



WallStreetWindow PowerInvestor

The World of Mining Private Placements

When it comes to mining stocks my plan in this bull market is to use ETFs such as GDX and GDXJ for core investment positions. Around them I also plan on putting a little bit of my money to work in private placements in small junior mining companies and exploration companies that trade on the Canadian exchanges.

Most of the time when you buy a stock you do it through a brokerage account on the stock exchange. With a private placement you are buying shares directly from the company. This is how they raise money for financing.

Giant big cap stocks use junk bond debt to raise money. Small exploration and junior mining companies though usually do not have any revenue stream so they do not have access to the junk bond markets. That's why they use secondary offerings to raise money.

Private placements are also used to finance companies before they go public. After a big gold bear cycle you will see many mining companies use secondary offerings to raise money. In the last two bull markets after the bottom even the bigger companies such as Yamana gold, to name one, used offerings.

Private placements used to be a secretive affair not available to the general public and only known to people with some sort of connection to a company or through a broker connected to the offering.

Today thanks to the Obama Jobs Act companies are allowed to publicly announce their private placements in the United States and other nations such as Canada have also enacted similar laws. I do not know what the laws are in Canada, but in the United States you really need to be an accredited investor to get involved in them. That means you need to make at least 200k for the past two years in a row or be worth over \$1 million. When you buy a private placement you have to acknowledge that and you cannot make things up or you can get in big trouble. Some offerings accept a few people below these limits you need to contact people involved in the

financing, such as people at the company to find out the exact details and requirements.

There are websites in which you can find the offerings for various American companies that are raising money and this is becoming a common venue.

Here is one such site:

<http://crowdfund.co/>

And there are literally dozens of them in the United States. Just do a google search for "public offerings crowd funding." There is a Canadian website specializing in mining deals called klondikestrike.com. If you do a google search for "mining non brokered offering" in google news you can find mining deals.

In bull market cycles most small exploration companies get market caps of around \$30-\$50 million and a few will breakaway from that range and go up much more if they discover economic deposits or buy and open mines. My plan is to buy into about ten private placements over the next twelve months. I expect most of them to reach the \$30-\$50 market cap range assuming I am right about the bull market in mining stocks and for say one or two to break beyond that barrier and one or two to simply be duds.

I am only putting a very small amount of speculative money into this strategy and only a little bit of my money in any individual private placement. These are very small microcap companies that are essentially trading as penny stocks.

The reason why I am doing this is because I do believe that we are at the start of a bull market and have seen a major bottom in gold and mining stocks.

In a mining bull market typically the major large cap mining stocks with the best balance sheets lead the market at first. The juniors with big debt loads and small explorers lag and most of them simply base as a bull market starts. But eventually they break out and run.

So I think we are early in a bull cycle and still in an overall basing phase for small mining stocks. I see private placements as a way to get positions in this basing phase. Private placements I am looking to buy have warrants attached to them. These are essentially long-term options to buy more shares if the stocks go up at cheap prices. That is the real benefit to buying secondary offerings in stocks already trading on the market. You need a Canadian broker or one that is familiar with Canadian stocks to do the shares transfers into an account.

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