

Happy New Year!

A new year is upon us and investors are starting to shake off the effects of a [major punch in the face](#). There is some low hanging fruit out there in the wake of massive panic selling.

Remember that commodity bull markets last 15-20 years on average and we weren't even at the halfway point when a global financial crisis of biblical proportions wiped out 5 years worth of TSX Venture gains. We didn't get taken out by a greed induced mania bubble. We were cut off at the knees by a near weekly series of financial firebombs that made investing in speculative junior stocks futile.

The financial sector certainly has some 'splaining to do and we'll continue to be inundated with experts that can tell us exactly how and why the financial crisis happened. A far fewer number were able to predict it in advance, and fewer still were able to profit. Looking forward I believe the current sentiment is too negative (at least in the short term) and that we'll have a surprising rally in early 2009. On the rare occasions that I listen to the news, I feel like taking a swig of Jonestown Kool-Aide. However, I expect further financial hiccups in 2009 as we had to swallow several extra helpings of fiscal turkey in 2008.

In the resource business we are used to being victims of our own success. If the engineers and explorationists do their jobs right during a time of commodity demand, their hard work will create new supplies. New supplies eventually lower commodity prices and the commodity boom ends. It is rare indeed to have mines close, and major projects halted this early in a commodity cycle. The slick suited financiers of the world, too clever by half, have overplayed their hands. New supply sources are being destroyed we've all but guaranteed ourselves a continuation of the commodities bull market.

Pulling the trigger is difficult when you are paralyzed with fear. Fortunately, we are seeing some great stories out there that appear to be buffered from further financial firebombs. Here are 6 reasons to buy stocks now from Manual Schiffres of Kiplinger:

1. Stocks are battered and cheap.
2. Stocks are overdue for a rally.
3. The low-risk alternatives are pathetic.
4. It's not the 1930s.
5. The market shows signs that the worst is over.
6. If not now, when?

Today I am short term bullish, medium term terrified and long term bullish.

Sprott Resource Corp. (SCP.TO)

January 2, 2009 close - \$2.69

O/S shares - 81.887 million

Market cap - \$220.276 million

Warrants Outstanding - 3,855,430

September 5, 2009

(Exercisable at \$2.50)

Warrants Outstanding 16,594,284

December 31, 2010

(Exercisable at \$4.25 – Callable at \$6.00)

A great example of an undervalued company came to me today via my wife. She was an early investor in Sprott Resource Corp. (TSX:SCP) through its evolution from General Minerals Corporation and was concerned because the share price was moving up. Maybe it was a good time to sell?

Assets on Sept. 30/08	(millions)
Cash and cash equivalents	\$ 107.0
Short-term investments	\$ 48.5
Stonegate Agricom Ltd.	\$ 12.3
Public Securities	\$ 241.1
Private Securities	\$ 17.1
Total	\$ 426.0

The bulk of their public securities holdings were in PBS Coal which were sold in November for \$140.82 million. These securities were valued at \$217.48 on September 30th so their asset base would have dropped by ~\$77 million.

That leaves the company with assets of ~\$350 million of which the bulk of which are in cash or equivalents. The company has investments in small gold, oil and uranium companies along with gold ETFs which are currently being sold in order to buy physical gold.

Here is a quote from the "Stock Market Superstars - Secrets of Canada's Top Stock Pickers" book.

Eric Sprott is at the top of the heap among money managers in Canada. Few, if any, managers have put up the numbers that Sprott has over the past quarter century. The Sprott Managed Accounts have an annualized return since 1982 of almost 25% a year. The TSE over this time

frame averaged about 10% per year. Now hold onto your hat, because \$100,000 invested in the Sprott Managed Accounts in 1982 would be worth about \$40 million today! Over this time frame, a \$100,000 investment in the TSE would be worth about \$1 million.

There is no doubt about it, Sprott related funds were crushed this year. While Sprott's critics might crow about "reversion to the mean" and riding the commodity bull market for too long, the fact remains that he has an impeccable 25 year track record, better than the vast majority of his critics. Did Eric Sprott suddenly get stupid in 2008? I don't think so.

While Eric Sprott's name is on the fund, and he serves as a director, the company is managed by President and CEO Kevin Bambrough who is also Market Strategist for Sprott Asset Management Inc. Bambrough was described by Global Resource Investments founder Rick Rule as *a smart guy...the one guy who didn't get caught naked when the tide went out.*

Here are Kevin's thoughts on the markets and his fund from a recent The GOLD Report interview:

We're cashed up and ready to put our money to work. If we can buy a company for pennies on the dollar for, say, its mill and I get the ore body and the infrastructure for free and I can let it sit on care-and-maintenance until times improve, I think we may get the chance to make 10 or 20 times our investment over a five- to ten-year period—an absolute killing. This is the market that I've been waiting for and hoping for.

Sprott Resource Corp. has a market cap of ~\$220 million. Considerably less than their cash/gold never mind the other assets. This company has traded at 2 times book value in a declining market - we think that will prove stingy in years to come. Having a large cash position right now is a stock picker's dream and Sprott's team is made up of some of the best in Canada. They have opportunity, cash and the expertise to grow the asset base of Sprott Resource Corp.

Uranium Sector Move

There is money on the sidelines and many people are not going to be able to resist missing out on the moves we saw last week in the uranium names. In reading of Stock Market Superstars, there were several stock pickers who had major gains with uranium companies. While very little has changed in the uranium story, the share prices in uranium companies have been decimated.

One of my favorite ways to prospect for stocks is to look for abnormal trading volume on increasing share prices. This is usually indicative of fund buying. Friday's volume scan yielded 3 uranium companies.

- **Denison Mines (DML.TO)**
- **Strateco (RSC.TO)**
- **Pitchstone Exploration (PXP.V)**

I've been pointing out the possibilities in uranium at conferences over most of 2008 but the stocks were languishing until this last week. My rationale was that uranium stocks were washed out prior to the most recent market melt down. Here's an excerpt from a blog post I wrote in mid-December:

I believe uranium prices will increase and that should be good for the higher quality uranium stocks. Cameco is having lots of delays in getting its Cigar Lake Mine de-watered and it was on track to be producing 10% of the world's uranium. Between rising construction costs and the "normal" unforeseen challenges of building mines it looks like most uranium supply estimates are optimistic as very few projects are completed on time and very few operating mines operate at nameplate capacity. Also the current spot price of uranium is close to the cost of production which diminishes the efforts of companies to bring new projects online.

Uranium demand is projected to rise based on the number of nuclear power plants scheduled for construction. This link shows the long term uranium spot price. If it starts to move up there will be more interest in the sector. Uranium prices corrected back in July, 2007 so there isn't any froth in the current uranium price.

Right now, Hathor Exploration Ltd. (HAT.V) is one of the few movers and shakers in the uranium space as they are drilling up an interesting discovery in the Athabasca Basin. For every Hathor-like success story there are a few hundred failures as the quick run-up in uranium prices led to the formation of 100's of public uranium companies, most being run by people who were getting lucrative "on the job training" as there were very few experienced uranium geologists around.

Hathor has been one of the few companies on the planet to have an increasing share price over the last 3 months.

In order to get a big picture overview of the uranium sector I have updated a chart from the July, 2008 Resource World Magazine (via a Tournigan Energy presentation). The table lists some of the world's major non-producing uranium deposits. I've added the company market caps, outstanding shares and approximate cash position (based on the most current quarterly report or corporate presentation). The difference in valuations of deposits is related to a host of factors including grade, political risk, stage of development, management etc. This information was compiled using January 2, 2008 closing prices.

Asset	U3O8 (MMlbs)	Location	Symbol	Market Cap (\$MM)	O/S Shares (MM)	Cash* (\$MM)	Notes
Michelin	102	Labrador	AXU.TO	\$146	73.30	\$109	FRG offer \$190MM+
Valencia	60	Namibia	FSY.TO	\$454	77.17	\$38	
Goanikontes	68	Namibia	BAN.TO	\$101	138.05	\$10	
Westmoreland	49	Queensland	LAM.TO	\$106	62.55	\$5	
Elliot Lake	42	Ontario	GEM.V	\$12	84.07	\$5	\$0.8MM in PPs
Tubas	39	Namibia	DYL.AX	\$63	?	\$50	AU listing - currency not converted
Kuriskova	36	Slovakia	TVC.V	\$31	122.70	\$13	
Roca Honda	33	NM	STM.V	\$32	72.38	\$14	
Dornod	32	Mongolia	KRI.TO	\$24	53.98	\$26	
Anne	23	Sask.	UEX.TO	\$167	183.70	\$30	
Raven Horse-shoe	23	Sask	UEX.TO	\$167	183.70	\$30	

Out of this list we like:

Tournigan Energy Ltd. (TVC.V)

January 2, 2009 close - \$0.25

O/S shares - 122.698 million

Market cap - \$30.675 million

Tournigan has several deposits in Slovakia. They are divesting themselves of non-core assets to focus on Slovakia. Interestingly enough, previously mentioned Sprott Resource Corp (SRC.TO) currently owns 15,986,250 common shares or approximately 12.96 per cent of the outstanding common shares.

Laramide Resources Ltd. (LAM.V)

January 2, 2009 close - \$1.70

O/S shares - 62.545 million

Market cap - 106.327 million

Laramide is going to need to raise cash shortly but they like to point out the recent sale of the Kintyre deposit by Rio Tinto to Cameco and Mitsubishi for \$495 million. Kintyre is estimated to have potential uranium deposits ranging from 62 million to 80 million pounds. Laramide thinks that their Westmoreland deposit is of a similar quality and provides a useful valuation metric. Laramide intends to complete an updated resource estimate incorporating the new results for release in Q1 2009. We are expecting to see a run-up in share price followed by a financing.

UEX Corporation (UEX.TO)

January 2, 2009 close - \$0.91

O/S shares - 183.703 million

Market cap - \$167.170 million

UEX has announced that it will be spending \$11 million on exploration in 2009. They have lots of cash, proven resources and partner with Areva and Cameco. As a practical matter they have better liquidity than most junior companies.

Given all of the money spent in the Athabasca Basin looking for uranium, there haven't been too many success stories apart from Hathor (HAT.V).

Asset	U3O8 (MMlbs)	Location	Sym-bol	Market Cap (\$MM)	O/S Shares (MM)	Cash* (\$MM)	Notes
Roughrider	~35	Sask.	HAT.V	\$255	82.29	\$38	\$8 MM in recent PP, lbs are estimated
Darby/ Candle	?	Sask/ Gabon/ Namibia	PXP.V	\$10	33.45	\$9	\$1.5 MM in recent PP

Pitchstone Exploration (PXP.V)

January 2, 2009 close - \$0.30

O/S shares - 33.445 million

Market cap - 10.034 million

Pitchstone Exploration Ltd. has approved a \$4.3-million 2009 uranium exploration program. Their JV partner, Uranium One is no longer paying their 50% share of exploration costs on the Darby, Candle, Waterfound, Moon Lake, and Lynx Lake properties. They're getting "warm" on their Candle property with one hole showing a nice 1.91% U₃O₈ over .5m. Pitchstone has enough cash to fund 2 years of exploration. We believe they'll be getting better value for their exploration dollar this winter drilling season and have a better chance than most of making a meaningful discovery.

This is a partial list of uranium companies with ISL projects. These are high cost producers that are likely to be marginal at current prices. However a small increase in the price of uranium would be extremely beneficial to them.

Asset	U3O8 (MMlbs)	Location	Symbol	Market Cap (\$MM)	O/S Shares (MM)	Cash* (\$MM)	Notes
Lost Creek/ Lost Soldier	20	Wyoming	URE.TO	\$76	93.24	\$66	
Goliad	7	Texas	UEC:AMEX	\$19	46.41	\$10	
Kingsville Dome	?	Texas	URRE	\$47	55.89	\$14	not making \$ at current prices
Nichols Ranch	~70	Wyoming	URZ.TO	\$40	55.45	\$23	multiple advanced projects

Conclusions

We believe **Sprott Resource Corp (SCP.TO)** to be a solid hold over the coming years. At current levels it is a steal.

We are seeing **uranium stocks** move on some strong buying. We are picking a basket that we'll treat as one position. We still like **Pitchstone Exploration (PXP.V)** and **UR Energy (URE.TO)**. Both of these companies have had nasty declines but we think they are buyable from current levels. We'd add **Tournigan Energy (TVC.V)**, **Laramide (LAM.TO)** and **UEX Corp (UEX.TO)** to our shopping list as well. **Uranerz (URZ.TO)** has a great technical team that can make things happen. We're a bit late to **Hathor (HAT.V)** but we should include this one for excitement. If you want uranium exposure you also have to look at **Cameco (CCO.TO)**.

Our uranium stock basket

Company	Symbol	%	Share Price
Cameco Corp.	CCO.TO	30	23.55
UEX Corp.	UEX.TO	10	0.91
Hathor Exploration Ltd.	HAT.V	10	3.10
Tournigan Energy Ltd.	TVC.V	10	0.25
Laramide Resources Ltd.	LAM.TO	10	1.70
UR-Energy Inc.	URE.TO	5	0.81
Uranerz Energy Corporation	URZ.TO	5	0.73

Disclaimer

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Holdings in securities mentioned at time of publication: SCP.TO

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