ALCHEMY FINANCIAL

Turning Paper into Gold

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Highlights In This Issue:

Plan B: A Roadmap to Going Long Miners

By Jonathan Mergott

As I've mentioned in the past, it's always a good idea to have a plan for multiple scenarios. If you're long, what if you are wrong? What are the risks? How could that play out and what would it look like? How should you react if you get the signal that it's a possibility? The last thing you want to do, is be scrambling during a panic trying to figure out which positions are most solid, why, which you want to take 30% out of, 50%, how much cash to have overall, do you want a hedge? How much? What instruments?

When time is of the essence, you want to be able to react. You don't want to have to think of a plan on the fly. So, get a rough blueprint of what you THINK is the most probable scenario and invest accordingly, but don't marry it. Then, have a rough blueprint of what could go wrong and what may be some signs if that is the case and what to do, but again, don't marry it. Chances are, what goes wrong won't be exactly what you expect and your idea of what to do will be an ever-moving target that also will be far from exact, but **a rough blueprint outlined ahead of time, that you can be flexible with on the fly, is a lot better of a place to be then "winging it."** (If you can't think of how you possibly could be wrong, I can assure you, that means you're are wrong. Regardless, humor me and try the exercise anyway. If I am right, you'll be glad you did. If you are right, free permission to gloat as much as you want, deal?)

My general thought process is that this is bearing a lot of resemblances to the gold market 1 year ago after Russia invaded Ukraine. **I think there is a good chance everyone rushed to one side of the boat all at once when they heard "bank failures" and chose the most obvious play imaginable given those circumstances.** This could get worse and we could be looking at 2008 all over again, but it's unlikely as we took steps to prevent this after the financial crisis. Also, it's simply too obvious. Every idiot is expecting a repeat of last time, but the smart guys with all the capital have made a point of "not making that mistake again" and building that risk they previously never thought possible into their models. No, if something goes wrong, it'll be something no one sees coming. (And then they'll factor THAT into their models until the next one. Lather, rinse, repeat.)

Rarely in investing is the majority of the public right, and even rarer is the smart investment the obvious one. If I am right, that rush of everyone to the same side of the boat is about to capsize the boat, as gold now is left with no one interested in buying that hasn't already, and a lot of potential sellers not wanting to give back their profits. Let's add to this overwhelming sentiment that "The Dollar is dead" and huge hedge fund long positions in Euro, bear market action in a lot of commodities that we can't expect gold to be immune from, The Fed being pretty clear they are not only not going to cut, they aren't even done hiking, and I think gold has gotten WAY ahead of itself here and is due for a much bigger correction at the very least, if not a complete collapse when everyone's "panic" fears prove unfounded. A couple of bad banks may go away, and then life returns back to normal.

But what if I am wrong?

Gold is an insurance policy. You spend most of the time with it not doing all that much that's exciting and then every so often, it's lightning! And miners are even more fun! When those profit margins start expanding rapidly, you have stocks that see exponential increases in the money they make, and with it, multi-bagger potential. It would be a crying shame to spend all that time waiting, only to think it was a false start when it begins to move and miss the fun. So, we're going to have a plan for if that's the case. If I'm wrong, what does that look like? How will we start to see signs that this might be the case? What is the plan in terms of our positions?

First, "what does that look like?" In my experience in "reading the tea leaves" of the precious metals market, that is best done on the corrections. We need a healthy pause after a nearly $300 move higher in 2 months. **In January, after moving from 1600 to 1960, a $350 move higher, we corrected to 1800, a nearly perfect 50% retracement of what we just gained. Two steps forward, 1 step back.** Perfect. From 1800 to 2060 this time, and somewhere near 1900 seems about right. It would be 38% of the 500 we moved up since Oct, and about 50% of the 350 we moved up since February. From there, we want to see buyers stepping in and buying the weakness. Big money can't move quietly. They need those big drops to make their big moves and we can see it when they come in and support the market while others are panic selling. Also, miners. **I've pointed out time and time again to "watch the miners" and time and time again, good strength in miners on corrections, when they don't get destroyed on the way down, has nearly 100% of the time spelled out a rally is coming.** Inversely, bad underperformance at highs, inability to continue gaining with metals, big underperformance on corrections has nearly 100% of the time spelled out that something is wrong and bulls should take caution. This is what we look for.

Additionally, the saying "the trend is your friend" is meaningful. You can be a total novice and FOMO buy at the top of a big move and have a terrible execution. But if you're in a bull market, the trend will bail you out over time. Idiots can make money in a bull market and you all probably know plenty of them. There is a point in time when you take a position where you have to look honestly at it and think, **"Is making money being long/short easy, or am I fighting tooth and nail for pennies, cashing out with small losses or profits?"** Making money on the right side of the trend is generally easy. If you're fighting and getting meager results over a significant period of time, put your ego aside and accept the fact that you may be on the wrong side of the market. **You don't have to understand why, you already see the results so leave it at that.**

What is the plan in terms of our positions? Currently, our long-term investments in gold are held in Jrs and royalty companies, and we are hedging the downside risk with GDX puts. The first order of business, if we begin to see good action in metals, buyers supporting them on pullbacks and miners not getting obliterated on those pullbacks, would be to obviously exit those puts. That same money we use for hedges will then get flipped to at the money calls in GDX to add upside leverage, looking at expirations about 6 months out. But what about the rest of our cash and our existing positions?

Royalty is a great business model. Look at the charts of RGLD, WPM, and FNV and find me ANY producers that have performed equally. **They have been the only "gold stocks" you can buy and hold and not worry about.** They hold up better than producers in bear markets, pay dividends while they get cheaper, and they still have exposure to the upside, albeit less than other gold investments. Jrs are hit and miss, and you need to expect that going in. You could have a 10 bagger like snowline during bad times, you could have a bankrupt company during good times. A rising tide will typically lift all boats though, but performance in Jrs can be very varied. In a move higher in metals, it's the producers that benefit the most, and most consistently. Sure, a single Jr might outperform a producer, but as a whole, if profit margins are increasing, stock prices are too. **This is the time to want producers. This is the ONLY time they are worth having, and the higher the cost, the more upside leverage**. IF we're wrong, we don't want to miss that opportunity. So, we're going to outline some stocks we may want to pay attention to and have a plan to jump in on, if things act in a way that warrants doing so.

For these purposes, we will ignore royalty all together. It's not highly leveraged, they are near all-time highs, if you don't already own some, wait until the next SEVERE correction to start establishing positions for the long term in them. **First, we will look at producers, with an emphasis being put on high cost, high debt, and large silver production, as that offers the most leverage.** We are going to ignore fundamentals. Not because we want to IGNORE them, but because it would take too long to discuss, the pluses and minuses of each are open to interpretation and you should always do your own research on those points anyway. We will simply focus on technicals and LIMITED fundamentals.

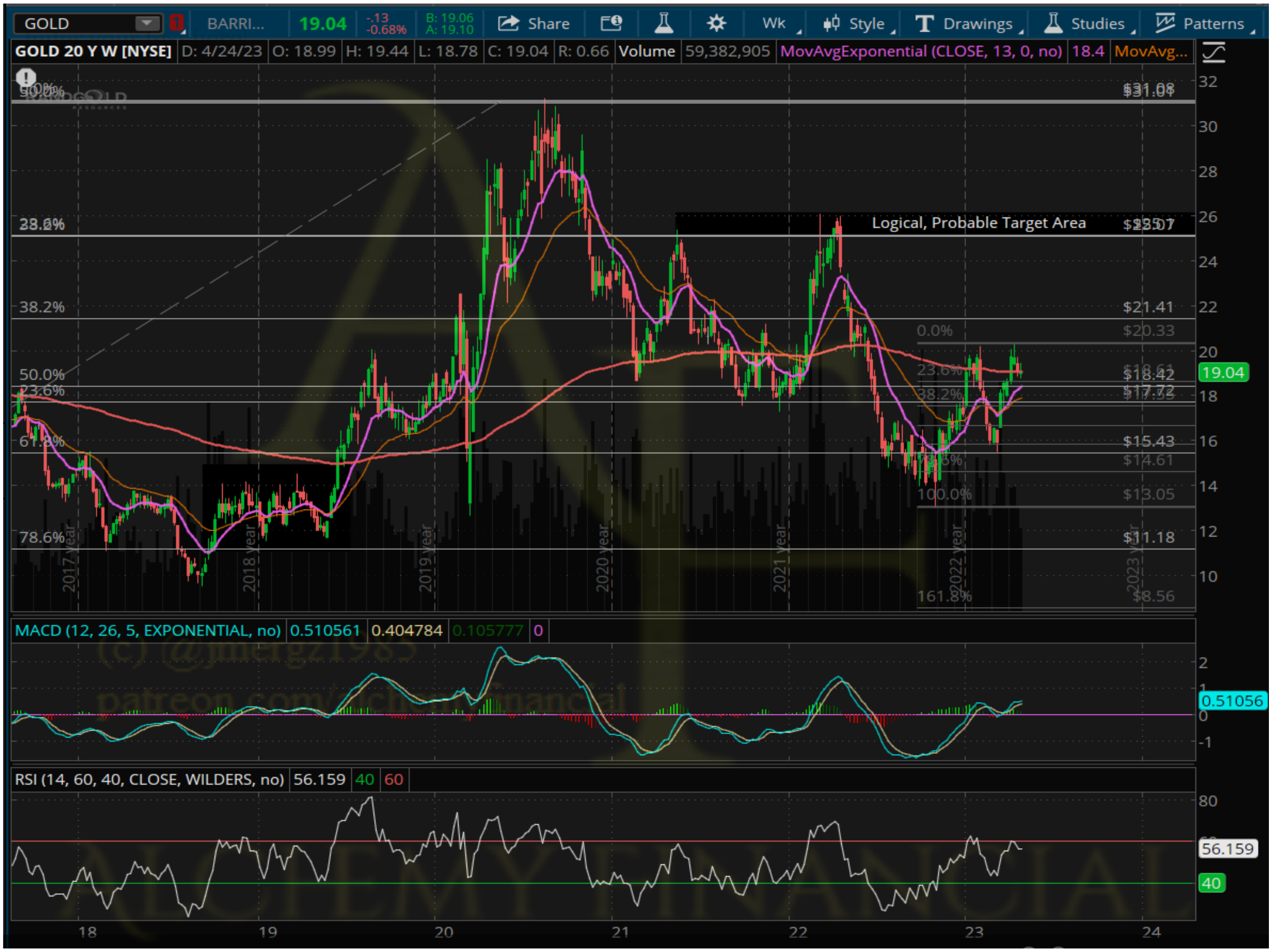
First up, Barrick $GOLD. First thoughts here is that price action is less than impressive. We have a double top here at 20, which doesn't mean "Doom", just simply that there is resistance at 20 we are being pushed back from. That level also coincides with the 200-week EMA, which also isn't encouraging. As a general rule of thumb, on any timeframe you are looking at, a bullish perspective SHOULD see an upwards slopping 200 period EMA with price mostly maintaining above it. This could be marking a failure at this level OR be the first attempts of climbing back over it. If we are looking at this from the viewpoint of a bullish pullback coming, that makes us abandon our "breakdown lower" views, what could that look like?

I highlighted the period in 2018-19 in the black box. The first, we saw a nice "pop" from lows that struggled just south of the 200-week EMA and saw the peaks of that rally top out at 60 RSI. MACD was able to climb back over 0 line and hold above for 6 months though. 13- and 30-week EMAs gave a bullish cross higher while it consolidated and struggled, being pushed back at the 14 level. **Pullbacks to the $11 level saw RSI bounce at 40 and MACD reach 0 line then head back higher. Price did not go down enough, or STAY down long enough to trigger the 13 and 30 EMAs to give a bearish cross back lower again**. On the 2nd test of 11 and 2nd test of the 40 level on RSI, priced reversed strongly and moved up to the $20 level we are currently struggling at, an 80% gain.

From a bullish perspective, this bears a lot of similarities to now. Nice pop from lows, struggling near 200-week EMA. 2 peaks in price at 20 coincided with 2 peaks in RSI at 60. **MACD has climbed above 0 line and has held for 4 months so far. 13- and 30-week EMAs gave a bullish cross in Jan and gave a quick bearish cross in Feb that reversed back higher again.** We could be getting ready to start breaking higher after 1 more dip to flush out the weak handed bulls.

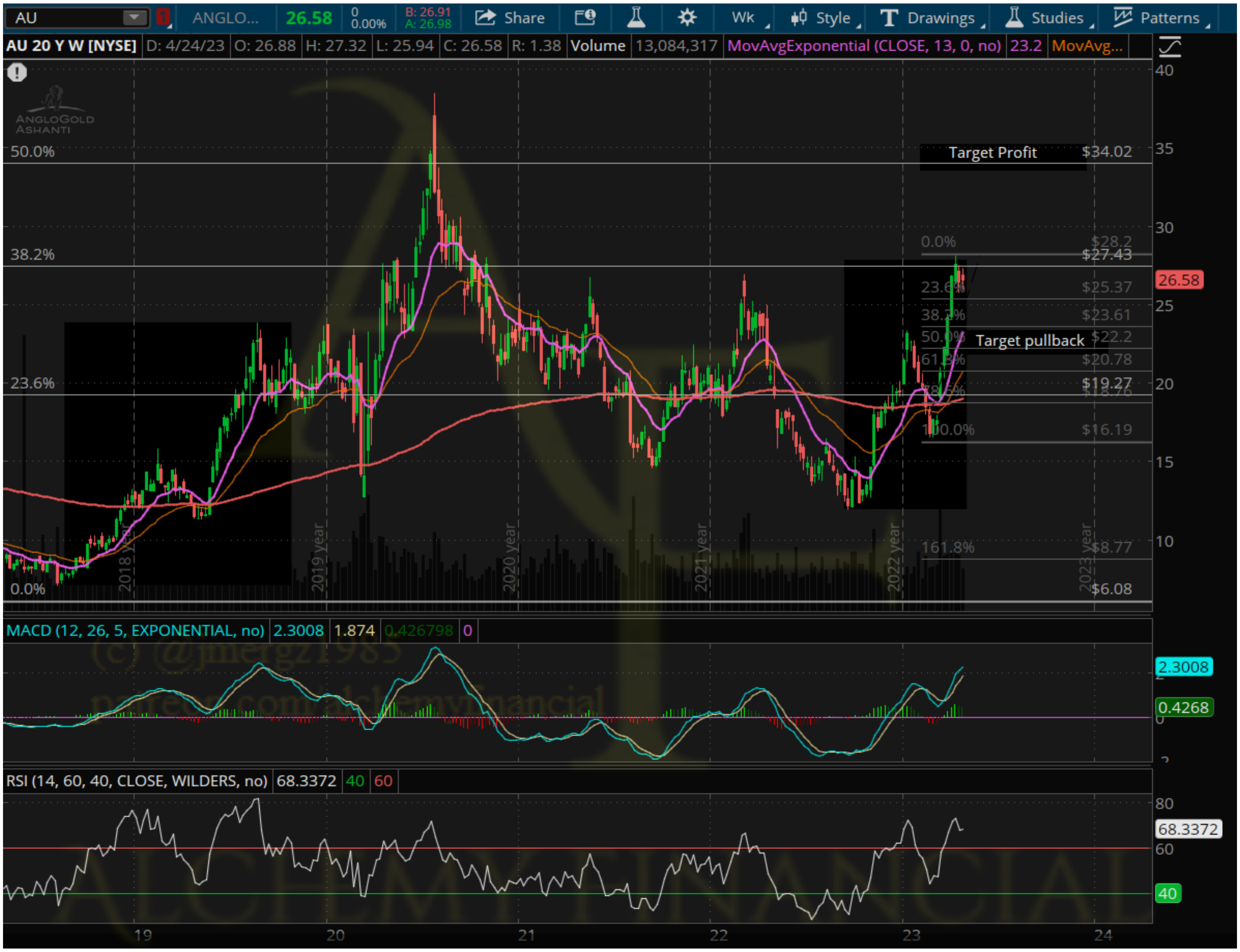
The first area we would look for support would be near the 13 and 30 EMAs, currently around 18-18.40. We can see from dips in 2019 and 2020 when $GOLD was trending higher, that dips in this area held and turned higher. It is also the 23% Fib retrace from the 2011 high to the 2015 low, as well as the 50% retrace from the 2015 low to the 202 high. The next area we would look too is the 50% retrace of the move from Oct lows to Jan and March highs at 20, (Dark grey Fib retrace lines) which is at about 16.75. The final area would be a retest of Feb lows at 15.50, which would be ideal. That are would likely coincide with a test of RSI at the 40 level and retesting recent lows, threatening a lower low that shook out the bulls is exactly what it did before moving higher in 2019. A break below that level and the bull case begins to fall apart in my opinion, if we print a lower low. **So, the ideal place to enter or add to positions would be between about 18 and 15.50**, provided we see confirmation of buyers coming in as we test those levels.

Some quick fundamental metrics so we can get a gauge on what to expect on a rally. I will refrain from going into a long tirade on how much I hate Barrick and their management, and how much shareholder value they have destroyed over the years, and how much it has underperformed NEM over the longer term. Here's the metrics that matter. **$GOLD produces ~4.1million ozs of gold a year and their money is made by about 78% gold and about 22% copper. AISC are currently about $1240**, giving them about a $750 profit margin here, so a break out on **gold to $2300/oz increases that by 40%,** which is a reasonable expectation in terms of expected performance for the stock. **From about 18, +40% would be 26** which is a major resistance level and multiple fib retracements as well, so that would be the area we would look to for a target.



Next up, NEM. Again, we can see similar price action and technicals vs end of 2018-2019. Price collapsed under 200-week EMA, RSI is deeply oversold, rallies up near the 200-week EMA failed as it consolidated. Dips held at 40 RSI but failed at 60 RSI. 1 final dip to lows near 30 saw RSI hold at 40 and then broke higher, moving up to 42, nearly 50%. Fundemental Metrics: **AISC last Q at 1376** came in unusually high. NEM's production is **75% gold, with 33moz production of silver at roughly 16/oz.** They have 2.6b in net debt and a 3.6% dividend that is nice, but not very important if our target timeframe is a run higher of ~3-6 months. NEM has been weak, but their debt, AISC and silver production give them more leverage than ABX, so my opinion, **a logical target for a pullback would be ~42 with an upside of 55-60.**

Anglo AU, again, has a resemblance to 2019, except in it's case, it has already moved higher. A consolidation low, pullback to 200-week EMA and a VERY extended move up right into resistance and Fib retracment. (38% from 2011 high to 2015 low). The darker fib retracements of the move it's just made since March, put the 50% right between the 13 and 30 EMAs, where it found support and consolidated in 2019. **That level is 22 and a fair pullback expectation. 35 is major resistance**, despite overshooting and reversing in 2020. **AISC at 1383 is on the higher end for 2.75m ozs production with 878m net debt** and I'd say a **50% move higher on a breakout in gold is not an unreasonable expectation.**



Believe it or not, Kinross, KGC was a $27 stock in 2011! It's been largely not worth paying attention to since then, but can't ignore a 3x move since 2018 and 2020 lows. Again, a similar "2 step" move like 2019, but stopping at the 200 week this time vs above in 2019. **AISC of 1271, on 2.2m ozs a year**. But the real "highlight" for KGC is a **$2 billion debt** for this $6.2b MC, which gives them leverage. $6 was the bear market ceiling from 2013 breakdown all the way to 2020, so that is stiff resistance but I believe KGC could push past that level in a breakout for gold. **From a pullback to 4 to a high ~7 doesn't seem extreme for Kinross. That's a 75% profit,** and a conservative target move considering all that debt.

South African gold miners have spent decades trying despratly to diversify out of South Africa and for all the reasons they hate it, I love it. The easy, cheap gold has already been mined, but to me that equals leverage. **HMY made nearly a 150% move since Oct.** Unlike previous miners, not much of a resemblance to 2019, with exception of that hold at 40 RSI before launching, as it did this time as well that was a clue. 50-61% retracements of this move since March are right near 30EMA and 200. 3.50-4 looks like a good target to buy nearby. **HMY produces 1.45m ozs at 1600 AISC**, so far better leverage on cost than the previous miners but with no net debt. 5.50-6 is pretty stiff resistance I can't see it blowing past easily, but **6 is up 70% from a buy at $3.50, so good potential.**

Pan American Silver's name is just a lie at this point, with PAAS producing 18.5m oz/Silver and 550k/ozs gold. At 80:1 that's 780k aueq, meaning **64% of their revenue is from gold. AISCs are 16.50 AG and 1459 AU,** AU being more meaningful here as that's where revenue is coming from. The chart here does not look great. Looking for "anaoligies" in price action and indicators it looks most like 2014 before taking another leg down than any bullish time period. But, if this were to pullback and break higher, support at 15 would be the area I'd look at. If it's able to push beyond 20, which has stiff resistance**, I wouldn't expect more that 24-25 here, which is also big resistance. That's +66% from 15,** which we can thank their 24% silver production for the leverage and high costs on gold vs bigger producers.

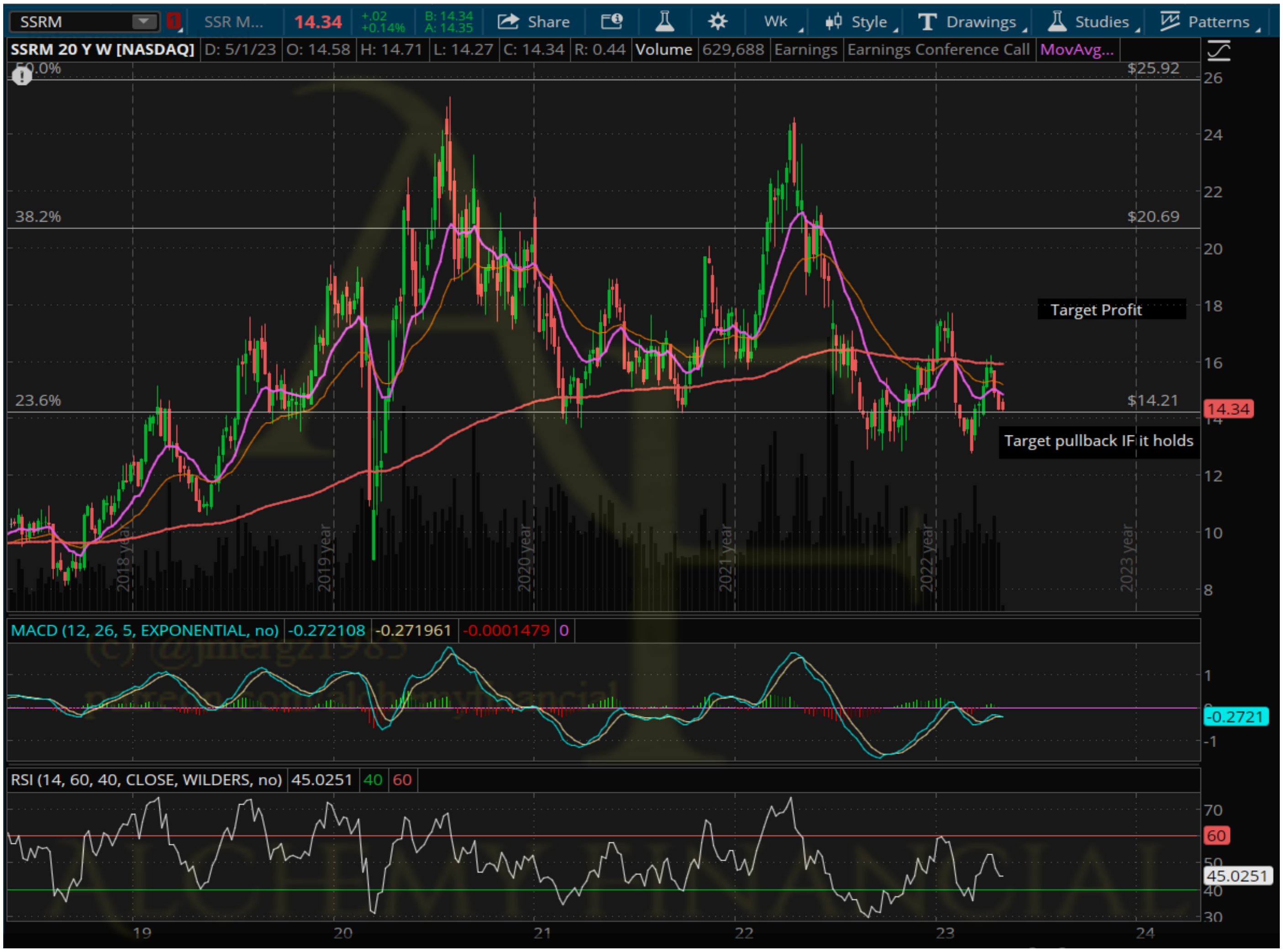
IAMgold, IAG has been fumbling the ball for a while. I remember the days of 2009, buying this for $4 and riding it to 20+, now 1/10 of where it was at the 2011 high. Like all companies who hedge, they did so out of panic of disapearing profit margins back in the bear market, not out of intellegently, taking a small amount and selling forward after a tremendous move higher. **Because no one (in my experience) hedges correctly, I prefer they don't do so at all.** IAG has not learned their lesson clearly. They have 198k ozs hedged via 2300 gold calls and 1700 puts. That's 25% of 713k oz of gold production and **nearly half their 1.4b MC in net debt, (605m). AISC at 155**0 and that debt does give them leverage though. I'm not liking this one, but on a pullback, I'd expect to see near **2.50-2 with upside potential MAX $4**, and I think that's being generous expecting a possible 100% move here.

Coure Mining CDE has been terrible. I really can't find anything to be bullish about in this chart and looking at their fundamentals I can see why. They have been vague on AISCs and continue to be, reporting simply "cost" at 1300/gold and 17/silver. **Production of 480k oz au/eq is 72% gold. Net debt of ~450m**. You'd THINK with that debt and what is a presumable high AISC they don't want to talk about, they'd have some good leverage here. BUT they have **180k ozs of gold hedged at 1960 and 3.2m ozs silver at 24.55.** If metals collapse, that won't be a dumb move but as it stands now, they're losing on both. If we're looking to be bullish, that's a big problem for them. Looking at both fundamentals and technical, it's hard to be bullish. **There are many better choices so I would avoid CDE altogether**.

The moves in AEM of price making a barely higher high with RSI stalling just about 60 concerns me that this doesn't look like a bull market yet, but the bounce at RSI 40 puts that into question. 38% retracement of the move since Oct comes in right near the 30-week EMA at 51. **AEM has acted well and expecting ~10% pullback from here is more than fair but wouldn't be surprised if it goes a bit further. With major resistance at 70,** I'd be hard pressed to find it probable it moves further than that, which is **up 40% from 50. 800k ozs of gold a year with little debt and a AISC of 1231/oz and a 27b MC** doesn't give them much leverage. It's a safe play, in the same way Coca-Cola is for your portfolio (compared to other miners that is) but not my favorite for the purposes of big gains on a multi-month time frame.

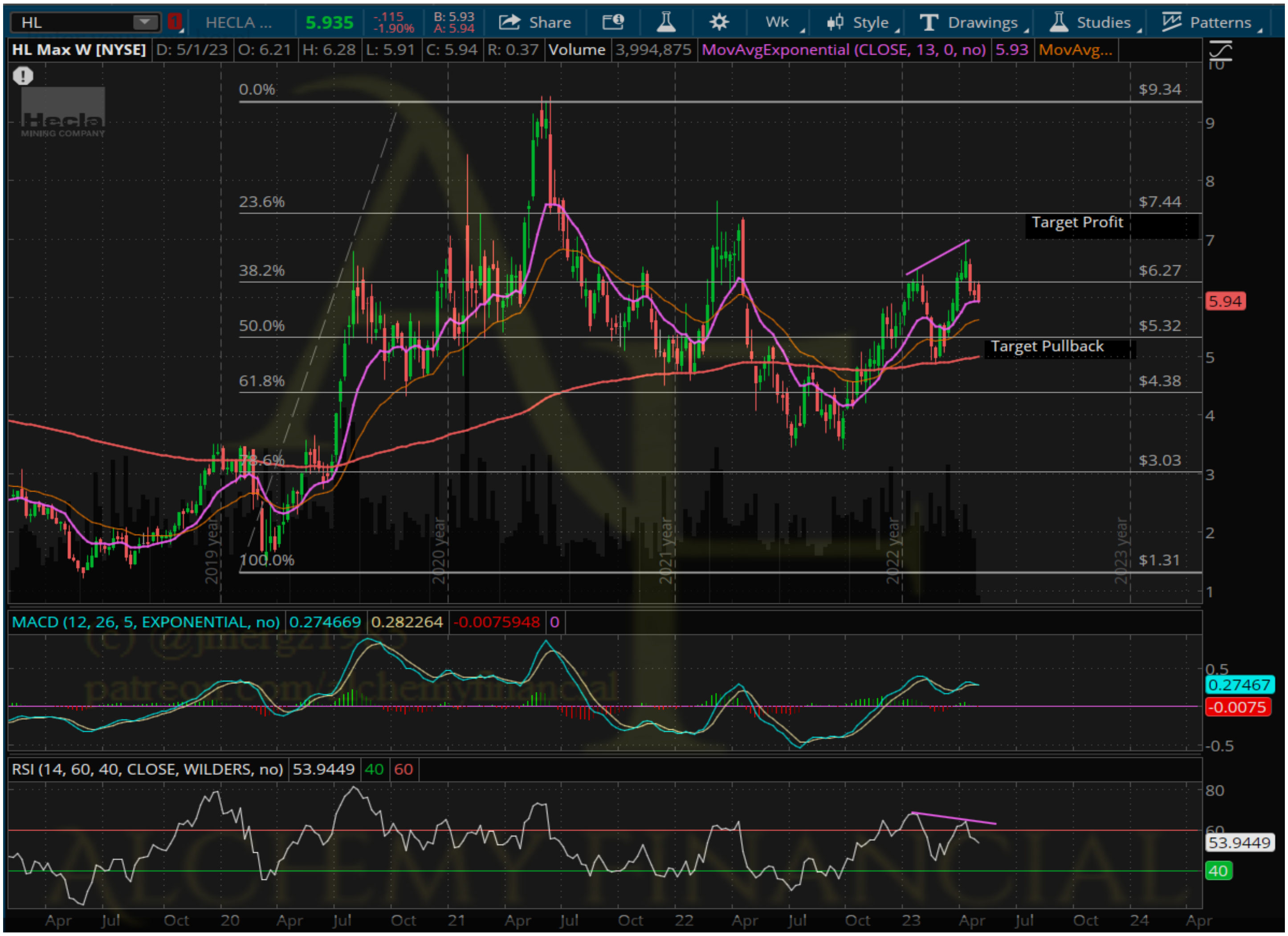
Fortuna FSM, is another that has been lack luster. In 2021, many were betting heavily that the market was wrong in terms of it "punishing" them for the Roxgold acquisition. I warned then that was foolish, and FSM got cut in half since then. The dust has settled but not wonderfully. Yes, we got a double since Oct, and **3 looks like a logical pullback area that would be good to acquire** it at if bullish, but there is major resistance here at 4 and even with an explosive move in metals, **I don't see this going past 5.50** best case scenario. That's about 80% which is a good gain. **425k oz AUeq is 70% gold**, so "silver" in name only. **AISC is 1400 and 60m net debt** doesn't give spectacular leverage on this 1b MC company. Their recent performance is likely a "return to mean" after underperforming, but there's better options.

SSRM has been another example of disappointing performance. Failing at 200-week EMA, pullback already to 14. If metals fall further here on a correction, this is likely to retrace all of it's move higher and possibly more. There is some support around 12-11, but I'd be concerned about wanting to be bullish a stock that's making lower lows, even if the product they produce is going to new all-time highs. There are other options more deserving of your limited investment capital, in my opinion. Regardless, if I HAD to give targets, **we have 700k oz/yr production that is 83% gold at a AISC of 1400 for 2023**. 305m in cash minus debt doesn't help leverage. I'd look for this to pullback to lows near 13 and I wouldn't be interested anymore if it violates them. **Big resistance at 18 is likely the max profit on this one.**



First Majestic AG, has their stock symbols as the best thing going for them right now. Undoubtably them, Anglo, and Barrick will benefit on PM runs from that alone. Jerritt Canyon is an unknown, but assuming they have that 125k oz gold production, **AG is BARELY silver, at 51% of production**. Guidance for 2023 **AISC is at 17+ but actual for 2022 was 19.74**. The high cost should give them leverage, but as mentioned before, don't expect 2016 like moves here anymore, those days are unfortunately gone. With a lot of uncertainty for the company, this one is a gamble. BEST case if a pullback to lows near 6 holds I think the **upside target is limited to 10**, and that could disappear if something else goes wrong for them. So, about a 65% profit potential from 6. But probably better to wait to see how things settle first.

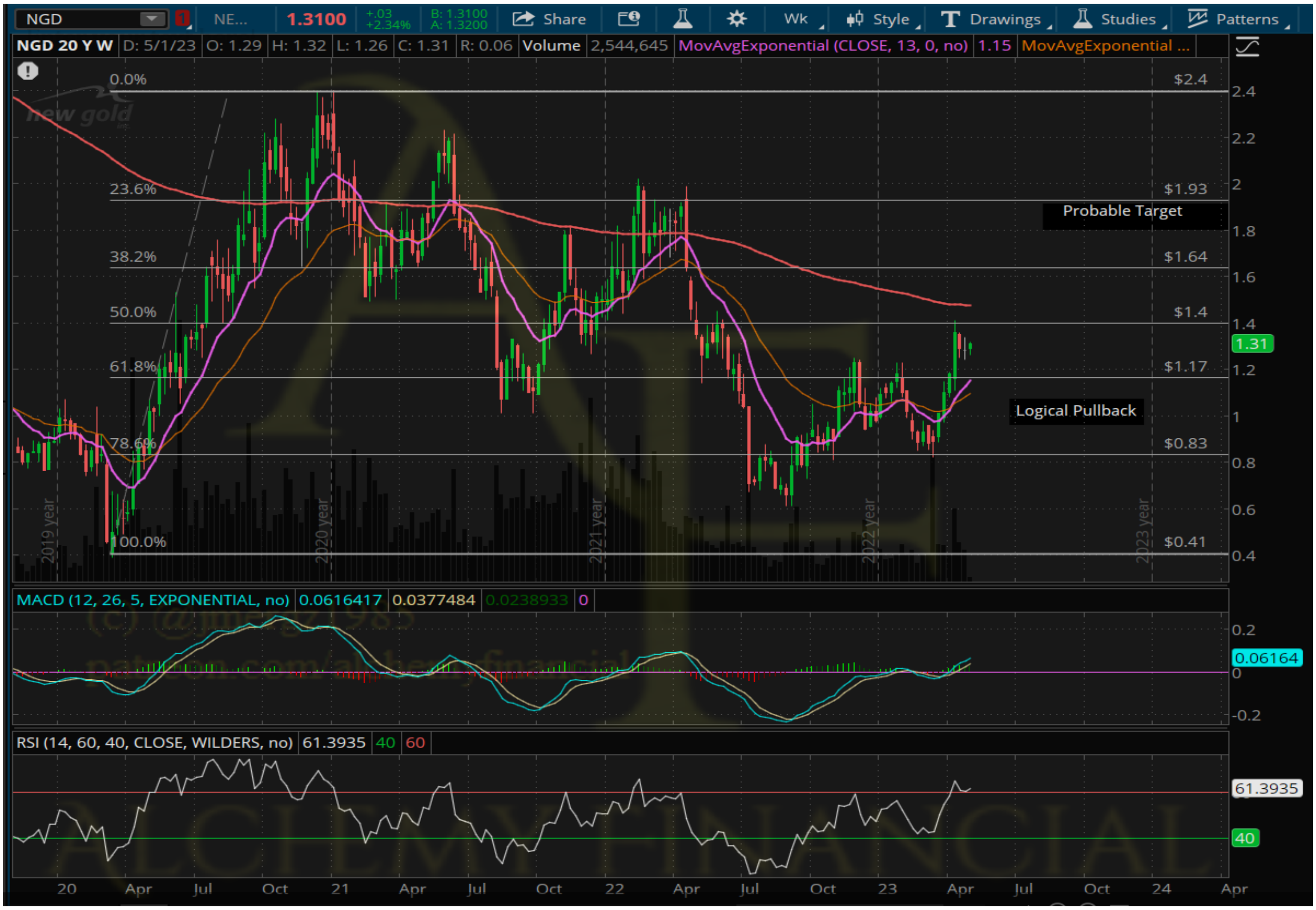
Hecla up next. HL has doubled since Oct, so it's been a good performance. Negative divergence on weekly with RSI though. HL is looking at **~6.5m oz of AG production this year with an AISC of 6-6.75/oz.** HL mines for cheap and that's the best thing about them MOST of the time. If you were looking for an investment, those fundamental metrics might make you think HL is a good buy and hold. But if you look at a 40 yr chart, you may think twice. HL was 25 in 1987. It's been a series of massive moves higher, followed by 90% losses, but shorter term is all we care about. **Good support at 5 but I think it would have trouble rising above 7.50 resistance. A 50% upside is not bad**, and HL is performing well recently but their low costs don't give the leverage that makes for huge gains unfortunately.



McEwen, MUX doesn't look like much but that's **a 200% gain from 3 to 10 since Oct.** Stopped dead at 200-week EMA and just 1/5 of what it was at the peak in 2016, but the past is the past. We're looking for who has the leverage NOW. **With 118k ozs of gold production and AISC at 1500,** MUX isn't bad. There is **good support at 5** and I think it's likely to retest that area as I can't imagine anyone with profit wants to hold on to long here. BUT if it manages to hold, and get past 10 on a rally, I wouldn't say it's a low probability that it gets to big resistance at 15. I'd keep expectations low, because even back to 10 is a double but IF gold were to move to new all-time highs, **I don't think 15 is a ridiculous expectation. This isn't one I want to hold on to long though.** There has been a long history of disappointment.

Avino, ASM is another **2x since Oct, from 50c to $1.** A pretty good-looking chart as well. The attraction here is a producing company with by FAR the smallest market cap of everything listed so far. AND a major exchange listing. **That's 98m MC here at 83c**. The not-so-great part, **40% of Avino's money is coming from copper production**, which is fine, but not PMs. **40% though is silver with 20% gold**. Their **AISC is 18 for 2022**, for AGeqOzs. Part of the good performance is they blew away 2021 in terms of production on all fronts, Silver, gold, copper and overall AGeqOzs. At 83c, **I'd like to see it near 75c,** 67c to be greedy, but it's splitting hairs/ This resistance at $1 is pretty big, but past that **I think we can take a stab at 1.50 again for a +100% gain. (That's still ~200m MC at 1.50).**

Ok, if you've stuck around, we just went through 15 producing miners. The next 2 up I think are the best high leverage choices in their respective fields, both gold and silver. I'm looking at not just the fundamentals, but how well they've been doing so far and how well they could still do. I'm not thinking "too the moon" on anything here, simply probable, logical targets. Congrats to the Gold runner up which we will give to MUX, with what I think is conservatively, a 100% or more target after a pullback to near $5, and silver to ASM for the same percentage profit potential after a decent correction. Both of these however, I think are a bit riskier vs the winners so they aren't positions I would bet the farm on. But onto the winners…



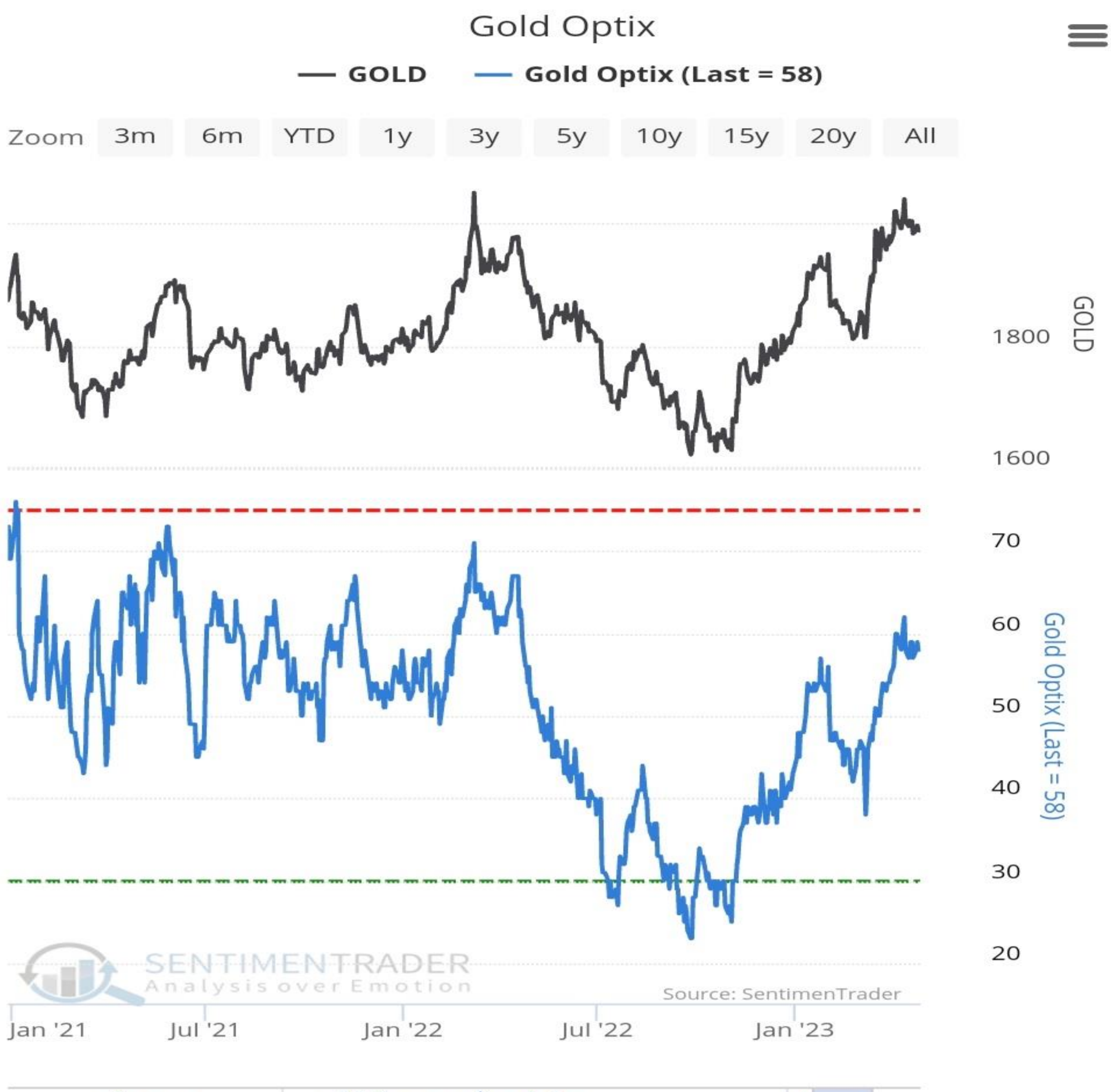
Newgold, NGD is a company I haven't followed closely recently, but a 100% move from Oct will catch my attention. **With a 350koz gold production, that is 80% gold, they have AISC guidance for this year at 1875-1975 as well as 200m in Net debt on a 900m MC.** This is the type of stock we can see unwind quickly if gold tanks, so I don't think **downside at $1** or even less is being all that greedy. Below about 1950, NGD is producing at a loss and investors will throw it away. But at 2300 gold, you have a company that is breakeven that very suddenly goes to a 350/oz profit. And **those swings from loss to profit are what gave HMY a 10-fold move in 2016**. Conservatively, A move up 100% on such a high-cost miner is not outlandish, **so I think $2 is very possible**. I wouldn't rule out an explosion higher than that either but **at +100%, you can pull your costs out and have free stock with 0 risk** and I love to find those.

From the silver side, EXK. **6m ozs production, at an AISC ~19-20/oz. That's 70% silver** too, so it's the best on this list in terms of getting their money from actual silver production. Also, management did something I have been wanting to see producers (who can afford it) do for quite a while, and **withheld oz from the market.** This gave them the ability to **sell 3.8m ozs 4th Q after a huge move in silver.** This is **the OPPOSITE of hedging** and EXK did it right. Nice 50% move just from March here with all EMAs converging right around 3.50. An initial move up to $5 will see some resistance but I think again, with AISCs near 20, **a pullback in metals could see profit margins reduced to $2 then explode to $10 at 30/silver.** That's big, so a move to 6 doesn't seem outlandish here. That's 75%, not the biggest potential or best chart TA wise, but fundamentally, the most likely for big gains on a PM breakout.

I'm going to cover Jrs separately, as this is already getting rather long and right now and a slew of Jrs could be an article in itself. We also have the FOMC to deal with on Wed. It seems hard to believe that we don't see the "resolve" we are looking for in the markets after that. Remember, the initial reaction almost always is a fake out that reverses, so be patient to let things settle. Let the algos have their moments of running around, like they did in silver this morning and don't get suckered in, thinking you are going to "miss it". With sentiment and positioning the way it is, this is only a matter of time. **We are not wrong to be patient. In any situation, panic buying or selling is always the wrong move.**

Speaking of sentiment, 1 more point. I posted this chart of Gold and DSI a while back, showing that just because sentiment was very bearish, doesn't mean buy. In bear markets, sentiment STAYS bearish and doesn't get excessively bullish even at peaks. We spent a long time in 2013 with sentiment in the tubes and price kept declining. There were some sharp moves higher that got everyone excited, but they unwound each time. It can be clearly seen the difference in the "range" in sentiment in bear markets vs bull markets here. In that respect, it's a lot like RSI. Either typically ranging >40 or ranging <60.

So interesting seeing this today. Sentiment is bullish yes, but not overly bullish. After a collapse as we broke down to 1600 this past fall. Look similar at all to 2013 sentiment? What are the odds we flipped from bear market type sentiment lows, back to a bull market that is going to break to new highs in 6 months? Now, what are the odds this is a fake out?



Patience is the name of the game here, and believe me I am getting tired of it too. But time and time again we are seeing ATTEMPTS by bulls that get swatted down. Being long at 2,000 gold expecting even further moves is NOT the smart play here. So, we wait to see what Powell holds for us on Wednesday and how that closes the week after we get time to settle. I will begin the Part 2 on the Jrs soon.

-Jonathan Mergott