Private Wealth Advisory

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The Inflationary Storm Pt 3

As noted in last issue of ***Private Wealth Advisory,*** the primary threat to the markets right now is another round of deflation. The markets have yet to price in the fact that QE 3 is not coming right now … so we're in for a volatile time as market participants adjust to the temporary end of free money.

However, the big picture is clear: the US will experience a debt default accompanied by some kind if US Dollar collapse. Whether this is a sudden overnight development, or a gradual process remains to be seen. But the US Dollar will ultimately be much lower than current levels in the future.

With that in mind, this Special Report details which inflation hedges will perform the best during the coming Inflationary Storm.

However, before we get to the individual investments, I'd like to note that this latest pullback in the precious metals' space has given us an extraordinary opportunity to load up on premium quality inflation hedges at bargain basement prices. It's also told us the following:

1) Gold is now THE flight to quality trade
2) The bull market in inflation hedges is nowhere near over

Regarding #1, note that while Silver and other commodities fell off a cliff, Gold held strong during this correction:

As you can see, Gold bounced hard off its first support line. It has since resumed its uptrend. The same is true of the entire mining complex:

As you can see, the entire mining complex actually bounced of its former highs (established in 2008). This is a MAJOR signal that the bull market in inflation hedges is nowhere near over. If anything, it illustrates that the next leg up is about to begin!

However, while the entire mining sector has been relatively resilient during this pull-back, individual players in the mining space have been positively hammered. And this has given us a fantastic opportunity to buy premium quality inflation hedges on the cheap.

The first one is **IamGold (IAG).**

Inflation Trade #1: A Gold Miner With a Forward P/E of LESS Than 10!?!?

IamGold (IAG) is a large-cap ($7 billion market cap) Gold producer. Do not let the size of this company mislead you, the value here is absolutely unbelievable.

With a $7 billion market cap, IAG has over $600 million in cash on its balance sheet. It also has a $350 million credit facility it's yet to tap. So the company has nearly $1 billion in available funds for operations. On a market cap of $7 billion this means we're looking at a MINING company trading for **10 times available cash**. To say this is a ridiculous valuation would be understatement of the year.

On top of this, IAG has an absurdly good production record. It produced nearly 1 million ounces of Gold in 2010. It plans on producing 1.1-1.2 million ounces in 2011. At a cash cost of roughly $600 per ounce and with Gold trading around $1,500 per ounce, this means IAG will be producing earnings of $600-800 million in 2011.

With a market cap of $7 billion, the company is literally trading at a FORWARD P/E of less than 10! This is a deep value price for ANY profitable business. In an industry that is typically as unprofitable as mining, it's positively ridiculous.

This won't last for long.

When you consider that other rival companies with 1+ million in annual production are currently valued at market caps of $9 billion, $11 billion, $18 billion, even $41 billion, it's clear IAG shares should be trading much, MUCH higher.

Now, about those assets.

IAG also has over 16 million in proven and probable reserves. At market value these reserves are worth over $24 BILLION. And it's not as though these assets are fixed. Indeed, IAG has proven very adept at increasing reserves (last year it only had 14.5 million in proven and probable reserves today it's over 16 million).

A final bonus for the company is IAG's Niobec property in Canada. Niobec is a niobium mine. Niobium is a rare earth metal used as an alloy in steel production. IAG acquired Niobec in 2006. Since then it has nearly doubled Niobec's reserves. Today, Niobec controls 9% of the global niobium market.

IAG believes the net asset value for this mine to be between $1-$2 billion. Already ridiculously cheap based on its Gold reserves and production, the Niobec resource is practically free as an added bonus.

Finally, IAG's chart looks great as well.

As you can see, IAG has bounced hard off $19, indicating that former resistance is now support: the signal of a new leg up beginning soon. It's only a matter of time before IAG breaks above $21 and is off to new highs. Based on its production rate alone, the company should be AT LEAST 20%-50% above its current levels. If the market finally catches on to the value here a double could easily happen.

Let's get on board before this happens.

Action to take: Buy IamGold (IAG).

Our next inflation trade is a mining company sitting atop an extraordinary 12 million ounces of Gold. It's not merely an exploration play either: the company produced 200,000 ounces of Gold in 2010 and is on track to produced 300,000 this year.

On top of this, the company's debt free and completely unhedged… so any spike in Gold prices means more money in the bank.

I'm talking about **Centamin Mining (CEE.TO).**

Inflation Trade #2: A Producer That's As Cheap As When It Was Just in Exploration!

We've actually invested in **Centamin (CEE.TO)** before. However, we sold when things started to get particularly ugly in Egypt (where's CEE.TO's mines are) and the commodity space was collapsing.

However, both of these issues have since been resolved for CEE.TO. The Egyptian Government has stated that it will honor asset sales established under the Mubarak regime. In plain terms, this means CEE.TO will retain control of its mining assets in Egypt.

Regarding the technical picture, CEE.TO has just bounced off support:

As long as we hold this level, CEE.TO is destined for much higher prices. I would like to stress that at its current pricing (more on this later) CEE.TO is already dirt cheap. So if it falls further, I will be looking to add to our position.

The reason for this is that CEE.TO is a PRIME buyout target. The company has 9.1 PROVEN ounces in proven reserves. Throw in measures and inferred resources and the company's assets swell to 14.5 million. At current levels (market cap under $2 billion) the company is trading for less than 1/6th of its PROVEN reserves.

However, CEE.TO is not a mere asset play. As mentioned earlier, the company began production in 1Q10. It produced over 200,000 ounces in 2010 and it just produced

45,000 ounces in the first quarter of 2011 (it expects to produce 300,000 ounces this year).

CEE.TO's Gold is totally unhedged, meaning that it has no fixed price contracts on the market. Consequently, every price increase in Gold means greater sales numbers from the company.

Indeed, the company produced record earnings ($50 million) in 1Q11. At this pace CEE.TO will produce roughly $200 million in earnings in 2011. With a market cap of under $2 billion, this means the company is trading at a forward P/E of 10!!!!

Like IamGold, with CEE.TO we have a deep value valuation for a MINING company. It's simply astounding when you consider the price of Gold as well as CEE.TO's reserves and production rates.

On top of this, CEE.TO is extremely well capitalized with no debt and $185 million in cash on its balance sheets. In fact, CEE.TO can meet all of its operating expenses from current production alone (rare for a mining company).

And because of the recent sell-off in commodities, we have the opportunity to buy CEE.TO as a Gold producer today at the same price as when it had yet to even BEGIN production:

As stated previously, CEE.TO is currently trading at an unbelievable forward P/E of 10. With Gold at $1,500 per ounce the company's proven reserves are worth over

$13 billion. Throw in measured and inferred reserves and you're looking at north of $16 BILLION in value.

The company's entire market cap is less than $2 billion.

So we have an unhedged, debt-free, Gold producer with enormous upside potential in its reserves, trading at a forward P/E of 12 and less than 1/6 of its proven reserves.

Talk about dirt-cheap.

Action to take: Buy Centamin Mining (CEE.TO).

This concludes ***The Inflationary Storm Pt 3.*** Part 4 will be published next week.

Good Investing!

Graham Summers