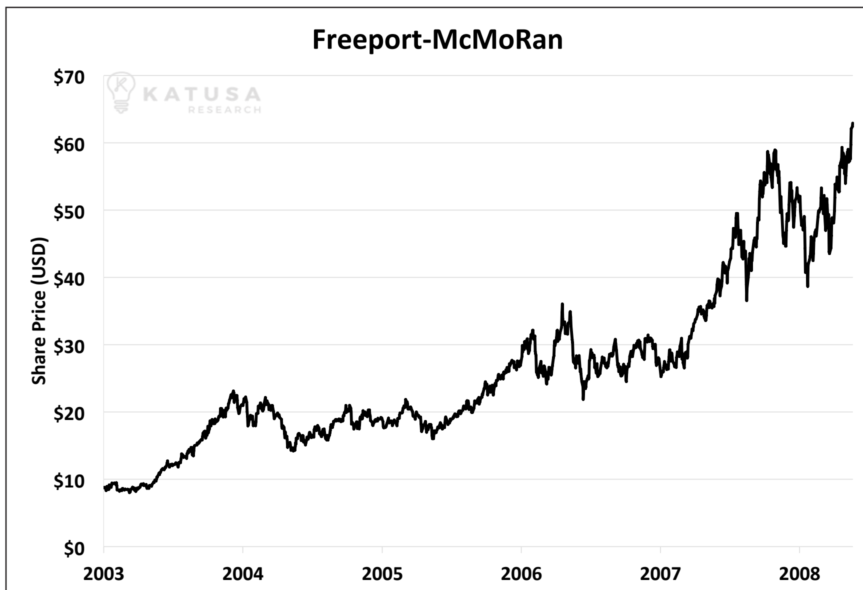
Recent history in the copper market provides a great example of this.

During the 1990s, the price of copper was very low. This lead to a decrease in production. Meanwhile, demand for the cheap resource soared.

This "increase demand/decrease supply" sandwich caused the price of copper to soar from $0.75 per pound in 2003 to nearly $4 per pound in 2008 (a 400%+ gain).

When a natural resource moves in price, the share prices of natural resource producers move in an amplified way.

During the big 2003 – 2008 copper rally, the large copper miner Freeport-McMoRan skyrocketed from $8 per share to nearly $62 per share during this time (a 675% increase).



By now, you surely see what we need to do as resource investors.

We need to invest in individual resource markets when prices are very cheap and depressed, yet poised to climb.

This set up led to the 675% gain in Freeport McMoRan… and the 3,100% return in Cameco… and many of my own gains I mentioned at the start of this book.

To make huge gains in natural resources, we have to buy assets after bear markets… when they are very cheap and depressed.

To get an idea of how much cyclicality can move prices in individual resource firms, we need to look at the uranium market from the 1990s to 2008.

As I mentioned, uranium is the fuel we use in nuclear power plants. After World War II, the world harnessed nuclear energy to produce electric power.

During the 50s, 60s, and 70s, nuclear energy became a significant source of the world's electric power. But after the infamous incidents at Three Mile Island (1979) and Chernobyl (1986), the world turned against nuclear power.

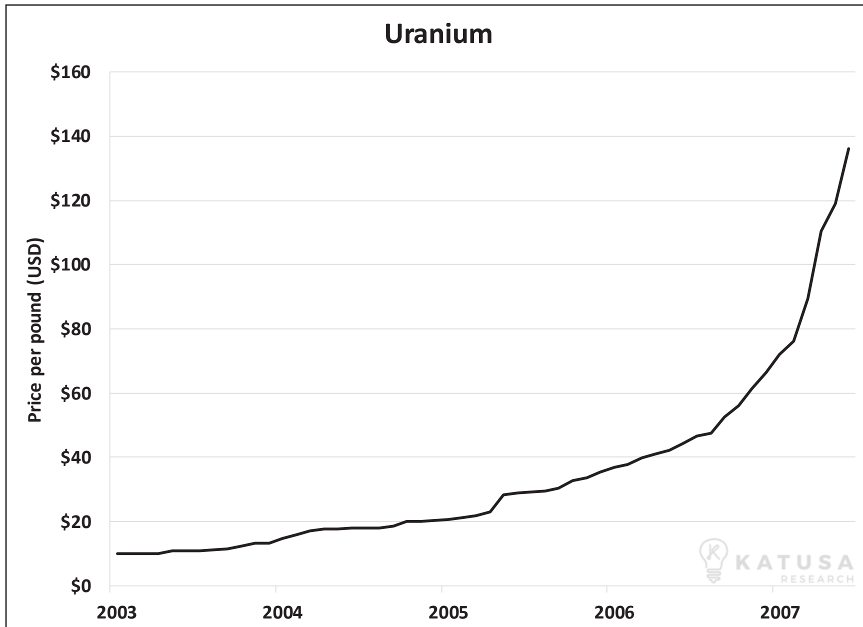
As a result, uranium spent decades in a bear market. Uranium mines closed. Governments pulled their support for nuclear power. Companies stopped exploring for new sources. But after years of depressed prices, the world warmed back up to uranium. Fears of nuclear meltdown began to recede

Soon after, uranium demand started to rise. But after years of very little investment in the industry, there was no new supply. It was a set of conditions that produced a huge bull market.

From 2003 to 2004, the spot price of uranium doubled from $10 per pound to $20 per pound. Then, it doubled again… and again.

Eventually, the "decreased supply/increased demand" sandwich sent the price of uranium to $135 per pound… a 1,250% gain in just five years.

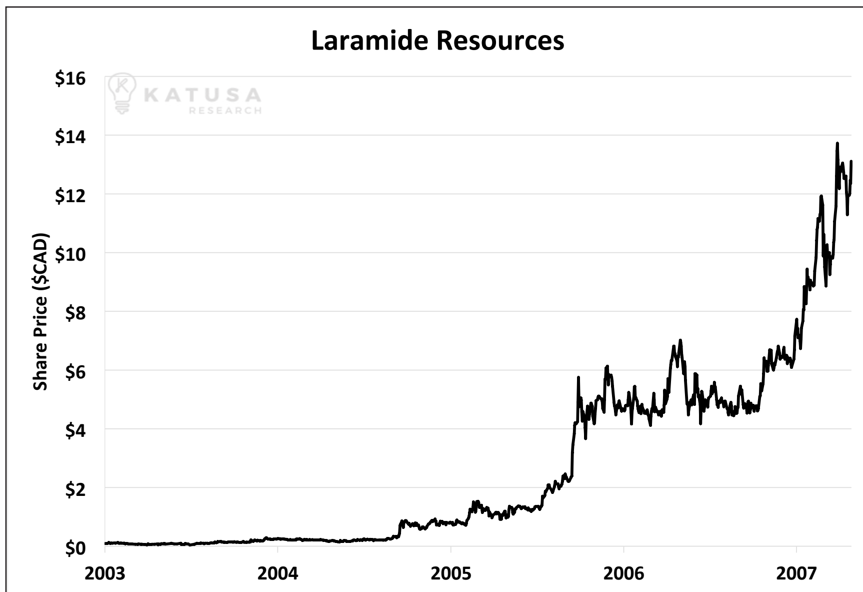
You can see the extraordinary run in the chart below:



Producers of a commodity are highly leveraged to moves in the price of a commodity itself. A producer's share price can rise many multiples of the percentage increase in the price of a commodity.

The chart below shows the power of this leverage. It shows the percentage gain generated by uranium company Laramide Resources during the boom.

Laramide's shares were so beaten down and depressed during the previous bear market that they took off like a rocket when things improved. Laramide shares soared from 10 cents in early 2003 to over $13 a share by 2007 (an astronomical return of 13,600%).



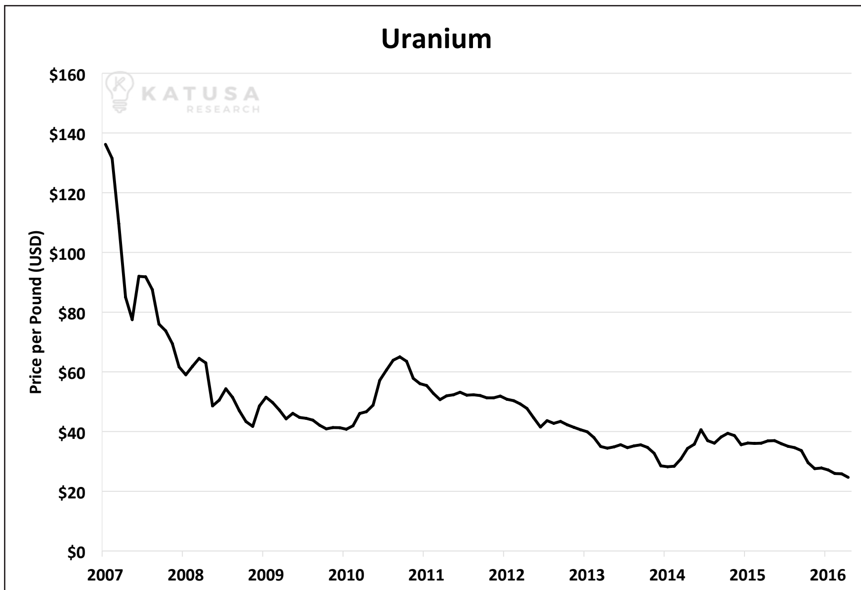
To be clear, there was little chance that anyone could have held on that long and cashed out at the very top. But this example demonstrates a powerful thing. Resource stocks produce much higher returns in bull markets than the underlying commodities do.

As you know, a resource bull market eventually sows the seeds of its own destruction. In response to the soaring uranium price, hundreds of new uranium exploration firms were created from 2003 – 2006.

Huge amounts of money were invested in the sector. Speculation ran wild. At investment conferences, anyone who spoke about uranium was mobbed with questions. It turned into a speculative frenzy. You already know what happened next…

The uranium boom turned into a bust. From its peak of $136 in 2007, the price of uranium fell 83% in just eight years. You can see the bust in the chart below.

Uranium investors got a reminder of how the leverage that resource stocks have based on their underlying commodity can work both ways.



Many of the uranium stocks that soared hundreds, even thousands of percent during the boom lost more than 90% of their value during the bust. Many went bankrupt. With this simple story, you can see the meaning of "cyclicality", and why it offers us a huge opportunity in the market.

Up 1,000%+

Down 90%+

Shares of "regular stocks" simply don't move like that.

And that's why you can make so much money in resource stocks.

By taking early positions when commodities are cheap and set to boom… and avoiding or betting against commodities when they are expensive and set to bust, we can make giant returns in the resource market.

What Huge Opportunity Looks Like: How to Turn $10,000 into $250,000

I've explained natural resource investing to thousands of people over the years.

During that time, I've found one of the biggest challenges to explaining how the sector works is that people simply don't believe how big the gains can be in a resource boom.

The returns in resource stocks are so much larger than returns in other sectors–and happen so much faster than in other sectors—that people simply can't believe they are possible.

This initial disbelief makes them reluctant to even take the subject seriously.

I don't blame investors for their disbelief. I'd probably think the same thing if I was new to the sector. Huge resource stock gains can happen so fast that they can sound absurd.

I believe the best way to show what can happen in natural resource stocks is to simply show you a handful of real-life examples. You might find it hard to believe that these stories happened. But I assure you, they are 100% real.

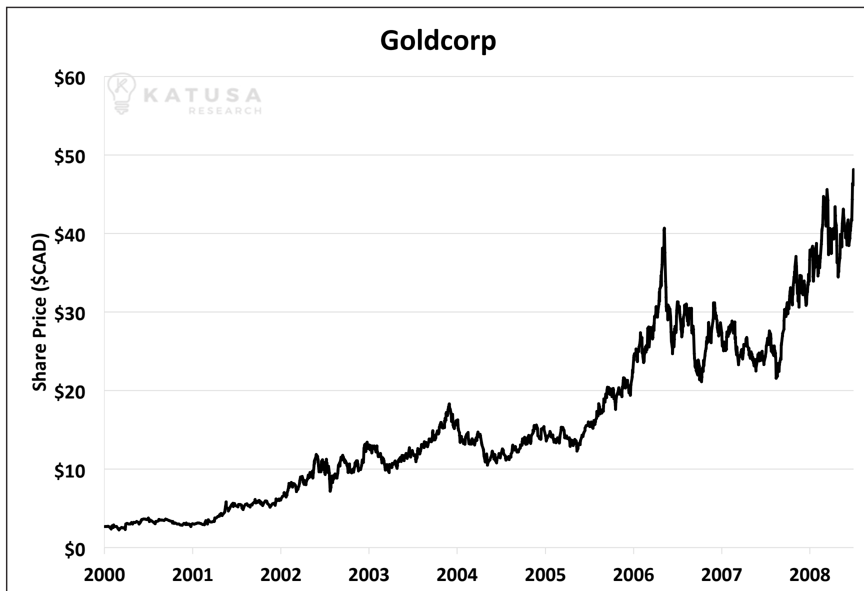
Real-Life Example #1:

As I mentioned, resource markets move in "boom/bust" phases. Booms typically follow prolonged periods of weak prices. During bear markets, demand increases (because prices are cheap) but supply decreases (because prices are cheap).

During the 1990s, the price of gold was mired in a deep bear market. The economy was booming during that time, so investors favored stocks and bonds over gold.

Eventually, the gold bear market ended and a gold bull market began. Gold ran from $255 per ounce in 2001 to $1,000 per ounce in 2008.

One of the world's leading gold producers, Goldcorp, rallied from $2.50 to $50 during that time, a 1,900% gain.

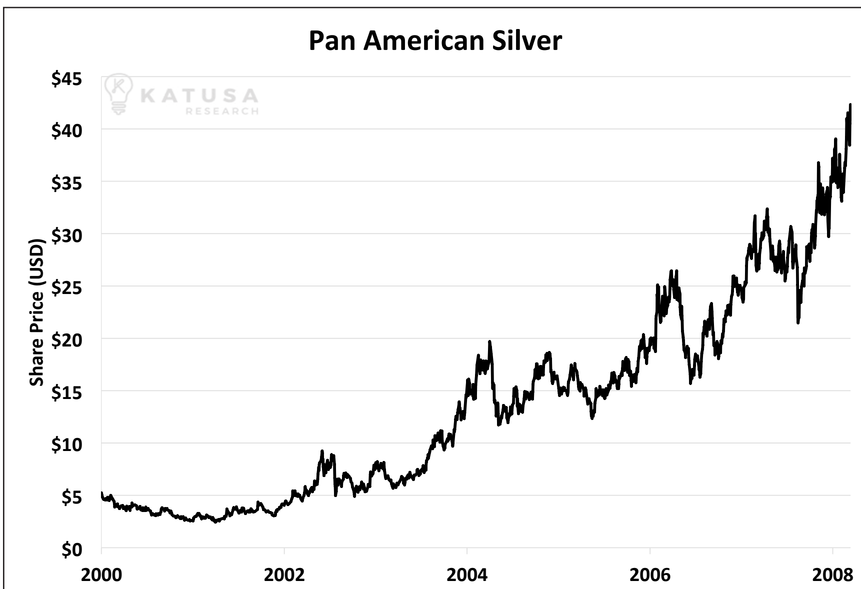


Real-Life Example #2:

The same bear market that affected gold affected its precious metal cousin, silver.

At the same time gold took off in the early 2000s, so did silver. Silver climbed from $4.07 per ounce in 2001 to $20 per ounce in 2008.

During that time, one of the world's leading silver producers, Pan American Silver, climbed from $2.56 per share to $42.50 per share, a 1,560% gain.

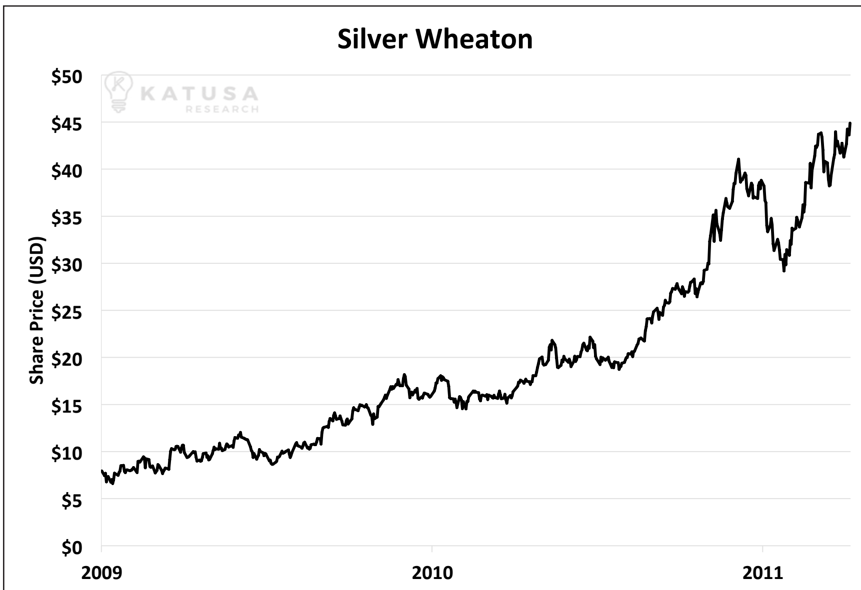


Real-Life Example #3:

Another example of resource stocks generating big gains comes from another one of the world's top silver companies, Silver Wheaton.

During the 2008 financial crisis, shares of mining companies—along with almost every other sector—were crushed.

After the crisis was over, shares of beaten-down mining companies shot higher. Silver Wheaton was one of the leaders of this rally. Shares soared from their 2008 low around $2.60 to $45 (a 1,600%+ gain) by early 2011.



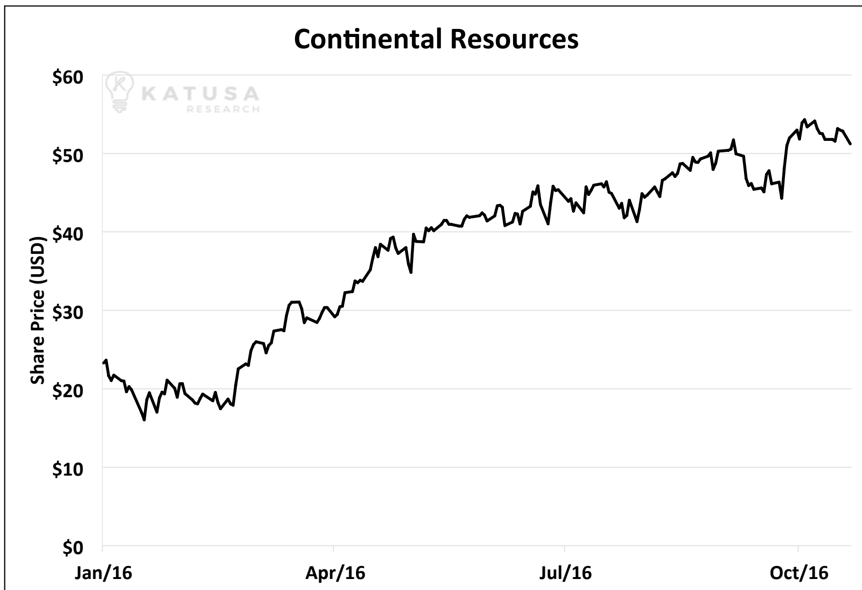
Real-Life Example #4:

Natural resource stocks can also pack big price moves into just months.

Earlier in this chapter, I mentioned that the price of oil fell 73% from mid-2014 to early 2016. It then rebounded more than 50% off its lows.

As the price of crude oil rebounded, so did oil stocks.

For example, one of the top U.S. oil producers, Continental Resources, rallied from $16 per share to $51 per share (a 223% gain) in just six months.



Summing Up

Resource markets are extremely cyclical.

Their enormous booms and busts make it tough for most people to make money in them.

But extreme resource cyclicality offers huge opportunity to those of us who learn how to harness it. The many examples I've provided should give you an idea of what's possible.

Cyclicality is the single most important concept you need to know in order to make big gains in the resource sector. The second concept you must understand is how resource companies have a kind of "investment magic" that makes them skyrocket in value.

It's an incredible force called "leverage."

CHAPTER 2

THE SECRET OF MAKING 20-FOLD RETURNS: HOW LEVERAGE WORKS IN NATURAL RESOURCE STOCKS

From 2000 to early 2006, a supply/demand crunch caused the price of gold to rise 105%.

But shares of gold miner Goldcorp climbed a lot more during that time… almost 1,000%. That kind of gain turns a $10,000 investment into nearly $110,000.

Goldcorp's big gain was the result of something called "leverage."

You probably remember leverage from high school science. A lever allows you to get a very powerful result by applying only a modest amount of force—think of how a crowbar works.

In the financial markets, leverage occurs when the price movement of one asset results in the amplified movement of another financial asset. Knowing how to use leverage properly can make you a fortune in the natural resource market.

Leverage is easy to understand when you think of it in terms of a house…

Let's say you put $50,000 down to buy a $250,000 house.

A few years after you buy the house, its value has increased by 20% to $300,000.

Although the increase from $250,000 to $300,000 is just 20%, you're actually up 100% ($50,000) on the original $50,000 down payment.

Because of leverage, a 20% gain in the value of the house translated into a 100% gain on your capital.

Leverage in natural resource stocks works in a similar way…

Let's say you own a profitable oil company in Texas.

You produce 10 million barrels of oil per year.

When you add up the costs of things like labor, equipment, and insurance, it costs you $35 to produce one barrel of oil.

Since oil is selling for $40 per barrel, you make $5 per barrel in profit.

Let's say the demand for oil increases over the next year. It sends the price from $40 per barrel to $56 per barrel, a 40% increase.

Because of leverage, your profits don't increase "just" 40%.

Since your production costs are $35 per barrel, the oil price increase to $56 per barrel means your profit is now $21 per barrel.

That's a 320% increase in profit.

What if oil were to climb from $40 per barrel all the way to $68 per barrel? That's a 70% price increase.

This would give you a profit of $33 per barrel, which is a 560% increase in profit.

Of course, this increase in profitability makes your business much more valuable. If it was publicly traded, it would be one of the stock market's biggest winners of the year.

This is how leverage works in natural resources.

A modest increase in the price of a natural resource can cause a huge increase in a natural resource company's profits and overall value.

When you combine that leverage with the resource market's cyclicality, you get a market that can send stocks 1,000% higher in less than a year.

How "Extreme Leverage" Works

In the Texas oil business example, your production cost was $35 per barrel, and the price of oil was $40 per barrel. You were making $5 per barrel.

But what if your production costs were much higher?

What if your production costs were $45 per barrel?

If oil is selling for just $40 a barrel, your field isn't worth much.

After all, you'd lose $5 per barrel just by turning the pumps on.

When a resource project like an oil field or a gold mine can't produce at a profit, its value plummets. After all, it's a money loser. It's like owning a rental property where the rents don't cover the repair and maintenance costs.

In some cases, these kinds of resource deposits are virtually given away.

This is where a unique concept comes into play…one that can make you over 50 times your money.

This concept is "extreme leverage."

An oil field that costs you $45 per barrel to produce isn't worth much when oil is at $40 per barrel.

But what if oil were to climb to $68 per barrel?

This is where extreme leverage comes in.

Your profits go from zero to $21 per barrel…and the value of your field skyrockets. It can go from virtually worthless to worth hundreds of millions of dollars.

When the price of a natural resource increases so much that money-losing deposits become money-making deposits, the share price gains in resource producers can be extraordinary. Stocks can climb more than 50-fold in value.

For example, in the early 2000s, the brilliant mining entrepreneur Ross Beaty believed the price of copper was set for a big increase. The copper market had been in a bear market for a long time, so production capacity was limited. Meanwhile, copper demand from growing emerging markets like China was increasing.

Instead of buying copper assets that were profitable at low copper prices, Ross and the shareholders in his company Lumina Copper bought copper assets that would only be profitable if copper prices increased. Because the assets weren't valuable at the copper price at the time, Ross bought billions of pounds of copper in the ground for peanuts.

Ross was right to expect higher copper prices. From 2003 to 2007, copper prices increased 400%. Projects that were money losers

at low prices became money machines at higher prices. As the value of copper projects soared, Ross sold to willing bidders. From the company's inception to the sale of its final asset, early Lumina investors made 68 times their money.

Another "extreme leverage" winner is Silver Standard. By the late 1990s, silver had been in a bear market for over 15 years. Silver deposits were practically being given away. A tiny company named Silver Standard began buying millions of ounces of silver in the ground at fire sale prices.

Eventually, supply constraints and growing demand turned the silver bear market turned into a silver bull market. The price of silver soared from $5 an ounce to more than $45 an ounce. The value of Silver Standard's projects exploded higher. Early investors enjoyed a more than 40-fold increase in the value of their shares.

Companies that buy uneconomic resource deposits, sit on them, and wait for prices to climb are often called "hoarders" or "land banks." As you can see, they offer incredible upside.

Most people know about leverage because of the housing market. Don't forget that leverage works both up and down.

But you can put it to work for you and make 5 times, 10 times, or as we've seen, over 50 times your money in the natural resource market.

Chapter 3

HOW TO PICK THE RIGHT TOOL FOR THE RIGHT JOB

Now that you know that "extreme cyclicality" and "extreme leverage" can make you big money in resources, you're ready to learn about the "toolbox."

Just like a carpenter needs a toolbox to get his job done, you, the resource investor, need a toolbox as well.

If you don't know the right tool for the right job, you're sure to struggle in the natural resource sector.

There are many investment vehicles for investing in natural resources.

Each vehicle has its pros and cons...its particular risks and rewards.

One investment vehicle might be a good idea for some investors, but a bad idea for other investors.

Below, I'll provide a brief overview of each investment vehicle. I'll show when it's appropriate to use them…and who should use them.

The Physical

If you're bullish on a resource and you have the means, you can simply buy the resource itself. You can buy bars of gold. You can buy bars of silver. If you have lots of money, you can even buy crude oil and store it on tanker ships.

The problem is that most resources don't lend themselves to low-cost storage.

Generally, buying the physical resource only works with metals like gold, silver, and platinum. They have great "value density." A handful of one-ounce gold coins can add up to more than $20,000. You can buy 100 ounces of gold or silver and store it in a safe.

But that's not an option with commodities like sugar, corn, natu-

ral gas, copper, uranium, cattle, lumber, and natural gas.

Owning some physical gold, silver, or platinum is a good idea. It's a form of timeless, tangible wealth that's easy to store and transport. But with most other commodities, there are better vehicles.

The Majors

In most resource sectors, there are a handful of giant producers that dominate the industry. They own the biggest projects. They employ the most people. They have the biggest bank accounts. They have the best access to capital.

For example, a small group of large companies mine most of the world's gold. These include Barrick, Goldcorp, and Newmont Mining. A small group of large companies mine most of the world's iron ore. These include BHP Billiton, Rio Tinto, and Vale.

Most majors have been around a long time and have relatively stable businesses. They own a diversified mix of assets around the world. Their market caps range from $5 billion to over $300 billion. Many pay dividends. For example, oil major ExxonMobil has paid dividends for more than 30 consecutive years.

All of that means majors are less volatile than smaller companies. They're more appropriate for conservative investors.

Majors still carry risk. A big decline in the price of their product(s) will cause their profits and share prices to decline.

Exchange-Traded Funds, Group 1

Exchange-traded funds (ETFs) are investment funds that trade like stocks. You can buy and sell them all day long.

When it comes to resource investing, exchange-traded funds (ETFs) come in two different groups. We'll talk about the first group right here.

The first group is made up of funds that own diversified baskets of resource-focused businesses. For example, the iShares U.S. Energy

Sector Fund (IYE) owns a basket of oil producers and explorers, and ancillary firms.

In the gold sector, a popular fund is the Market Vectors Gold Miners Fund (GDX). This fund owns a basket of different gold stocks—some large, some small.

Most of these kinds of funds own shares of at least 20 different businesses. Some own shares in at least 50 different businesses.

When you own a diversified basket of stocks, you get the safety of diversification. But you also give up much of your upside. There aren't more than 5 or 10 truly high-quality businesses in any given sector.

When you own more than 20 businesses in a sector, you're sure to own some average companies and some very low-quality companies.

With all this in mind, these ETFs can be appropriate for conservative investors.

Exchange-Traded Funds, Group 2

The second group of resource ETFs are the kind that attempt to move in lockstep with the price of an actual resource. There are funds that rise and fall with gold, silver, copper, oil, natural gas, grains, and coffee.

These funds buy the resources outright and/or trade futures contracts. A futures contract is an agreement between a buyer and seller of any commodity. The agreement specifies what will be sold, for how much, and when it will be delivered.

Generally, I'm not a fan of these funds.

Their architecture often makes them "bleed" value every month. Also, they don't always accurately track the moves in their underlying resources…while charging high fees!

Mutual Funds

A mutual fund is a pool of investor capital managed by a professional investor. The investment manager buys and sells stocks and

tries to "beat the market."

Mutual funds can be appropriate for some people, but be careful when selecting them. Many mutual funds don't perform very well, yet charge very high fees.

Before you buy a mutual fund, check its track record. Make sure it has a solid long-term performance record. Also, check its fees. Ask the fund manager how its fees stack up against the rest of the industry. If the manager's fees are among the highest in the industry, you're probably better off somewhere else. In many cases, the manager will own very little of the fund himself. That's a negative.

Personally, I never buy mutual funds. But no discussion of investment vehicles would be complete without mentioning them. A mutual fund with a good long-term track record, modest fees, and a manager who owns a lot of the fund can be a good choice for investors who don't want to actively invest themselves.

Picks and Shovels

One of my favorite ways to invest in a resource boom is through "picks and shovels." These are the businesses that provide vital equipment and services needed to find and extract resources.

One good "picks and shovels" success story comes from the 1850s. Back then, a German immigrant moved from New York to San Francisco to get wealthy during the California Gold Rush. Instead of going the "all-or-nothing" route and looking for a big gold strike, this guy sold all kinds of basic goods to the miners. He eventually started making a new kind of durable pant. The pants became a big hit...and the immigrant became wealthy. His name was Levi Strauss.

Strauss didn't risk everything on trying to find a big strike. He just sold the equipment everyone needed to find the next big strike.

Owning "picks and shovels" has become a popular idea for good reason. It can be a very profitable—yet conservative—way to profit from a resource bull market.

When it comes to modern-day picks and shovels, there is a wide

variety of businesses you can buy and sell.

There are oil service companies like Schlumberger and Halliburton. They sell equipment and services to large oil companies. There's also Bristow Group, which sells helicopter services to offshore drillers. There's Kennametal, which sells durable cutting teeth and blades to mining and energy firms. There's John Deere, which sells farming equipment.

The list goes on and on and on. There's an incredible variety of picks and shovels firms. When their industry booms, they boom along with it. But keep in mind, they suffer during busts just like their clients do.

Royalty Firms

Royalty firms are a unique way to invest in natural resources.

Most royalty companies are in the gold and silver business. They don't mine any metal themselves. Instead, they finance preproduction or refinance expansion production projects. When a mine they finance starts producing, the royalty company gets a cut of the revenue or the metal at a significant discount to the spot price.

Royalty companies are more like investment banks than miners. They can be a diversified and leveraged way to profit during a resource boom.

Top royalty firm Royal Gold, for example, climbed 23-fold from mid-2001 to 2011. The silver royalty firm Silver Wheaton climbed 14-fold from its credit-crisis low in 2008 to its 2011 high.

If you buy quality royalty firms when their industries are cheap and out of favor, you can make huge gains. But keep in mind that they struggle during bear markets…just like any other business in the sector.

Mid-Tier Producers

Mid-tier producers aren't tiny early-stage businesses…but they aren't majors. They are somewhere in the middle.

Mid-tier producers are still large companies, with market caps

ranging from $1 billion to $20 billion (depending on the industry).

Mid-tier producers typically have a narrower asset base than majors. For example, a gold major might own eight large mines around the world, while a mid-tier producer might own two or three large mines.

Mid-tier producers typically have more room for growth than majors. They are often acquisition targets.

But because mid-tier producers have less asset diversification, they carry more risk than large diversified companies. If a mid-tier producer has a big problem with one of its projects, it will cause a big swing in its profitability and a big swing in its share price.

Making money in mid-tier firms means doing a lot of homework on their relatively small asset bases.

Exploration Firms

Exploration firms are the "bloodhounds" of the resource business. They raise money and explore for resource deposits. You often find them in jungles, deserts, and frozen wastelands.

Exploration firms have market caps that are typically in the $5 million-$1 billion range, which is tiny compared to a major like ExxonMobil (ExxonMobil is 1,000 times larger than most explorers).

The most common exploration business model is to find an area that might have mineral or petroleum deposits, raise money from investors, then start drilling holes in the ground. If the explorer finds a significant deposit, it will sell the deposit to a larger company.

Early investors can make 1,000%...5,000%...even 10,000% when exploration firms find large deposits. But the odds are greatly stacked against success. Less than 1% of all explorers will find a significant deposit. The vast majority burn through their cash and find nothing.

However, there is a small group of people who are habitually successful when it comes to finding large resource deposits. If you invest with proven, honest operators, you can make large returns in the exploration sector.

Just keep in mind that out of a random selection of 100 explorers, less than three are even worth considering as an investment.

Development Firms with Great Assets

"Development firms with great assets" is a unique group of companies.

These companies aren't tiny exploration firms with no assets. But they aren't producing a resource. Development firms own one or more resource projects that aren't in production yet.

Investors have to be very careful with development firms. They have great potential…but they usually have major factors working against them. They can face government opposition. They can be in remote areas of the world. They can require billions in capital to develop.

For example, a company can own a giant gold and copper deposit, but if it's in a remote location, turning the deposit into a mine could require billions of dollars of investment.

Having said that, I buy these companies from time to time. If you buy the right development firm at the right time, the gains can go well over 1,000%.

Options On Resource Stocks

Options are financial derivatives. This means their prices are derived from prices in other markets. Options give people the right to buy or sell an asset at predetermined prices in the future.

Options are among the most misunderstood financial vehicles in the world. Most people see them as incredibly risky. And used in the way most people use them, they are risky.

But what most people don't know is that options can be used to reduce investment risk. They can be used to make very safe, very conservative gains in natural resources. The risk level in options is all in how you use them.

Commodity Futures

Commodity futures are financial vehicles that allow people to buy and sell natural resources at predetermined prices in the future.

For example, you can enter into a futures contract that allows you to buy crude oil for $50 per barrel one year from now. You can enter into a futures contract that allows you to sell gold for $1,300 an ounce two years from now. There's an incredible variety of futures contracts out there.

A futures market is a place where producers of a natural resource can get a guaranteed price for their production. A farmer might use the futures market to "lock in" a price for corn that he'll harvest a year from now. This is called "hedging" production.

End users are also common participants in the futures market. A company that uses a lot of crude oil in its production process might use the futures market to lock in a price for crude oil that it will be buying a year from now.

Like stock options, the futures market can be used for taking incredible risks. It can also be used to structure very conservative positions. It's not a place for the average investor. But no discussion of natural resource investment vehicles would be complete without mentioning them.

Junior Resource Stocks

My favorite way to invest in natural resources is through small cap or "junior" resource stocks. They have incredible potential for price appreciation.

This is because in the stock market, "size matters."

When professional investors group public companies according to their size, they use three broad categories: Large caps, Mid-caps, and Small caps.

"Cap" is short for "market capitalization." This is the term used to describe the value of a public company.

The group names are straightforward. Large caps are large. Small caps are small. Mid-caps are in between.

For example, the well-known oil company ExxonMobil is a large cap. In 2016, its market cap was around $350 billion. Or take Apple. It's also a large cap. In 2016, its market cap was around $600 billion.

Mid-caps are smaller than large caps. Mid-caps are typically said to have market caps between $1 billion and $20 billion.

The difference between a large cap and a mid-cap can be significant. A mid-cap stock with a market cap of $3 billion can be less than 1% of the size of giant ExxonMobil.

Small caps are stocks under $1 billion in market cap. In the resource market, small caps are called "juniors." And while the difference between a mid-cap and a large cap can be significant, the difference between a junior and a large cap can be **incredible**.

Consider a junior with a market value of $200 million.

This is just 10% of a mid-cap with a value of $2 billon…**which means it is just one-tenth of one percent of a $200 billion large cap**.

Large caps like ExxonMobil can be good investments. They can be solid, established companies that pay steady dividends. They can be good for retirement accounts and conservative investors.

But if you're looking for stocks with the potential to climb 100%...500%...even 1,000%, you should be in the junior resource sector.

Juniors have much greater potential to register huge gains in a short time than larger stocks.

The reason is simple…

It's much easier for a $200 million junior to grow 10-fold than it is for a mature $200 billion giant to grow 10-fold.

This does not mean the $200 billion giant is a poor investment, it just means it's not an ideal vehicle for someone looking to make giant returns in a relatively short time.

Again, keep in mind that a $200 million junior is just one-tenth of one percent of a $200 billion large cap. The junior has plenty of room to get much bigger. The large cap's super-growth days are behind it.

That's why most of my resource investments are in the junior resource sector. It's important to note that juniors can be exploration firms, royalty firms, or firms that have current production. The label "junior" only concerns their size.

In addition to their potential for massive growth, juniors have some other things I like to see as an investor...

- **Juniors are much more likely to have managers with large ownership stakes in the company.**

The managers of juniors are more likely to have "skin in the game." This ensures the management's interests are aligned with ours.

This is in contrast to large company managers, who rarely have a meaningful portion of their wealth in the company's stock.

- **Juniors are more likely to be the targets of takeovers by large companies.**

This can result in our companies being purchased at large premiums.

Buyouts aren't always in our best interest (sometimes our holdings will be worth more than the purchase price), but they generally are.

- **Juniors have a lot less analyst coverage than large caps.**

A $200 billion giant could have over 30 different professional analysts covering the stock. They will analyze the company inside and out. Their research will be read by the world's largest investment managers.

It's not uncommon for a junior to have ZERO professional analysts covering it. The management at some juniors can go a whole year without fielding a call from a professional analyst.

To me this is a great, great thing. The lack of widely disseminated information about juniors allows us to get a big "information edge" in this market. It means we can find pricing inefficiencies and uncovered opportunities. The market isn't swarming with professionals

looking under every rock.

You can think of it like this: would you rather take your child on an Easter egg hunt with 100 other kids or with 5 other kids? Your child will have a lot more fun and find a lot more eggs competing against just 5 other kids.

Summing Up

As I mentioned, there are many different investment vehicles to choose from in the resource sector.

Some are relatively conservative, like majors.

Some are relatively risky, like explorers.

Some are suitable for conservative investors. Some are suitable only for skilled professionals who are comfortable with volatility and risk.

Like a carpenter's toolbox, there's a good time and place for each of the tools inside it.

CHAPTER 4

AN INVESTMENT SECRET YOU MIGHT NOT WANT TO SHARE WITH FRIENDS

It's not politically correct… And it's not something I talk about with my family around the holidays…

But I root for financial disasters.

I root for stock crashes, government debt defaults, and currency crashes.

I know it's not popular to say you root for chaos. I don't wish ill on anyone. But the simple fact is that financial disasters produce the world's greatest investment opportunities.

If you're interested in making huge returns on your capital, never let a good crisis go to waste.

Most financial advisors will tell you that making 10% in the stock market is a good year. But if you play your cards right during a crisis, you can make 100%…even 1,000% in a year. I know because I've done it many times. I once made 1,850% on an investment thanks to a crisis.

Below, I explain why crisis and chaos can lead to triple- and quadruple-digit returns… and how you can make huge, politically incorrect profits as a result of them.

One of your ultimate goals as an investor is to buy assets for less than they are really worth. This goes for real estate, stocks, commodities, bonds, and every other investment. Put another way, our goal as investors is to buy bargains.

However, buying real bargains is difficult. You rarely see them.

This is because the financial market correctly prices most assets most of the time. Most of the time, stocks, bonds, and commodities trade for approximately what they are worth.

The key phrase in that last sentence is "most of the time."

There are billions of dollars to be made in the difference between "most" of the time and "all" of the time.

Financial academics will tell you the market correctly prices assets all of the time. They'll tell you people always make rational financial decisions.

But that's hogwash. Academics don't invest for a living. I do. And I can tell you that people tend to do crazy, emotional things…especially when it comes to money and investments. I can tell you that governments love to meddle in the financial markets. Most government bureaucrats don't know anything about money and investments. (That's why they are bureaucrats.)

Markets have a natural ebb and flow. They rise and fall as economies change. Throw in the actions of emotional people who do crazy things AND the meddling of financially ignorant governments, and you get a variety of things.

Most importantly for making huge investment returns, you get markets that go through booms, bubbles, panics, and crashes.

For example…

- From early 1998 to March 2000, the Nasdaq stock index climbed 219%, an incredible gain in just over two years. It then plummeted 78% over the next two and a half years.
- From their 2000 low to their 2008 high, gold mining stocks, as measured by the Gold Bugs index, climbed 1,300%. After hitting a peak in 2008, gold stocks crashed as much as 70%.
- On June 18, 2014, the price of crude oil was $106 a barrel. Just nine months later, the price had declined by 59% to hit $43 per barrel. It eventually fell as much as 73% off its 2014 high.
- In 2008, the benchmark S&P 500 index fell 53%. Harmed by mortgage market losses, banking stocks fell more than 90%.

These examples are just from the past 20 years.

You also have the market crash that accompanied the start of the

Great Depression. Stocks lost over 80% of their value.

Or take the 1987 stock market crash. Stocks lost 22.6% of their value in a single day.

Here's why these moves are so important for making huge returns…

A market crash produces huge opportunities because it introduces incredible amounts of emotion into the market.

Remember, markets are rational most of the time. They price most assets correctly most of the time. But when emotion levels go off the charts—like they do in a crash—**emotion completely overwhelms reason**.

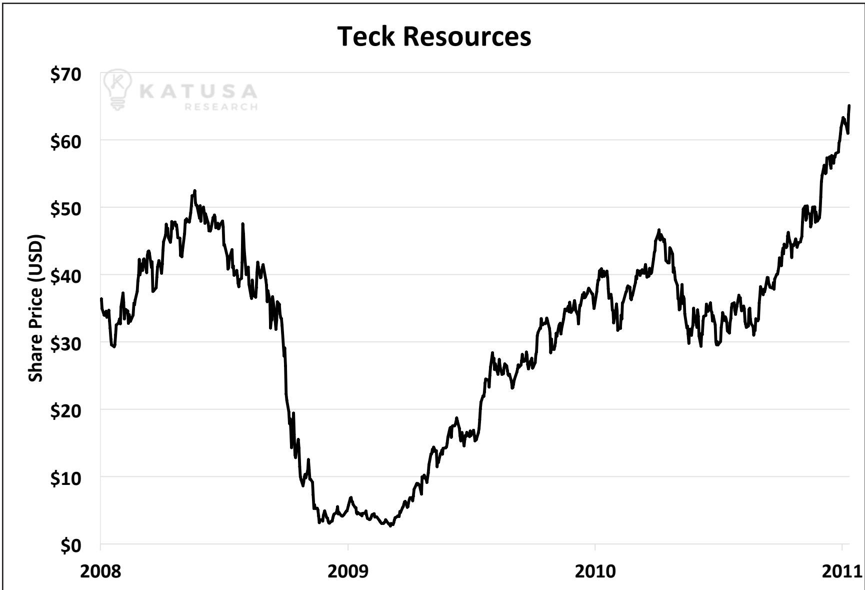
During a crash, terrified investors sell first and ask questions later. They sell assets with no regard for their underlying values or ability to produce cash flow.

During crashes, the price of assets becomes "unhinged" from the value of assets.

This, of course, means you can buy bargains during a crash. If you can keep a level head while others are losing theirs, you can buy at fire sale prices.

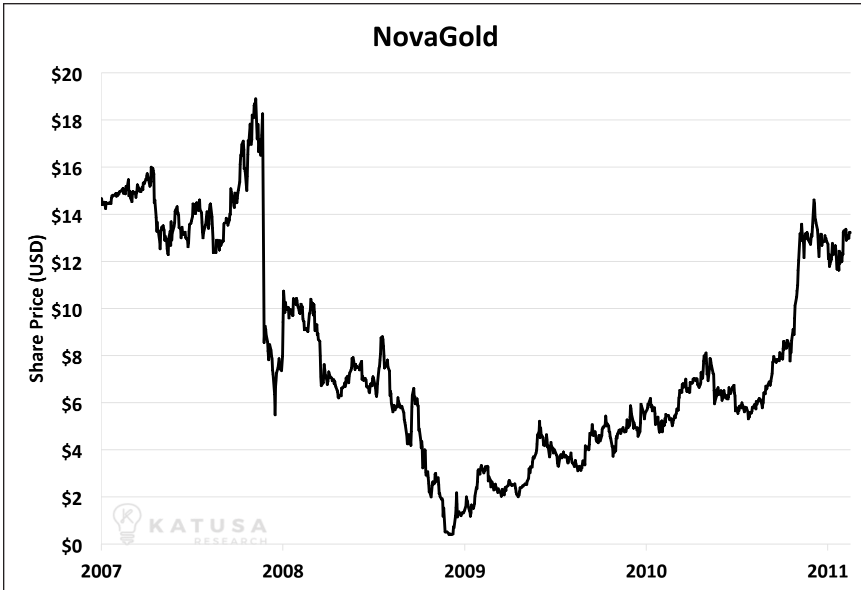
For example…

During the 2008-2009 financial crisis, the share price of Canada's largest diversified miner, Teck Resources, plummeted from $50 per share to under $4. It then soared back to $50 per share and beyond within 12 months (a gain of more than 1,100%).



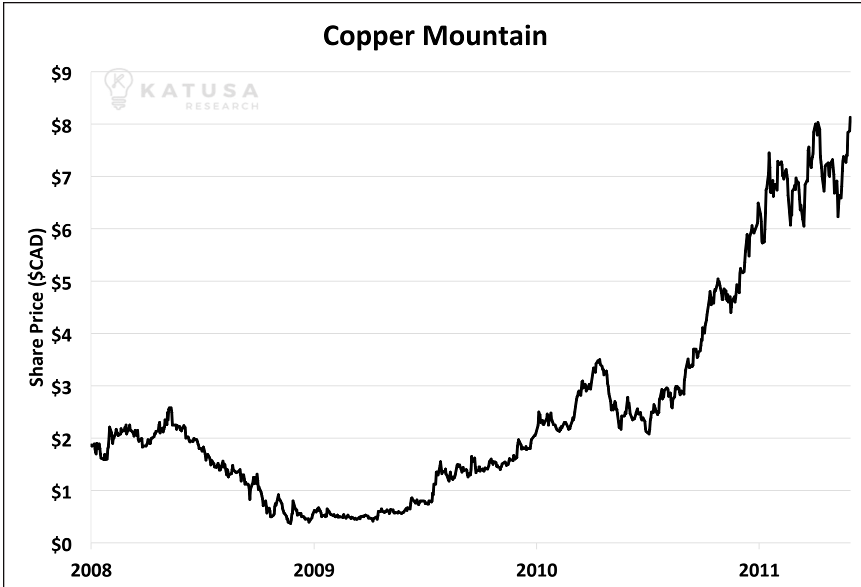
Another great example is the well-known gold company NovaGold.

At one point in 2007, NovaGold traded for $16 per share. It fell to under $0.50 a share during the financial crisis. As the crisis subsided, NovaGold soared past $14 per share (more than a 28-fold gain).



My personal favorite example of crisis creating opportunity is Copper Mountain Mining. It's one of the largest copper producers in Canada.

The company had a successful IPO in May 2007, but fell from over $2 a share to below $0.40 per share during the financial crisis. By 2011, the crisis was over, and the stock climbed over $7 per share. I personally made over 1,800% on that move.



These examples show that when you buy assets at depressed prices, they can return hundreds—even thousands—of percent when the market returns to normal. Depressed assets can shoot higher like coiled springs.

Remember, when an asset sells for a 90% discount to its intrinsic value, it has to climb 900% in order to get back to normal.

When most investors hear about a crash in a market, their instinct is to sell or completely avoid that market. Great investors learn to develop an instinct to buy into those kinds of markets. They learn to run towards a crisis. They know it could present the rare opportunity to buy valuable assets at extreme bargain prices.

There's a good reason legendary billionaire investor Warren Buffett says one of the secrets of success is to "be greedy when others are fearful."

There's a good reason a quote attributed to the legendary financier Nathaniel Rothschild is "buy when there is blood in the streets."

We're wise to follow the advice of these two legends.

It's not politically correct to say you profit from financial disasters.

It's not going to get you invited over for tea.

But I don't make the rules. I just play by them. And those are the rules.

A crash introduces enormous levels of emotion in the market, which leads to indiscriminate selling, which "decouples" prices from values and creates investment bargains.

The sooner you start seeing financial disasters as the breeding ground of huge opportunity, the sooner you'll make huge returns on your money. And you'll never let a good crisis go to waste.

CHAPTER 5

WHEN BAD MEANS GOOD: HOW TO SPOT A RESOURCE MARKET POISED TO SKYROCKET

Buy low, sell high. Buy when there is blood in the streets. Be greedy when others are fearful.

If you study the careers of investment legends, you'll hear this advice over and over. You'll quickly learn that buying stocks, real estate, and natural resources during times of crisis, panic, and fear is how you make enormous returns.

"Buy when there is blood in the streets" has become a cliché because it works.

But how exactly can you pinpoint a natural resource sector in crisis? How can you tell when a market is offering you the opportunity to make 5 or 10 times your money?

After all, if you can buy an asset trading for 90% below its intrinsic value, it has to increase 10-fold in value to get back to normal. I know it sounds extreme, but it happens a lot in natural resources.

Spotting a real bottom in a natural resource market is as much an art as it is a science. Below, I will show you the five most important "keys" to knowing when a resource market has the potential to generate enormous gains for you.

KEY #1: The natural resource is trading for below the industry's average production cost.

Production cost is how much it costs a company to produce a resource. Since deposits and companies vary widely, production costs vary as well.

But when a resource industry as a whole cannot sell its product for more than its average production cost, it has no choice but to curtail production. This will lead to supply constraints in the future…which will lead to higher prices.

As I mentioned, during the 1990s, uranium was in a terrible bear market. It was reeling from nuclear power accidents at Chernobyl and Three Mile Island.

Near the end of that bear market, miners were producing uranium at a cost of $18 per pound and selling it for just $9 per pound. In response to those miserable conditions, the industry curtailed production…which sowed the seeds of a historic bull market.

From 2002 to 2006, uranium prices climbed from $10 per pound to $130 per pound. As you've seen, some uranium producers soared more than 5,000%.

KEY #2: Prices are down 75%+ from their high.

There's nothing magical about the "75%" figure.

We could say "down 70%" or "down 80%."

The key is that you want a market that has plummeted from its highs. The highs could be from 20 years ago…or from seven years ago.

A market down massively from its highs is a market that has curtailed production. It is a market investors have abandoned. It has been through a lot of suffering. Assets are probably getting very cheap.

KEY #3: Mentioning you're thinking about buying the asset induces a "gag" reflex with mom and pop investors.

Mom and pop investors typically "chase performance." They buy popular assets that have enjoyed large price increases. These assets are always the most expensive.

By the time amateur investors hear about a bull market, the big,

easy money has been made. Remember these investors were heavily long tech stocks in 1999, just before the crash. They were heavily long real estate in 2006, just before the crash.

Now, consider what the average investor thought of gold in 2001. He wanted nothing do with it. Gold had been in a bear market for 20 years. The average investor still wanted to hear about tech stocks.

Meanwhile gold was set to enter a massive bull market that took it more than 500% higher and gold stocks more than 1,000% higher.

When amateur investors can't stand the thought of buying an asset, that's when you get ready to buy with both hands.

KEY #4: High profile bankruptcies, investment fund closures, and suicides.

It's unfortunate and morbid to talk about, but three things that often mark a bottom in a resource industry are high-profile corporate bankruptcies, investment fund closures, and executives taking their own lives.

When resource producers start declaring bankruptcy, it's a sign production is being shut down. When resource investment funds close up, it's a sign nobody can stand the thought of investing in the sector any more. When industry executives take their own lives as a result of these failures, it's a sign sentiment has become terrible.

For better or worse, all that despair is an indicator the market has made its lows and is offering incredible bargains.

KEY #5: Absolutely horrible news about the industry comes out, yet prices don't fall… or even climb.

When absolutely horrible news comes out regarding an industry, yet prices hold like a rock–or even climb–it's a positive sign. It's a sign all the negative factors are "priced in" to the market. It's a sign we've reached the point of maximum pessimism…and there is nobody left to sell.

For example, let's say the oil market has crashed. Prices are down 40% in the span of a year.

If a story about surging global oil production were to hit the front pages, you'd expect people to react by selling oil and oil stocks. But if oil and oil stocks were to climb 4% after the story hits the front pages, it's a sign the worst is over.

Summing up...

Investing in super cheap, beaten-up resource markets can make you giant capital gains. Remember, an asset trading 90% off its intrinsic value has to increase 10-fold in value to get back to normal.

By keeping these five keys in mind, you'll know exactly how to spot these moneymaking situations.

CHAPTER 6

THE ULTIMATE WAY TO USE OTHER PEOPLE'S MONEY

Years ago, a smart guy told me that if I want to explain financial concepts to people, I should use house analogies.

A house is a tangible asset. You can see it and touch it. And most people can identify with buying or selling a house… or at least paying rent.

I'm glad this is the case, because a simple house story can teach you a strategy that can make you hundreds of thousands—even millions—of dollars in the natural resource business.

It's by far one of the most important investment strategies I know. If you can understand it, you'll be ahead of 99% of your fellow investors.

Let's go house hunting…

Let's say you're looking to buy a house. The area you're looking in has just been through a bust, which most areas suffered in 2008. There are few buyers and lots of sellers. Real estate agents are losing their jobs left and right. The market's mood is terrible.

You tour a nice four-bedroom house with an asking price of $300,000. The house is big. It's new, high-quality construction. It's in a great neighborhood. You find out from a contractor that it would take $380,000 to build the same house. It's a bargain.

But it gets even better…

On your tour, you notice the owner spent a fortune on the house. The kitchen has beautiful granite countertops that cost at least $20,000. All of the kitchen appliances are new and top-of-the-line; their total cost is $22,000.

The first floor has beautiful new hardwood flooring. You learn it cost $42,000. The driveway is expensive stone. Price tag: $30,000. Between the floors, the driveway, the kitchen, and the bathrooms, the

guy easily dumped more than $120,000 into what you've seen so far.

Then there is the top-of-the-line home entertainment system ($31,000) and the huge back patio ($55,000). And since the owner is broke and desperate to sell and move on, he wants to leave all the furniture in the house ($89,000).

The guy dumped more than $300,000 into this house, nearly as much as it would cost just to build it—even without the bells and whistles.

I've just described something most home buyers would love to encounter. We all like to buy assets loaded with as much value as possible for as little money as possible.

Whether we like to admit it or not, we'd all jump at the chance to benefit from someone's big mistake and buy "sunk" assets at fire sale prices. In this example, some guy got in way over his head and you're looking at an incredible deal.

This story is important because it illustrates one of the most powerful wealth-building concepts in all of resource investing… one that can make you 20 times your money on a single investment.

Early in this book, I described how natural resource markets are some of the most "cyclical" markets on Earth. One year, the value of a resource like oil will skyrocket 75%. The next year, it will fall 50%.

In other words, resources tend to go through huge booms and huge busts. During a bust, resource firms and resource investment funds act just like that desperate guy in our house example. They become despondent, strapped for cash, and willing to sell projects they spent fortunes on developing for huge discounts.

Mining and energy are very expensive businesses. Simply finding and delineating a resource in the ground can cost over $300 million. Building the roads, bridges, powerlines, and processing facilities necessary to mine a deposit can cost more than $1 billion.

In 2014, I visited a site where a $90 million oil well was being drilled. The road leading to the drill site cost $14 million. That gives you an idea of how much one little thing can cost on a resource project.

In a resource boom, there is plenty of cash flow and plenty of

new investor capital to spend on all those things. Mining and energy executives get carried away and start believing the good times will last forever.

For example, in 2003, the copper industry spent less than $5 billion on new projects (called "capital expenditure" or "capex" spending). In the years that followed, the price of copper climbed more than 300%.

Rising copper prices and free-flowing investor capital led the copper industry to increase its capex to $25 billion by 2011… and then to $33.7 billion in 2012. Soon after, the copper price collapsed and made a lot of those investments "uneconomic," which is a polite term for "losers."

For example, Barrick Gold, the world's largest gold producer, purchased Equinox Minerals' Lumwana copper deposit for $7.65 billion near the 2011 peak in copper prices. In 2013, Barrick took a $4.2 billion writedown on the acquisition. A writedown is when a company reduces the value of an asset on its books. Barrick's $4.2 loss on Lumwana was a whopper of a writedown. This kind of mistake is a common occurrence near market tops.

The gold industry spent massive amounts of money on capex from 2005 to 2011. A huge bust followed. The oil and gas industry spent massive amounts of money on capex 2010 to 2014. A huge bust followed that as well.

All the money spent on drilling projects, geologic studies, roads, bridges, powerlines, processing facilities, wages, lawyers, permitting, and insurance was "sunk" into the ground… much like our desperate home seller's hardwood floor. During a bust, desperate resource companies (who are often going out of business) will dump their assets for discount prices.

This is when the deep value resource investor swoops in and starts sifting through the capital expenditure wreckage. Or, as some investors put it, you start "dancing on graves."

For example, the Pebble project in Alaska is the world's largest undeveloped gold and copper deposit. It's a monster. But it took a lot

of money for the mining industry to figure that out. From 2000 to 2015, mining companies like Anglo American and Northern Dynasty spent more than $800 million drilling into Pebble and defining the huge resource.

However, a resource bear market and environmental issues crushed the market value of Northern Dynasty, the company that owns Pebble. By 2016, you could buy the company at a market valuation of around $100 million, a huge discount to the value of other people's money that had been sunk into the project.

It costs a fortune to discover, define, and develop large resource deposits. In some cases, more than $800 million. During boom times, people are more than happy to spend that much on a deposit. During bust times, when sentiment is terrible, they are happy to sell the same deposit for a 75%+ discount. That's when you need to be ready to buy.

Remember, an asset trading for 90% off its intrinsic value has to rise 10-fold in order to get back to normal. That's why the gains after a bust can be huge.

The next time a resource sector is down big from its high and industry sentiment is terrible, start looking around for projects that have enormous amounts of capital sunk into them.

Look for deposits firms have spent hundreds of millions of dollars studying, drilling, and permitting. You'll often find you can buy all their work and knowledge for pennies on the dollar. It's the ultimate way to use other people's money (OPM).

By applying this deep value approach to resource investing, you'll be able to acquire valuable assets that are already far along the development curve… while letting those who came before you pick up the tab.

Chapter 7

WHY THE "HOME RUN" MINDSET IS ESSENTIAL FOR WINNING IN THE RESOURCE MARKET

I don't live in Silicon Valley. And I'm not technology expert.

But I do think it's impressive how "venture capitalists" like Marc Andreessen and Peter Thiel have made billions by funding small tech startups. They are among the richest investors on the planet. After all, an early investor in a hit like Facebook or Uber can turn a $10,000 investment into $10 million

Making huge money in tech startups actually has a lot in common with making huge money in natural resources.

Probably the most important commonality is that master tech investors and master resource investors alike don't place a focus on how often they are right. It's simply not much of a concern for them.

This runs counter to how most amateur investors think.

Amateurs place a ton of focus on "winning percentage." They get entirely too worked up when they are wrong and lose money on an investment. They have a misplaced desire to be "right" as often as possible. And most find the idea of a 50% "win rate" to be completely unacceptable.

If you're in this camp, I have news for you: You're placing a lot of focus on something that doesn't matter much.

Two simple stories can show you the power of this idea…

First, I'll tell you the story of Babe Ruth… and how he became a legend.

Babe Ruth is considered one of the greatest baseball players of all time. He hit 714 home runs, a league record at the time. Over his

career, he collected 2,873 base hits. He was a seven-time World Series champion. He made baseball's "All Century" team.

However, Babe Ruth was also known as the "King of Strikeouts."

Ruth led the league in strikeouts five times. He was the all-time leader in strikeouts when he retired.

In other words, Ruth succeeded a lot… but he also failed a lot.

Because of his aggressive style, Ruth would often either hit a home run or strike out. His home runs could win games instantly. The opposing team could spend hours gradually building up a lead… only to watch a Ruth home run destroy it in seconds.

In other words, when Ruth achieved success at the plate, the success was often very meaningful.

Ruth was okay with a few failures because he knew his successes would more than make up for them. This approach helped Ruth become one of the greatest baseball players in history.

To achieve success as a resource investor, you need to adopt the Babe Ruth mindset…

You must make your wins large and meaningful…and your losses small and insignificant.

Folks like Babe Ruth have used the "home run" mindset to achieve success for centuries.

Professional gamblers have used it to clean out casinos. Top traders have used it to generate 100%+ annual returns. And the venture capitalists I mentioned earlier have used it to make billions in startups.

Venture capitalists invest in dozens of different deals. The majority of them fail. Less than 20% turn out to be big winners.

But venture capital winners are so massive that the venture capitalists' overall returns are huge.

You see, top performers fail as often as anyone. But top performers ensure their failures are small and limited… while their successes are large and meaningful.

Why is the "home run" mindset important to your resource investment success?

Because it allows you to maximize your wins while minimizing your losses.

You're not going to achieve success on 100% of your resource investments. That's fine.

You probably won't achieve success 75% of the time, and that's fine too.

If you adopt a "home run" mindset, you can make huge profits even if you're right the same amount as someone betting heads on a coin flip (50%).

That's the story of Babe Ruth.

Here's story number two…

Over the past 60 years, George Soros has made more than $20 billion by trading the financial markets.

Twenty billion is a huge number. If someone makes $2 million in the market, they are considered very successful. George has made more than 10,000 times that. Whatever you think about Soros' political views, there's no denying the guy knows how to make money.

Soros is a master of knowing how government actions will markets. He's skilled at finding industries poised to boom.

But there's a simple mindset that's more responsible for Soros' success than either of those things….

Soros once summed up the mindset like this:

"It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong."

Now… think back to Babe Ruth's strategy. Babe didn't focus on how often he succeeded.

He focused on making his successes large and meaningful… and making sure his mistakes were small and insignificant.

Like Ruth, Soros knows that his winning percentage is relatively insignificant.

It's much, much more important to make a lot of money when you're right… and lose a little money when you're wrong.

When you make sure to win a lot when you're right, and only

lose a little when you are wrong, you can be right just half the time… and still make huge profits in the resource market.

The Power of the Big Home Run

To get an idea of how powerful this strategy can be, consider a hypothetical investment scenario…

On January 1st, you buy ten different stocks. You hold them for one year.

The return of these ten stocks after the one-year holding period months is listed below.

Holding	1 Year Return
Stock 1	20%
Stock 2	-80%
Stock 3	-76%
Stock 4	32%
Stock 5	-55%
Stock 6	235%
Stock 7	80%
Stock 8	-99%
Stock 9	-40%
Stock 10	383%

You bought ten different stocks. Five went up. Five went down.

That's just a 50% success rate.

But because you hit a few big winners (#6, 235% and #10, 383%), you made an excellent average return of 40%.

And you made this excellent return while being right just 50% of the time.

This is the power of making your winners large and meaningful while keeping your losers small and insignificant.

Don't get me wrong. I like to be right as much as anyone. I try to cut my downside as much as possible on my investments. But the simple fact is that resource investments carry risk. I know I'm not going to be right 100% of the time.

Resource investments frequently produce triple- and quadruple-digit returns. Participating in these massive winners is a major component of our success. Focusing on winning percentage is not.

CHAPTER 8

HOW MANY STOCKS SHOULD YOU OWN?

One of the most common questions investors ask me concerns the number of stocks an investor should own.

Is 10 the right number of stocks to own?

Is 20 the right number?

Is it 50…or 100?

The number of stocks you own has a huge effect on your performance. In this chapter, I'll walk you through my thinking on this critical topic. I hope it helps you make great decisions with your own portfolio.

First of all, you should know that I have some unconventional beliefs about the number of stocks an investor should own.

These beliefs work for me. They may not work for you. Your financial advisor might say these beliefs are risky, but I happen to know they are incredibly profitable. And you should at least know my line of thinking.

You should also know that many of the world's best investors (including the legend Warren Buffett) agree with me.

My belief—and the incredible power behind it—can be summed up with the word "concentration."

How the Pareto Principle Can Make You Wealthy

You've probably heard about "diversifying" your stock portfolio. This is the idea that an investor should own dozens or even hundreds of different stocks.

Spreading your investment dollars around reduces the risk that troubles at a single company could wreck your portfolio. For example, you don't want to lose half your money in a meltdown like Enron.

For people who don't want to work on their investing, diversity is a good idea. Rather than trying to select individual companies, they can own hundreds of stocks…through a mutual fund or an ETF.

Owning hundreds of stocks is simple and easy. And it will earn you average stock market returns.

In fact, buying an index fund is what most investors should do. It's a good "set it and forget it" option for people who don't want to work on their investments.

But if you are willing to do extra work in order to earn extra returns, should you own 200 or 300 stocks?

I say "NO WAY."

I don't know about you, but I believe in focusing my efforts in every area of life. I don't chase dozens of business opportunities every month. I focus on a small group of really, really big opportunities. I don't try to keep up with dozens of friends. I focus on the small group of people I'm closest with.

Ever hear of the Pareto Principle?

It says that 80% of your results come from 20% of your efforts. For that reason, it's also called the "80/20" rule. For example, your business may generate 80% of its sales from 20% of your clients.

Long-time readers have heard me say that 20% of resource operators create 80% of the value in the sector.

I've taken Pareto's principle a step further. Years ago, I coined the 64/4 rule—I took the 80/20 rule and subjected it to Pareto's principle again. The result states that 4% of entrepreneurs create 64% of the wealth (80% of 80% is 64%, 20% of 20% is 4%, hence the 64/4 rule).

Productivity experts agree that people should concentrate their efforts on the "magic" 20% that really produces results.

I believe it should be the same with investments.

Why chase dozens of mediocre ideas?

Why not concentrate and focus on the really big ideas?

If I can own 8 – 15 exceptional opportunities that I know inside and out, why would I water down my results and own 100 or 200 companies?

There simply are not 100 or 200 truly exceptional opportunities in the market at any given time. The market doesn't work like that.

You might see things like I do. If so, you're in the same boat as the world's best investor, Warren Buffett. Rather than buy hundreds of stocks, Buffett has always focused his time and efforts on a small group of businesses he can truly understand and track. Buffett has said that diversification, "makes little sense if you know what you are doing."

Buffett's focus on a small group of great businesses he can understand and monitor has helped him become the most successful investor in the world.

If you chase hundreds of opportunities, it's inevitable that you'll lose focus on the biggest and best opportunities. You'll dilute your efforts. You'll achieve mediocrity.

And consider…

How Many Resource Firms Can One Guy Really Understand?

It takes a huge amount of time and work to really understand and monitor a resource business.

It requires balance sheet analysis, geological analysis, meetings, phone calls, and site visits to really understand a resource business.

Even the most dedicated, hardworking business analysts can't do all of the necessary work to really understand and monitor more than 25 companies at a time.

If an analyst says he covers something like 40 or 60 companies, some of his analysis is sure to be superficial.

Yet some analysts cover more than 100 stocks. I've met individual investors that own over 100 stocks. And some mutual fund managers own more than 300 stocks!

You can do what you like, but I'd much rather own a small, concentrated group of companies that I can genuinely understand and track. I want to concentrate on the biggest and best opportunities,

ignore the rest, and generate big returns.

This thinking is in contrast to the thinking at many large investment funds and many investment newsletters, but it has worked wonders for me.

I recommend that you never put more than 10% of the funds in your speculative resource portfolio into any one stock. This will keep your exposure to a single company to an acceptable minimum. A portfolio of 8 – 15 high-quality stocks will provide you with a good mix of diversification and potential upside.

Through site visits, financial analysis, industry analysis, and staying in touch with my network, I make sure I know more about the companies we own than anyone else.

I also view every public company we own as if it were a private company we own. At Katusa Research, we do not view stocks as flickering lights on a screen. We view our holdings for what they are: Ownership claims on real assets and real businesses.

And by owning a small, concentrated group of high-quality assets and businesses, we make large, "undiluted" returns.

CHAPTER 9

KATUSA'S KEYS: MY METHOD FOR INVESTING IN THE WORLD'S BEST RESOURCE COMPANIES

Investing in the resource sector has huge potential rewards. But I won't sugarcoat it… it also has huge risks.

Many resource firms simply aren't worth the paper their shares are printed on. They might have incompetent managers, low-quality (or non-existent) assets, questionable accounting, or all three. They aren't worth your time or your money.

However, some resource firms are well worth your money. They are great investments that multiply your money.

I use a simple 6-factor analytical process to find these winners. I call these factors "Katusa's Keys." They are:

1. People
2. Projects
3. Financial Structure
4. Promotion
5. Catalysts
6. Price

The first key is <u>by far</u> the most important, so let's start with it.

KEY #1: PEOPLE

Let's say you have a major business decision.

It's come up because you have a large chunk of money set aside. You'd like to see it grow into a much bigger chunk of money… one

that can ensure your family's financial well being.

You know owning good businesses is a cornerstone of building wealth, so you're going to buy an ownership stake in a local business. It's a beer brewing company.

You have two potential operating partners in this business…

One is Brad, a 35-year-old guy you've spoken with at several cocktail parties. He's a fun single guy known for being flashy and loud. He wears a big Rolex and drives a brand new Porsche (neither are paid for).

Brad is ambitious, but his business track record is spotty. Several of your most trusted business associates don't trust him.

Your other potential partner is Charles, a 53-year-old guy who has been doing business in town for over 30 years. He has three kids in school. He drives an old pickup truck. He has a fantastic reputation. Everyone who has worked or invested with Charles raves about his integrity and his knowledge of the beer business. He's serially successful.

With these facts in mind, who would you rather partner with?

If you're like me, you pick the guy with modest spending habits, a great reputation, and a long history of success. All things being equal, most reasonable people would rather invest with a proven winner.

You might think this is an exercise with no purpose. But it actually has enormous implications on your wealth.

You and I face this kind of decision every time we consider investing our hard-earned money in a public company. Making the right choice can mean the difference between making multiples on an investment or losing money.

And while making the right choice in the scenario above was simple and obvious, logic often flies out the window when you buy stocks.

My goal with this chapter is to help you always make the right choice.

Have You Made This Mistake Before?

There are over 10,000 publicly traded companies on the North American stock exchanges. There are over 3,000 mutual funds.

Throw in hundreds of TV "talking heads" who have differing opinions on everything, and it's easy for an individual investor to get overwhelmed. It's easy to forget basic common sense that will help you safely and surely build wealth.

For example, after reading about the choice between Brad and Charles, you probably thought, "Of course I'd rather partner with the proven winner!" But if you're like most of us, you've made the mistake of investing with unproven losers in the past.

Remember, when you buy shares of a public company, you are buying shares of a real business. You become an owner of that business. You are buying a claim on the company's assets and future cash flows. The managers of that business become your partners.

As I mentioned…if you're like most people (myself included), you've partnered with some people who were either unproven, dishonest, incompetent, or all three. It's easy to get caught up in a good story and invest without making sure you have solid partners.

But again, when you buy a stock, you become a business owner. That's why you should treat your money with respect and only partner with proven winners. Success breeds success. Winners tend to keep on winning.

That's why for me, the single most important factor when analyzing a business is the people running it. It's even more important than the quality of a deposit or the company's financial position.

In the resource business, many people think that if you just find a good deposit in the right country, you'll make money. But an incompetent or unscrupulous management team will make your investment a loser, regardless of the quality of the deposit. They'll find a way to screw it up.

They'll dilute your stake by issuing too many new shares. They'll take on foolish levels of debt. They will panic at bottoms and sell assets for much less than they are worth. They will panic at tops and buy assets for much more than they are worth.

High-quality owner/operators will do the opposite of all that. They will find a way to win.

Everything depends on the quality of the people.

For example, if the metals sector is very cheap, I'm going to want to invest with Ross Beaty. Ross is a serially successful billionaire entrepreneur who built Pan American Silver into one of the world's largest silver companies. Investors made over 900% in under seven years. He built Lumina Copper into a huge winner in the copper space. Investors made 2,642% in under four years.

Given Ross' history of success, it's obvious why you'd rather partner with him than with any one of a hundred other managers. Yet many people decide to partner with those other managers. They choose SPAM over filet mignon.

Another guy I always look to invest with is Lukas Lundin. Lukas is the son of the legendary resource entrepreneur Adolf Lundin…but Lukas is a legend in his own right. I've done business with Lukas, and I know him personally.

He's a first-class person all around. The Lundin name is synonymous with success in the resource sector; they know how to buy low and sell high as well as anyone.

They've delivered extraordinary returns to investors, like a 2,508% gain in Denison Mines in under five years…and an 1,138% gain in Tenke Mining in just three years. Investing with the Lundins is how my readers made over 600% in Africa Oil.

Proven winners also tend to attract the right shareholders. I'm talking about expert institutional investors who think long-term. This is key because the other shareholders are essentially your partners in the business. The right shareholders will do what is right for the long-term interests of the business. Getting the benefit of good partners is icing on the cake when you invest with proven winners like Ross and Lukas.

As I mentioned earlier, I'm a big believer in the Pareto Principle. It's so important that it's worth going over again. It states that 80% of your results come from 20% of your efforts. For that reason, it's also called the "80/20" rule. For example, your business may generate 80% of its sales from 20% of your clients.

The Pareto Principle is alive and well in the resource sector.

About 20% of resource operators create 80% of the value in the sector.

I've even taken Pareto's principle a step further. Years ago, I coined the 64/4 Rule—I took the 80/20 Rule and subjected it to Pareto's principle again. The result states that 4% of entrepreneurs create 64% of the wealth (80% of 80% is 64%, 20% of 20% is 4%, hence the 64/4 Rule).

If making a lot of money is your goal in the resource sector, I encourage you to do what I do; focus on the 4% of superstar entrepreneurs who own large stakes in their own companies. Invest with the best. The choice is often as simple and obvious as the choice between Brad and Charles.

Success tends to follow success. Winners tend to keep on winning.

Those are the guys you want your money with. And you want them to have "skin in the game." Here's why that's so important…

Why "Skin in the Game" is so Important to Your Investment Returns

Have you ever waxed and polished a rental car before returning it?

Chances are good that you've never done it. Chances are good nobody you know has done it. Chances are good nobody, ever, has done it.

If you take a moment to think about why people don't wax and polish rental cars, you can correct a major investment mistake that is probably costing you money right now. And you can vastly improve your investment returns.

People don't wax and polish rental cars for the same reason they don't mow their neighbors' lawns: They don't own them.

Not caring about things you don't own is simple human nature.

You might be thinking I'm just stating obvious.

But have you ever invested in a company ran by executives who owned little to no company stock? Have you purchased a mutual fund or an ETF that held companies whose managers owned little to no stock?

Have you ever trusted your hard earned capital with managers that don't have skin in the game?

Chances are very good that you have. You probably own some of those companies right now.

Your holdings are the manager's rental cars. And they just nicked a telephone pole while you read the last paragraph.

Don't worry. You're not alone.

Investing in a company whose managers have no skin in the game is one of the most common investment mistakes in the world. They don't teach you this critical investment secret in high school, college, or business school. But once you think of it in terms of rental cars, it's utterly obvious.

Ownership brings a respect and care for expenses, assets, and cash flows that has no substitute. It instantly transforms the mind.

Ownership will turn a salaried manager who thinks nothing of spending $3,000 on nice office chair into a guy who will sit on a bucket in order to save a few bucks.

Ownership will turn a conventional "9-to-5" employee into a guy who will happily work Friday and Saturday night.

On a larger scale, ownership transforms a reckless CEO who plays fast and loose with shareholder capital into a watchful, prudent shareholder advocate. It turns a CFO who uses aggressive, very questionable accounting into a boy scout.

Just think of the indifferent, uncaring people you've worked with the past.

It's virtually guaranteed they didn't own a piece of the business you were in. The might have stolen company property. They probably wasted supplies. They were hard on equipment. They left paper towels on the bathroom floor.

Now, think of all the extremely hardworking business owners you've worked with in the past. They treated equipment with respect. They used supplies carefully. They took pride in their work. They got to work early. If they saw a piece of trash on the floor, they picked it up.

Now take all those little differences and multiply them times a million. That's the difference between a business operated by managers with no skin in the game versus a business operated by managers who own substantial amounts of company stock.

Which business would you rather own shares in?

What kind of people would you rather work with?

It's an easy choice for me.

That's why when I start analyzing a potential investment or talk to managers about placing money with them, my first question is always "How much stock do you own?"

If the answer is "not much" or "zero," my analysis finished.

I don't want my money treated like a rental car.

Neither should you.

The Other Critical Factors for Evaluating a Resource Company

Once you've checked the box of investing with the right people, you're ready to investigate the other five keys.

KEY #2: PROJECTS

Turning resource deposits into money is the game we're playing.

Whether we're buying a company with existing production, a company developing a single asset, or a company exploring for deposits, we want to invest in high-quality projects that are large enough to attract the attention of majors who will buy them out. We also want projects with production costs in the lowest-cost quartile of the industry.

We have to ask many questions during this due diligence phase. Some of the most important are:

- **Is the resource there as management claims it to be?**

The history of the resource industry has many stories of companies that overstated their assets.

By reviewing the geologic data, we verify the company has the resources it says it has. We want to invest in companies with resources we know are actually there.

- **How big is the resource?**

This one is obvious, so we won't go into it much. We'll just say we want to back companies with large, high-quality, tier-one resources.

These are the resources that are attractive to large producers. They can get bought out at large premiums.

- **Where is the resource?**

Countries like Canada and Australia have laws that make resource extraction an attractive business.

Some countries in South America and Africa, on the other hand, have histories of confiscating resource projects.

I focus my investments in resource-friendly jurisdictions. I tend to avoid places ruled by communists or warlords.

- **How much will it cost to produce the resource?**

If a resource is located near highways or railways and an electric power source, the cost to extract and transport it is relatively low.

But if the resource is in a remote area far away from infrastructure, it can cost billions of dollars to develop. Some terrific deposits can actually be worthless because they require so much infrastructure investment.

There are many other factors—such as the metallurgy—that need to be studied to get a better understanding of the potential problems with the project. The right geology is critical to any successful resource project.

KEY #3: FINANCIAL STRUCTURE

If a company has great managers and attractive projects, we're ready to investigate its financial structure.

We want to see companies with low or minimal debt. We want to see them with plenty of cash to fund their operations. If they don't have that, they are likely to dilute shareholders by issuing more shares (more on this in a moment).

As discussed previously, we want to see the company's managers with plenty of skin in the game. We also want to know who the company's major shareholders are.

Most companies will count some large financial institutions, like hedge funds, mutual funds, and pension funds as shareholders. I prefer to see "strong" institutions as my fellow shareholders.

I'm talking about expert institutional investors who think long-term. This is key because the other shareholders are essentially your partners in the business. The right shareholders will do what is right for the long-term interests of the business.

It's also important to know if the company has issued warrants and stock options that could be exercised in the future, which would dilute the value of your shares.

KEY #4: PROMOTION

Even the best assets in the world need promotion by strong management teams.

If a company has great potential, the rest of the world needs to know about it. If the world doesn't know about it, there won't be anybody around to buy shares and drive up the company's value.

I make it a point to get to a story before anyone else. Once my readers are in a stock, I want to make sure management has a plan to "spread the word" with institutional investors and financial publishers. This will create the interest in a stock that is needed to drive the share price higher.

KEY #5: CATALYSTS

What is it about the company that will drive up the price?

Is it working on a big discovery?

Is it furthering the development of a high-quality asset?

Is the price of its resource poised to move higher?

These questions must be asked and answered before you make an investment.

One or more catalysts must exist that will drive a company's share price higher.

KEY #6: PRICE

It's said that "price is what you pay, value is what you get." This is especially true in the natural resource market.

You can find a company with great people and great projects, but if you pay too much for your ownership stake, you can still lose a lot of money.

This whole idea comes down to treating your investments like you treat almost anything else you buy. You should focus on finding great values…and not paying stupid prices.

When you buy a pair of shoes, you want to pay a good price. When you buy a house, you want to pay a good price. You don't want to overpay.

Yet, when it comes to investment, many people cast aside the idea of buying bargains. They get excited about a company's story and they just buy stock. They don't pay any attention to the price they're paying…or the value they're getting for their investment dollar.

Don't be a sucker and overpay. Make sure you get good value for your investment dollar. Hunt for bargains.

Summing Up

Please remember these six keys. The market has humbled everyone… from amateur investors to experienced billionaires.

By doing your due diligence and checking these boxes, you'll set yourself up for resource success.

CHAPTER 10

THE RESOURCE PER SHARE METRIC: AN ESSENTIAL TOOL FOR RESOURCE INVESTORS

I have a question for you…

If there was a simple way to evaluate natural resource stocks that would give you a huge edge over other investors—even top professionals—would you use it?

You're probably thinking, *"Of course Marin, don't be stupid. If I could gain a big advantage over other investors, I'd do it in a second."*

You might also think something like that doesn't exist. But if it does exist, it can't be simple, right?

Maybe you've been brainwashed by Wall Street or academia to think beating the market is impossible… or extremely complicated.

If you're thinking this, you're dead wrong.

I'm about to show you an extremely simple way to evaluate resource companies that will give you a big advantage over 99.9% of your fellow investors.

This way of evaluating resource companies will help you tell—almost instantly—if a stock is worth buying, or if it is headed for disaster. You could think of it as a pair of special glasses that will let you see opportunities—and potential dangers—well before other investors.

Even highly-paid, highly-trained professional investors are totally ignorant of this valuable concept. You can learn how to use it in less than five minutes.

Here's how it works…

One of the most misunderstood concepts in all of finance is

something called "share issuance."

When a company is low on cash and wants money to invest in things like new factories, new equipment, or new hires, it has two general options. It can either borrow the money, or it can sell new shares of itself, an act called "share issuance."

Now… you know what you need to know about debt. Some debt can be useful. But too much is almost always a killer.

What most investors don't understand is how share issuance affects their investments. Ignorance of this financial mechanism costs investors billions of dollars every year.

When a company issues new shares, something called "dilution" takes place. It's called dilution because when a business creates new shares of itself to sell to investors, it "dilutes" existing shareholders.

For example, if a business has 1,000,000 shares outstanding and sells 500,000 more shares, it has "diluted" the previous set of shareholders by 33%. (It's not a 50% dilution like you might be thinking. A share total of 1.5 million is 33% more than 1 million).

You can also think of it like a pizza…

Let's say you and some other people own a pizza. It's divided into eight slices. You own one slice. Now, let's say someone cuts each slice in two. There are now 16 slices.

Some things are still the same.

It's still a pizza.

You still own one slice.

But the slice "dilution" just made your share a lot smaller.

This is how dilution works in corporate finance.

When Share Issuance is Bad and When It is Good

Not all share issuances are bad. If a business sells shares to buy a good asset for a good price, the deal can work out well for existing shareholders.

For example, let's say the gold industry is deeply depressed. Many

companies are going bankrupt. Investors are pulling money out of gold funds. This results in a mass unloading of gold assets by desperate sellers. Assets that would be worth a lot in a good gold market are selling for peanuts.

Now let's say there's a gold mining business with very smart owners. They know the bad times won't last forever. They know the gold market will eventually recover. They know good assets are being sold at fire sale prices. They know it's a buyer's market.

If the owners of that gold business sell $10,000,000 worth of new shares to buy a resource that would be worth $80,000,000 in a good gold market, then share issuance is a good idea. The business issued more shares, but did it in such a way that will create value for shareholders over the long term.

However, **share issuances rarely work out like that**.

All too often, a new share issuance is a terrible deal for existing shareholders. Instead of issuing shares to buy assets at <u>bargain</u> prices, most corporate managers issue shares to buy assets for <u>expensive</u> prices.

Instead of buying intelligently at the bottom, they buy stupidly at the top.

This happens for two general reasons…

One, many corporate managers have perverse incentives. They get compensated based on a company's short-term growth. Corporate managers who issue lots of shares or take on lots of debt to grow a company over the short-term (like 2-3 years) can make millions of dollars in bonuses and stock option grants. Institutional investors and retail investors love to see growth. And they will pay for it above everything else.

Two, corporate managers are human. When times are great, corporate managers think they will stay great forever. They see what has happened in the past and extrapolate it into the future. They get "drunk" on the good times. If things are going to be great forever, why not do everything you can to grow, including issue new shares and new debt to expand?

All this short-term thinking leads to long-term problems. When

businesses chase short-term growth at all costs, they do incredibly stupid things. They pay too much for assets. They take on too much debt. They issue too many shares. This leads to a massive reduction in value for shareholders over the long-term. It often leads to bankruptcy. Investors get killed in the process.

Share issuance is why I created Katusa Research's **Resource Per Share (RPS) metric**.

How to Tell if a Resource Business is Growing Intelligently

Katusa's RPS is a number that factors in share issuance while evaluating a resource company and its worthiness as an investment.

Katusa's RPS is a number that instantly cuts through the B.S. you hear from corporate executives, crooked stock brokers, and slick salesmen.

It will tell you in a matter of seconds if a company is growing intelligently or headed for disaster. It will tell you if a company is worthy of your hard-earned capital or a furnace that will burn your money. It works for any resource. Oil, copper, gold, silver, uranium, you name it.

Here's a short story of why RPS is important…

Let's say ABC Gold is a growing gold producer. Its executives like to send out press releases about its fantastic growth.

In 2013, ABC Gold had 2 million ounces of gold in reserves.

In 2014, its reserves grew to 3 million ounces.

In 2014, its reserves grew to 4 million ounces.

In 2015, its reserves grew to 5 million ounces.

All that growth should be good for the folks who held shares in 2013, right?

Not necessarily.

ABC Gold didn't pay for those ounces out of its cash flow. It

didn't find them by exploring its original properties. It issued shares to buy those ounces.

In 2013, ABC Gold had 2 million shares outstanding. It had one ounce of gold reserves for every outstanding share.

In 2014, ABC Gold issued 1.2 million new shares to buy new ounces in the ground. This gave it 3 million ounces in total and 3.2 million outstanding shares. That's 0.93 ounces of gold per share.

In 2014, ABC Gold issued 1.5 million new shares to buy new ounces in the ground. This gave it 4 million ounces in total and 4.7 million outstanding shares. That's 0.85 ounces of gold per share.

In 2015, ABC Gold issued 1.8 million new shares to buy new ounces in the ground. This gave it 5 million ounces in total and 6.5 million outstanding shares. That's 0.77 ounces of gold per share.

You can see where this is going. The press releases sound great. ABC Gold is growing like a weed. The managers are getting big bonuses and slapping each other on the back. Newsletter writers say ABC Gold is experiencing "solid growth."

But if you look under the hood, you see this growth *isn't creating long-term value for shareholders*.

Shareholders of record in 2013 have actually watched the per-ounce-of-gold value of each share decline by 23%!

This is an overly simplified example. But it shows you the general idea. This is how it works all over the world.

Most corporate managers—especially in the resource business—are habitual diluters. Yet 99.9% of investors out there never take it into account.

Katusa's RPS metric takes it into account… and provides you with a revolutionary new way to evaluate companies.

How We Calculate RPS

Calculating RPS is simple. All you do is take a company's total shares outstanding and divide that number by the company's resources.

Since different resources have different forms of measurement, I

get more specific when I use Resource Per Share in individual sectors. For example, when I evaluate uranium companies, I use Uranium Per Share (UPS). When I evaluate gold companies, I use Gold Per Share (GPS). When I evaluate oil companies, I use Oil Per Share (OPS).

When I evaluate a gold company, I take its total shares outstanding and divide that number by measured, indicated, and inferred gold reserves.

The result is a ratio which shows the amount of gold in the ground each share has a claim on (we typically update our ratios a few times per month).

In the example above, ABC Gold had 5 million ounces in the ground and 6.5 million shares outstanding. This gave it a GPS of 0.77.

The amount of shares outstanding can vary widely among gold companies. For that reason, it's not useful to compare one gold company's GPS to another company's GPS.

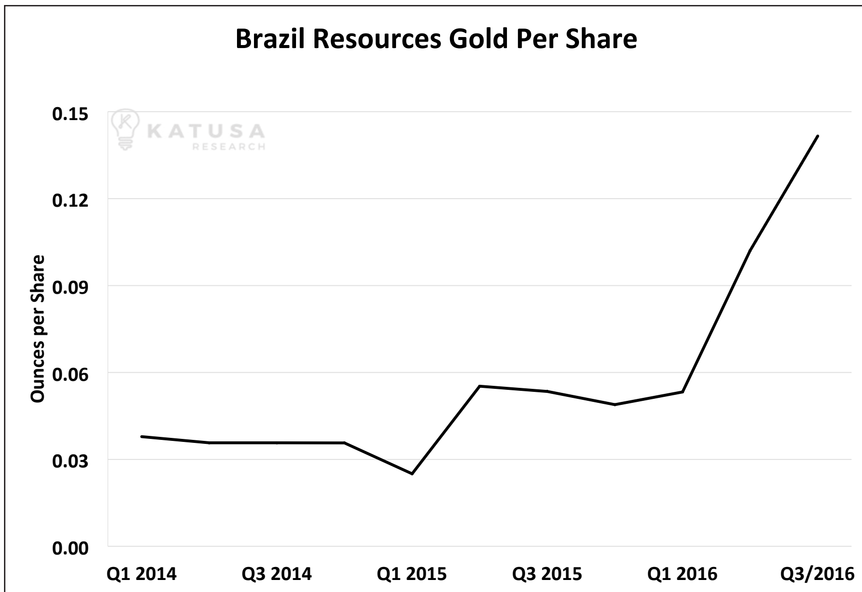
What is important is a company's GPS trend.

As gold investor, you want to see a company's Gold Per Share increase, not decrease. A decrease in GPS means you own less gold per share than you did previously.

Instead, we want to own companies that increase gold reserves without diluting shareholders.

We typically look at a company's GPS in chart form. We want to see an uptrend in GPS.

For example, one gold company I've invested in, Brazil Resources, increased GPS from .038 in early 2014 to 0.146 in September 2016. That's 284% "gold growth." It produces the kind of uptrend we like to see:



Believe it or not, even most supposed "smart money" institutional investors don't look at gold companies this way. They simply look for growth, whether it is creating long-term value for shareholders or not.

I want to own growing gold companies, but I want to see <u>intelligent growth that is creating long-term value for shareholders</u>.

The same goes for any resource company… be it one that owns oil, copper, gold, uranium, or natural gas.

Our Resource Per Share metric is the ultimate tool for finding companies that are growing intelligently. It also helps you avoid serial diluters who make their shareholders poorer, in terms of resource per share, every year.

If you truly want to make money in resource stocks, you'll never buy another one without carefully reviewing its Resource Per Share trend.

CHAPTER 11

THE BIGGEST KEY TO SAFELY SPECULATING IN NATURAL RESOURCE STOCKS

By most accounts, the first case of an audience throwing tomatoes at a performer was reported in the October 28, 1883 edition of The New York Times.

The paper reported how an acrobat named John Ritchie was pelted with tomatoes after disappointing a crowd in Long Island. Ritchie purportedly fled for the stage door through a "perfect shower" of tomatoes.

Throughout the years, audiences have thrown other foods, like eggs and turnips, to express displeasure over a performance. But for some reason, the tomato became the protest food of choice. It's how the world's most powerful movie review website, Rotten Tomatoes, got its name.

Like it or not, we are all performers in one way or another. We are all trying to satisfy or entertain somebody. Even as a fund manager and as Chief Investment Strategist of Katusa Research, I'm on a stage—a public one at that—performing for investors. And like any performer, I've had tomatoes thrown at me.

It doesn't take long to become a target in the investment business. Successful investing is a task where the difficulty is on par with brain surgery. The financial markets are astonishingly complicated. Even the best guys can't help but make embarrassing mistakes. For example, google "Warren Buffett mistakes" and you'll find thousands of articles about the legendary investor's missteps.

But in the pages that follow, I'm not going to talk about the mistakes of "gurus" that individual investors like to follow. I'm going to

talk about the mistakes of individual investors themselves.

I'm going to detail the most common—yet most misguided—source of investor anger and nasty letters sent to investment research firms.

What I'm going to say will sound critical. But there's a big benefit for you in all this. If you learn why this source of anger and criticism is so misguided, you stand to become a much better investor. This is "master's level" knowledge that will vastly improve your results.

With that said, here is the most common—and most misguided—source of anger and nasty letters among investment research consumers.

The comments you see below differ in wording, but they come from the same source:

Comment #1:

"What you said about ABC Stock didn't happen. You are the dumbest SOB on the planet. Because of my losses in ABC, I can't retire."

Comment #2:

"I can't believe ABC Stock didn't work out. I put everything into that stock. You've ruined me."

Comment #3:

"You were wrong. ABC Stock didn't go up. It went DOWN. I had half of my portfolio in that stock. You're worthless. Your company is worthless. I'm screwed now."

Investment managers and financial analysts who read those words will nod their heads in acknowledgement. They know exactly what I'm talking about.

Because one single stock recommendation didn't work out, normally polite, normally reasonable people will insult you in ways that would shock a member of the Hell's Angels.

Because one single stock you recommended went down instead of up, a nice little schoolteacher from Kansas City will say the worst things in the world about your mother. An unsuccessful stock pick will make people say truly awful things to you.

These kinds of comments come from a common source: <u>Ignorance of what truly leads to a lifetime of successful investment</u>.

In fact, these comments reflect what is perhaps the greatest difference between successful investors and investors who always struggle with investing and lose money in the market.

The difference?

The unsuccessful investor regularly places 100 times too much importance on what happens with a single stock position.

Because he gets so excited and emotional about the prospects of individual companies, the unsuccessful investor makes critical position sizing mistakes. This harms him every single year… and kills his returns over his career.

How to Avoid the Catastrophic Loss

Position sizing is the part of your investment strategy that dictates how much of your portfolio you place into a given stock, bond, fund, or commodity.

For example, suppose an investor has a $100,000 account. If he buys $2,000 worth of stock in a company, his position size would be 2% of his capital. If he buys $5,000 worth of stock, his position size is 5% of his capital.

Position sizing is far, far more important to your success than any one single stock position. You could think of your investment career like going on a road trip. Position sizing is as important as having tires on the car. The result of any one single stock position is as important as the color of the hood latch.

Yet many investors go their whole careers without developing even a working knowledge of this critical factor. And many people who actually do think about position sizing think about it all wrong…

Many people think of position size in terms of how many shares they own of a particular stock. But it's much, much smarter to think of it in terms of what percentage of your total capital is in a particular stock.

Position sizing is the most important way investors can protect themselves from what's known as a "catastrophic loss."

A catastrophic loss is the type of loss that erases a big chunk of your investment account. It's the kind of loss that destroys retirement accounts... and even marriages. I'm talking about a loss that leads to a $250,000 account plummeting to $100,000 or $50,000 in value.

The most common cause of catastrophic losses is going "too big" on risky positions. This occurs when an investor takes a much larger position size than he should. He'll find a stock he's really excited about…he'll start thinking of all the profits he could make… and then he makes a huge bet. He'll place 30%, 40%, 50%, or more of his account in that one idea. He'll go for broke and buy 6,000 shares of a stock instead of a more sensible 1,000 shares.

If the position doesn't work out, he can suffer a 50% hit to his capital. In some cases, he can suffer a devastating 100% loss of capital.

For example, some Enron employees put all of their retirement money in the company's stock… and then lost everything when it blew up.

Those people made horrible position sizing mistakes by risking everything on just one stock.

The obvious damage from a catastrophic loss is financial. An investor who starts with $100,000 and suffers a catastrophic 80% loss is left with $20,000. It takes most people years to make back that kind of money from their job.

The less obvious damage from a catastrophic loss is worse than losing money. It's the mental trauma that most people never recover from. They consider themselves failures. They see years of working and saving flushed down the toilet. Most never recover.

Imagine someone spending 10 years scraping together $80,000 only to blow it all in 10 days by gambling on risky stocks.

I'm telling you all this to emphasize a simple point: Avoid the catastrophic loss by carefully sizing your positions!

Generally speaking, most top investors will never put more than 5% – 10% of their account into any one position. Some professionals won't put more than 3% in one position. My personal limit is 10%. Skilled investors can vary their position size depending on the particular investment.

For example, when buying a blue chip stock that has increased its dividend payment for 30 consecutive years, a position size of 5% - 10% can make sense.

When dealing with more volatile vehicles like junior resource stocks, position sizes should be smaller. I suggest that you never put more than 1% of your wealth into a single resource stock. This will keep your risk level at an acceptable level.

Put another way, before you start speculating in junior resource stocks, you should know how much money you want to allocate to the sector as a whole. This should be money that you can lose without it affecting your lifestyle. Never allocate more than 10% of your junior resource portfolio into any one stock.

Unfortunately, many investors will risk three, five, or ten times as much as they should. It's a recipe for disaster if the company they own suffers a large unforeseen decline.

These large declines happen with much greater frequency than most folks realize. No matter how promising a company sounds, its fortunes can always turn south. Smart position sizing will keep the damage it causes to an acceptable minimum.

I like to get as excited about a company's prospects as anyone. I love analyzing balance sheets and visiting projects. I love taking a stake in a small company and watching it achieve success.

But here's the thing…

I never lose sight of what is truly important for achieving long-term investment success. And that is making sure I'm not exposing myself to catastrophic losses.

Successful investing is a marathon. It's not a sprint. Building long-term wealth for your family comes down to regularly making intelligent decisions that provide a good balance between capital growth and capital safety. It does not come down to rolling the dice and "going big" on a single stock.

As the Founder and Chief Investment Strategist of Katusa Research, I will make mistakes. Only frauds would claim otherwise.

We find stocks with huge upside potential. But we follow a

time-tested approach used by the greatest investors throughout history. We never bet the farm on one position. We play great defense. Our winners more than make up for our losers. Over the long run, this approach will allow anyone to grow their wealth.

Your number one job as an investor is "don't lose money." Smart position sizing will help you do your job well.

The next time you feel rage or despair over what one single stock is doing, take a deep breath. Take a long walk.

Then, with a clear head, review your position size. Review your portfolio. Ask yourself, "Am I taking insane risks? Does this position make up far too much of my portfolio? Is my anger or despair an indicator that I'm doing this all wrong?"

If you think the answer to these questions is even "possibly," it's probably time to reduce your position size. Cut it by at least 50%.

Your net worth will thank you.

CHAPTER 12

THE WAY OF THE ALLIGATOR

In 1980, a geologist named Walter Alvarez and his father, the Nobel-prize winning scientist Luis Walter Alvarez, put forth an outrageous idea.

In what is now known as the “Alvarez Hypothesis,” the father/son team claimed dinosaurs went extinct due to the effects of a large asteroid striking the earth. The impact caused huge tidal waves and earthquakes. It threw up a dust cloud that blocked sunlight, which killed most of the planet’s species, including all the dinosaurs.

At the time, most in the scientific community thought the idea was absurd. People believed dinosaurs went extinct over a long period of time.

But years of studying the evidence, plus the discovery of a massive impact crater off the coast of Mexico, put the debate to rest. About 66 million years ago, a large asteroid struck Earth with a force millions of times greater than any atomic bomb and caused the greatest extinction event in the planet’s history.

It’s estimated that 75% or more of all species were killed off by the strike. Only the hardiest species made it through. You can probably guess one of the survivors: the cockroach.

But you may not know that “crocodilians” are members of this elite survivor club as well. This is the order of predatory reptiles that includes the alligator and the crocodile.

That’s right: alligators survived what the dinosaurs couldn’t. Over sixty million years later, they’re still going strong.

There are various theories as to why alligators have survived and thrived for so long. They’re cold blooded, which means they don’t have to eat very often. They lived in fresh water and not salt water, which seems to have increased chances of surviving the asteroid

strike. They have incredible immune systems.

But one huge thing alligators had, and continue to have, in their favor is their brilliant and efficient hunting strategy.

Alligators are "ambush predators," as opposed to "pursuit predators." They don't spend their days chasing gazelles or monkeys. They don't expend lots of energy sprinting around.

Instead, alligators take a patient "sit and wait" approach to hunting. They spend long periods of time doing nothing but waiting in the water for the perfect time to strike at obvious opportunities. When unsuspecting prey approaches the water, alligators spring forward with awesome speed and force.

The alligator's ambush hunting strategy is very efficient. It allows the alligator to get huge returns on the energy he invests in hunts. It has helped the alligator become one of the most resilient, most successful species in the history of the planet.

I know you don't read Katusa Research for nature lessons. I'm telling you all this because I believe "The Way of the Alligator" is one of the great secrets for achieving investment success.

The Counterintuitive Way to Make Big Money

When we're children, we're taught that if we work hard enough at anything, we'll achieve success.

More hard work in the gym means doing better at sports. Working hard on your studies means you'll get into the right schools. Working long hours is the way to get ahead in business.

Working hard has its rewards. It's a great way to get what you want in life.

But "hard work" and its corollary "staying busy" *actually works against investors*. Staying busy typically translates into losing money instead of making money.

Most people who have earned enough money to invest have the natural urge to "do something" and "stay busy." That's how we got the money in the first place.

But unless you're a skilled, lighting-fast day trader, the market does not reward frequent activity. In fact, it penalizes it.

The urge to "do something" leads you to be impatient and less selective with your investments. It forces you into mediocre opportunities.

Said another way, *the quality of your investments typically moves inversely to the quantity of your investments*.

For investors who look to hold positions for months and years, the market simply does not serve up truly great opportunities every day. Sometimes, we only get two or three per year. Just like doing nothing and waiting for a great opportunity is often the right move for an alligator, it's often the right move for investors.

To many investors, having a large cash balance in an investment account feels like having a wad of cash in a casino. Why let it sit there and do nothing when you can "play" with the money? Why not at least take a shot at something?

This amateur thinking is why casinos earn billions of dollars in profit at the expense of impatient, probability-ignorant gamblers.

Doing nothing, staying patient, and waiting for a no brainer opportunity is often the right move.

Warren Buffett on Waiting for the "Fat Pitch"

The investment legend Warren Buffett makes a great point about patience with simple baseball analogy.

Buffett says investing is like playing a baseball game where there are no called strikes. You don't get penalized for not swinging. You can stand at the plate for a year and not have to swing. So, it makes a lot of sense to stay patient and selective and only swing at "fat" pitches.

You only need to swing when the odds are overwhelmingly stacked in your favor.

One of your ultimate goals as an investor is to buy assets for less than they are really worth.

Said another way, your goal is to buy bargains.

However, true bargains are rare. The financial market correctly

prices most assets most of the time. Most of the time, stocks, bonds, and commodities trade for approximately what they are worth.

But every so often, there is a crisis in some market somewhere in the world. During a crisis, investor emotion overwhelms investor reason. Terrified investors sell first and ask questions later. They sell assets with no regard for their underlying values or ability to produce cash flow.

I often say that during crashes, the price of assets becomes "unhinged" from the value of assets.

If you're impatient and you're always "doing something," you won't have the cash to buy up bargains during a crash. It's like the financial equivalent of not bringing your helmet if you were to play in the Super Bowl.

I like to put my money to work as much as anyone.

I love the game of investing.

But I always keep "The Way of the Alligator" in mind.

I see my cash as "big returns in waiting."

There's a reason the alligator survived the biggest extinction event in history. There's a reason he has thrived for more than 60 million years.

He's nature's ultimate patient opportunist.

By staying patient and only acting when the odds are overwhelming in your favor, you'll survive and thrive in the investment world as well.

SUMMING UP... AND YOUR NEXT STEPS FOR SUCCESS

Thanks to extreme cyclicality and extreme leverage, resource stocks can soar hundreds–even thousands of percent–in a very short time.

Investors who made more than 10 times their money in less than three years with Silver Wheaton can attest to this fact. So can the more than 30 triple- and quadruple-digit winners the people who follow my advice and I have made.

The resource sector is also volatile. This volatility scares off many investors. But if you think about it, this can be a huge benefit to you.

To make truly huge returns with your investments, you must be willing to seize opportunities that lie outside the comfort zone of most investors. If you do what everyone else is doing, you're virtually guaranteed to get poor results.

Grabbing the opportunity to make hundreds of percent often means buying stocks that you'll never see in the mainstream news or mentioned by a financial advisor.

Granted, these stocks can be volatile. And not every opportunity will be a winner, no matter what approach you take.

But that's why the gains can be so hugely rewarding for resource investors.

The reason this approach is not right for most people is the very reason it is so incredibly rewarding for those of us it IS right for.

If you're interested in taking the path less traveled and making huge investment returns in resource stocks, I encourage you to do two simple things...

One, read our free weekly newsletter, *Katusa's Investment Insights*. In this publication, I talk about where I'm personally investing... and how you can do the same and make big returns.

As a reader of *Katusa's Investment Insights*, you'll hear about tomorrow's big winners before anyone else.

Two, consider a membership in my exclusive research service, *Katusa's Resource Opportunities*.

In this service, I tell you exactly what stocks to buy and sell in order to make hundreds of percent returns. Unlike many people in the investment research business, I'm an investor, not a journalist with no money on the line. This is how I make my living. As a member of our service, you're getting the "real deal."

With a membership in *Katusa's Resource Opportunities*, you'll profit alongside me in the resource market.

Personally, I could have picked any area of the market to specialize in. I chose natural resources because I wanted to make large gains in the shortest amount of time.

Maybe I was smart. Maybe I was impatient. Maybe both.

But it was an obvious no-brainer for me.

It's a choice that has paid off for me and many, many other people.

I believe it can pay off for anyone willing to break out of their comfort zone... and willing to do a little extra work in order to make a lot more money with their investments.

Fortune favors the bold... and our next opportunity is just around the corner.

Regards,
Marin Katusa

What Industry Leaders are Saying About Marin Katusa

Starting from scratch, Marin Katusa has built a large personal fortune... all through his ability to find great investments. During his career, he has sat on the board of a public company, arranged over $1 billion in financings, and written the *New York Times* bestselling book, *The Colder War*.

Marin's insight has been featured in *The Wall Street Journal*, *The New York Times*, CNBC, Bloomberg, Fortune, and CNN. He has traveled over one million air miles visiting over 500 resource projects in more than 100 countries. Along the way, he has also earned the respect of many of the world's top resource entrepreneurs and investors. Here's what those folks are saying about Marin Katusa...

> *"He is a rarity, academically brilliant yet street smart, as befits both a former rock musician and university math professor. He's become an expert on the oil, natural gas, and uranium businesses."*
>
> JOHN MAULDIN
> Chairman of Mauldin Economics

> *"Marin is an intense individual and has structured mining and energy deals the world over."*
>
> IAN TELFER
> Chairman of Goldcorp

> *"Marin Katusa is a savvy investor. His excellent past returns speak for themselves."*
>
> NOLAN WATSON
> President & CEO, Sandstorm Gold

> *"[Marin] has become one of the most trusted and well-connected dealmakers in the junior resource sector."*
>
> RISK RULE
> President & CEO, Sprott U.S. Holdings.

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