Paradigm Securities

DAWES POINTS

All-time highs in major stock markets supporting global expansion

Key Points

- *Global economic expansion on track*
- *Major global indices at alltime highs*
- *Small caps and New Age technologies leading*
- *Resources big cap cyclicals starting to move and catching up*

- *Gold sector recovering*
- *Expect strong rally to year end*

New highs in so many markets are not the stuff of economic collapses but rather these are indicators that are confirming the continuing current global expansion that I consider will develop into a major long term economic boom. The past couple of months are bringing daylight into this very sunny outlook.

Thanks first of all to the many readers who have generously offered favourable comments on what Dawes Points has tried to achieve. Your words are greatly appreciated.

Through many years watching markets the observation that turning points almost always occur at extremes of sentiment, whether bullish or bearish, still holds very true.

What has been different this time is that the violence in the market, since the last highs in April 2011, has been accompanied by such vehemence in negative sentiment that a new terminology in bearish views is probably required - hyperbearic? Blanket bearishness over China, Europe and the US here and in North America as well has even brought a new local pessimism over the Australian economy into 2014. Hence, the extreme pessimism results in a build up of cash and then when the change in perception occurs the market trend responses can be surprising. Let's hope so and let's hope it is up.

Nevertheless, keep in mind that it is the performances of the markets that matter not what some economist, former bureaucrat or failed politician thinks he would like to see.

So far many market indices around the world are giving new alltime highs or at least post-GFC highs and rather than looking over-extended are only now breaking out from very long term bases that technically suggest very much higher prices over the next SEVERAL years.

Let's look at results to date in the major indices and also note the changes since the June 20013 lows and the gentle pullbacks into mid October. The gains since

Dec 2011 are also included.

As at 28 Oct 2013		Current	Dec-11	June low	Oct low		% gain	% gain	% gain
							Dec-11	Jun-13	Oct-13
Russell 2000		1118	741	943	1038		51%	18.6%	7.8%
Wilshire 5000		18794	13190	16442	17563		42%	14.3%	7.0%
NASDAQ		3943	2605	3295	3650		51%	19.7%	8.0%
S&P 500		1760	1258	1560	1647		40%	12.8%	6.8%
Dow Industrials		15570	12217	14511	14719		27%	7.3%	5.8%
Dow Transports		7009	5019	5952	6401		40%	17.8%	9.5%
German DAX		8986	5898	7656	8490		52%	17.4%	5.8%
UK FTSE		6721	5572	6023	6317		21%	11.6%	6.4%
HK Hang Seng		22698	18434	19914	22744		23%	14.0%	-0.2%
Taiwan TW Dow		199	167	183	194		19%	8.9%	2.3%
Sth Korea Kospi		2034	1826	1771	1981		11%	14.9%	2.7%
Shanghai		2133	2199	1850	2123		-3%	15.3%	0.5%
India		20684	19906	18487	19265		4%	11.9%	7.4%
Japan		14088	8455	12415	13749		67%	13.5%	2.5%
ASX 300		5395	4052	4589	5076		33%	17.6%	6.3%

All these gains suggest global confidence is growing and forecasting rising earnings. Rising earnings encourage investment and investment encourages raw materials demand. Resources might be lagging but they won't be too far behind.

The leaders have to date been US small caps but other markets and sectors are actually catching up.

The strength of these markets is remarkable, too, in that the performers are from many different sectors and it may be that the real driving force is innovation. Innovation in technology, yes, but technology is not just Facebook or Apple. The human spirit is again coming to the fore in so many sectors. Visionaries want to rise up and people everywhere just want to grow and raise their living standards.

Innovation is also occurring everywhere in resources from the XRH on-site assaying tool and airborne drones in exploration to searches for greater energy efficiencies for remote sites, LNG Ltd's new 50% lower capital cost OSMR LNG technology, new studies in communition (ore grinding!) as well as the ground-breaking Whittle Consulting NPV Mining concept. Downhole tools in oil and gas and experimentation in fraccing for vertical and horizontal borehole drilling. Improving efficiencies and cutting costs. Expect much more from Australia's most dynamic R&D companies in the resources sector!

In my recent discussions with clients and in presentations at conferences my introductory comments have been focussing on the emergence of Social Media as not just a chance for people to chat or exchange photos but as a very powerful New Age global platform for commerce that is open to everyone from the largest corporations to any individual anywhere in the world who has access to the internet.

This will mean a matching up of like-minded people as clients, customers, investors and shareholders. It will be very significant for all of us.

This New Age technology is not a short maturity cycle for a new widget but rather a rapidly evolving global platform for commerce. And not just advertising. It is millions of producers connecting with billions of users and consumers. Each can search out the other for the best quality, newest technology, lowest cost, nearest contact or something else special.   Google Inc is the leader but Facebook with a billion global users will surely initially gain $1 per user, then $10 then $20 then who knows?   At very large margins. Then there is the commercialisation of Twitter. Are you connected? Follow me on **@DawesPoints**.

Tesla electric motor vehicles, 3D printing, Priceline as the US Wotif, Netflix to get movies online to your TV at very competitive pricing, Amazon is just great and everywhere just like its river namesake, YY a new mobile communications platform (have you heard of WeChat with well over 300m smart phone users in China?) and the list is growing.

Look at some of the recent market performances from a few of these New Age companies.

As at 28 Oct 2013		Current	Dec-11	June low	Oct low		% gain	% gain	% gain
							Dec-11	Jun-13	Oct-13
Google	GOOG	1015.00	645.90	847.22	842.98		57%	19.8%	20.4%
Facebook	FB	51.95	29.60	22.67	45.26		76%	129.2%	14.8%
Amazon	AMZN	363.39	173.10	262.95	296.50		110%	38.2%	22.6%
Yahoo	YHOO	32.25	16.37	23.82	31.79		97%	35.4%	1.4%
Apple	AAPL	525.96	405.00	388.87	478.28		30%	35.3%	10.0%
Microsoft	MSFT	35.73	25.96	32.57	32.80		38%	9.7%	8.9%
Netflix	NFLX	328.03	69.29	205.75	282.80		373%	59.4%	16.0%
Tesla	TSLA	169.66	26.03	88.25	160.15		552%	92.2%	5.9%
YY	YY	46.22	14.17	23.06	41.28		226%	100.4%	12.0%
Priceline	PCLN	1070.85	467.71	787.00	972.40		129%	36.1%	10.1%
3D Systems	DDD	58.64	9.60	41.05	47.33		511%	42.9%	23.9%

Those sorts of impressive performances make you think that the resources industry is for dinosaurs!!

Well of course that is not the case at all. Just some stocks are ahead of us at present.

So let's go back to resources companies.

Over the last several months Dawes Points has focussed on the remarkable weakness in the resources sector despite a background of quite strong demand for commodities and clearly improving global economic growth prospects. The weak and volatile price of gold has had a lot to do with sentiment but there has almost never been a good case to be put forward for much lower iron ore prices. Or for almost any resources commodity that would justify the current depressed share price levels of producers or near-producers.

Note that the world's largest commodity, oil (just over 4,000mtpa), is leading the commodities upward and after the slight weakness of recent weeks seems ready to move higher again. Iron ore is doing well in this new race and copper looks to be next in line. Zinc, tin, lead, tungsten and uranium should soon be following.

Markets are regaining confidence as things like continuing strong Chinese crude steel production (795mtpa again in September), record import levels of iron ore into China and declining LME metals inventories for copper, zinc and tin. And the oft-chanted `falling Chinese growth' has been met by a **rise** in September and a raspberry for the bears.

LME inventories are declining for some important metals and less than 2 weeks consumption inventory is just not enough.

28 Oct	000 tonnes	Index Dec 2011 =100	Dec 2012	June 2013	Oct 2013	Weeks consumption
Copper	480	100	86	180	130	1.2
Zinc	1040	100	147	129	109	4.6
Lead	231	100	91	56	65	1.0
Tin	13	100	99	127	108	1.9
Nickel	235	100	155	208	261	7.7
Aluminium	5397	100	105	109	109	9.5

Nickel and aluminium do have large inventories but the rest are quite tight and zinc will have a large supply crunch not too far out.

So bringing together the `the not-the-end-of-the-world' scenario we get a rather a very exciting outlook for the resources sector.

Now whilst my `Shanghai 1994 analogue' of 14 October 2013 raised a few eyebrows (and probably more guffaws!) let's just look at this more dispassionately.

Firstly, we did get that `strangely stronger' move in the gold sector on the next day and gold itself jumped higher.

So now look at some of the moves out of those `End Of Financial Year Sales' June lows and where we might be by the end of December.

Probably at least another 30% from the June lows.

Start with the big stocks because the leaders lead. North American big cap stocks seem to be leading the leaders.

Stock	Code	Current$	Dec-11	June low	Oct low		% gain	% gain	% gain
As at 28 Oct 2013							Dec-11	Jun-13	Oct-13
Newmont	NEM	27.83	60.01	27.07	25.33		-54%	**2.8%**	9.9%
Barrick Gold	ABX	20.14	45.25	14.67	17.13		-55%	**37.3%**	17.6%
Freeport Copper	FCX	37.44	36.79	26.38	32.34		2%	**41.9%**	15.8%
Alcoa	AA	9.24	8.65	7.70	7.82		7%	**20.0%**	18.2%
Vale	Vale	16.08	21.45	12.73	14.90		-25%	**26.3%**	7.9%
BHP	BHP	37.41	34.42	30.43	34.35		9%	**22.9%**	8.9%
Cliffs Resources	CLFV	24.99	62.35	15.50	19.88		-60%	**61.2%**	25.7%
US Steel	X	23.49	26.46	16.12	20.44		-11%	**45.8%**	14.9%
Fortescue	FMG	5.21	4.27	2.87	4.61		22%	**81.5%**	13.0%
Iluka	ILU	9.98	15.50	9.34	9.73		-36%	**6.9%**	2.6%
Santos	STO	14.76	12.24	12.02	14.48		21%	**22.8%**	1.9%
Woodside	WPL	38.45	30.13	33.31	36.95		28%	**15.4%**	4.1%
Oil Search	OSH	8.43	6.25	7.51	8.20		35%	**12.3%**	2.8%
S&P E&P index	XOP	71.44	51.65	55.89	64.97		38%	**27.8%**	10.0%
Newcrest	NCM	10.99	29.60	9.06	10.01		-63%	**21.3%**	9.8%
Ozminerals	OZL	3.73	9.42	3.90	3.70		-60%	**-4.4%**	0.8%
Pan Aust	PNA	2.06	3.20	1.76	1.86		-36%	**17.0%**	10.8%
ASX Mets and Mins	XMM	3370	3722	2653	3094		-9%	**27.0%**	8.9%

Good recoveries have been made from the June lows but some very strong moves have been made from the October lows with the big US stocks leading. Alcoa, Freeport, Cliffs and US Steel seem to be saying lots about the future. ASX stocks have improved but have been lagging.

Catch up time I think.

And look at some of the gains in the second liners.

I know where I want to be. This is my patch and there is much fun to be had. Join me for the ride and make sure you have provisions and enough capital because it will be quite a long ride before we need to get off again.

Stock	Code	Current $	Dec-11	June low	Oct low		% gain	% gain	% gain
As at 28 Oct 2013							Dec-11	Jun-13	Oct-13
Drillsearch	DLS	1.18	0.80	0.91	1.10		48%	**29.7%**	7.3%
Senex	SXY	0.78	0.62	0.55	0.72		26%	**41.8%**	9.1%
Buru	BRU	1.67	2.40	1.18	1.49		-30%	**41.5%**	12.1%
Armour Energy	AJQ	0.28	0.50	0.19	0.28		-44%	**51.4%**	1.8%
Beach	BPT	1.35	1.21	1.09	1.28		12%	**23.9%**	5.5%
LNG	LNG	0.34	0.27	0.12	0.18		26%	**179.2%**	91.4%
Silver Lake	SLR	0.81	0.64	0.51	0.64		27%	**57.8%**	26.8%
Kingsgate	KCN	1.53	5.70	1.24	1.38		-73%	**23.4%**	10.9%
Resolute	RSG	0.67	1.59	0.56	0.51		-58%	**19.1%**	32.1%
St Barbra	SBM	0.53	1.94	0.37	0.43		-73%	**43.8%**	22.1%
Medusa	MML	2.16	4.45	1.26	1.85		-51%	**71.4%**	16.8%
Regis Resources	RRL	3.62	3.38	2.87	3.41		7%	**26.1%**	6.2%
Sovereign Gold	SOC	0.22	0.28	0.10	0.19		-21%	**120.0%**	15.8%
ASX Gold Index	XGD	2507	6034	1984	2262		-58%	**26.3%**	10.8%

And then a collection of some smaller stocks:-

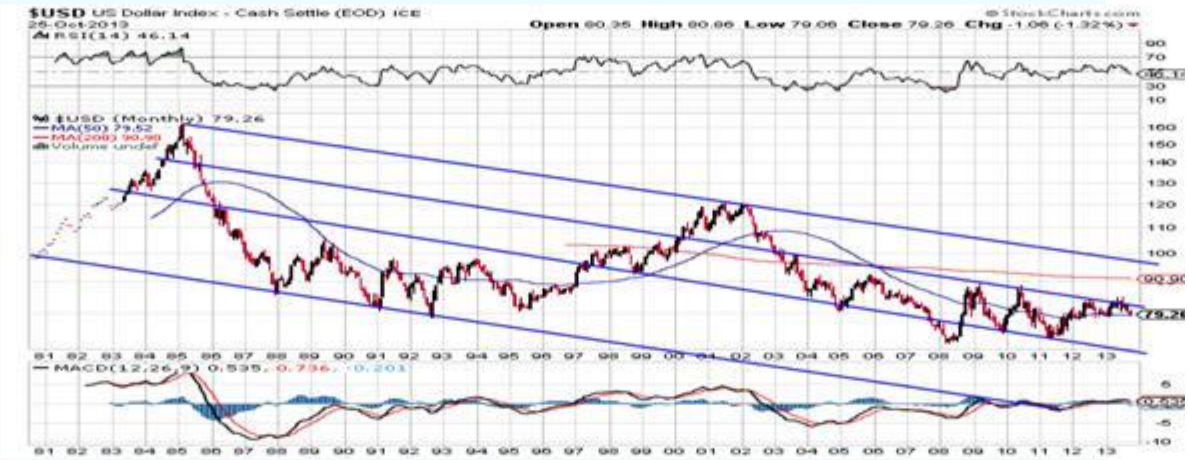
Stock	Code	Current $	Dec-11	June low	Oct low		% gain	% gain	% gain
As at 28 Oct 2013							Dec-11	Jun-13	Oct-13
Orecobre	ORE	2.43	1.27	1.32	2.15		91%	84.1%	13.0%
Cudeco	CDU	2.15	3.70	3.84	1.76		-42%	-44.0%	22.2%
Lamboo	LMB	0.09	0.16	0.08	0.06		-41%	25.3%	51.6%
Kings Range Cop	KRC	0.11	0.16	0.02	0.06		-29%	358.3%	74.6%
Carbine Tungsten	CNQ	0.05	0.11	0.05	0.05		-51%	0.0%	0.0%
Gas2Gird	GGX	0.02	0.05	0.02	0.02		-53%	-12.5%	10.5%
Alligator Energy	AGE	0.08	0.10	0.02	0.06		-23%	221.9%	31.6%
Ironbark	IBG	0.06	0.20	0.04	0.05		-73%	41.0%	17.0%
ASX Small Res	XSR	2432	4682	1892	2215		-48%	28.6%	9.8%

So let’s just go back to basics.

The world economy is OK. SWIFT Nowcasts confirm that and the markets are anticipating it.

The US$ isn't needed as the safe haven anymore so it and its bond market will just see sellers for quite while now. You can get all excited about the debt and that gold should zoom etc but the US is a great economy that is having its own renaissance through technology and in manufacturing. Lower wages and the benefits of lower energy costs through shale gas are coming through steadily. Just let the US$ weaken and the stock market rally and we will all be OK.

The US$ wasn't able to break through the channel so it has to go lower.



It is still possible to be very bullish on gold as emerging nations, particularly China and India, just absorb any physical gold and tighten the markets. A much higher gold price will act as a brake on politicians spending proclivities with other peoples' money sooner rather than later so it just might be a virtuous circle. Higher gold means less budget deficits and less debt. We hope anyway.

Gold stocks were `strangely stronger' on cue. And gold stocks are EXTREMELY oversold against gold.

So a rally in XAU to 140 (+70% from the June low) and then 180 (up 120%) is fine but a rise from 0.074 on the stocks:gold ratio towards the long term 0.25 says something bigger.

XAU Philadelphia Gold Index

XAU against US$ gold price

I still think that this chart below just might be a good analogue for the next 3-6 months. Clearly we are in uncharted waters and this is the nearest thing I have seen for a navigation map in these circumstances. But what will be, will be, but fore-warned is fore-armed.

If these market moves actually come to pass in direction, if not magnitude, I will feel more inclined to comment on sectors and individual stocks.

I am itching to talk up the wonderful work of our geoscientific explorers over the past few years in copper and other base metals as well as the exotics of rare earths, technology elements like tungsten and graphite and the excitement of Australia's stealth onshore oil boom. And of the numerous developments awaiting finance in coal, gold, iron ore and hydrocarbons.

After sitting in on over 150 in-office presentations plus numerous others at conferences I consider that the many extraordinary efforts by our resources managers will result in extraordinary gains for those who participate now.

I hope you are on board.

In keeping with the New Age I have been tweeting some daily comments on markets and stocks so if you are so equipped you can follow me on Twitter @DawesPoints.

28 October 2013

Barry Dawes

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Barry Dawes

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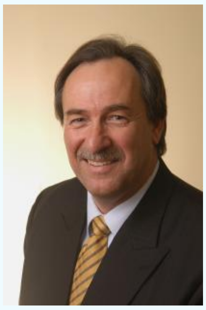

Barry Dawes' expertise in the Australian resources sector is based on his knowledge as a geologist combined with over 30 years' experience in the resources investment sector. Prior to founding Boutique Investment Firm "Martin Place Securities" in 2000, Barry had worked in senior executive roles of investment management with BT Australia, equities research for Bain Deutsche Bank and equities research and corporate finance for Macquarie Bank. He is currently a Director of a number of unlisted public operating companies. Barry has a substantial depth of knowledge and experience in the international resources industry and is well known for his views on the sector.