MACRO OPS
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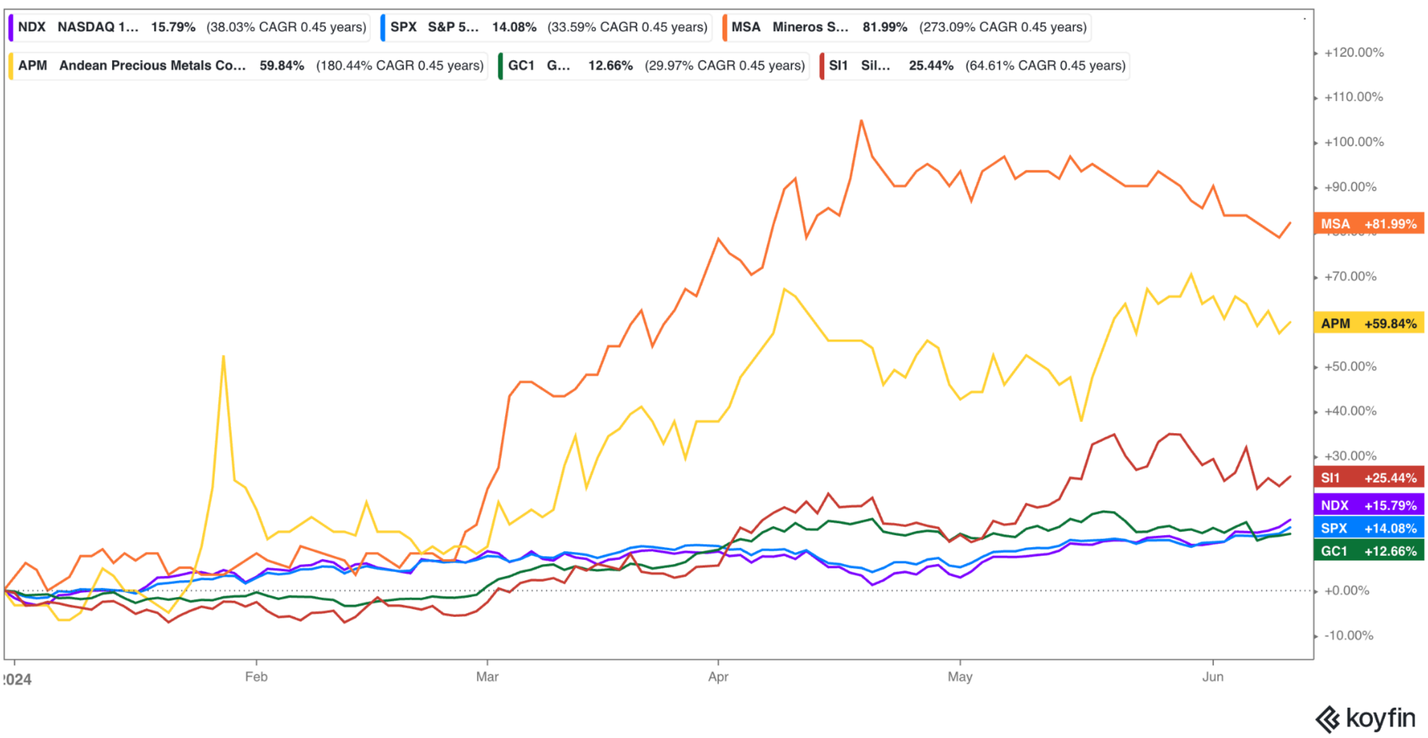
June 03, 2024

THE LONG PULL: An Event-Driven Mining Investing Strategy

Mining investing is hard. As a group, they almost *always* lose money. So it pays to identify strategies that weed out the good from the crap.

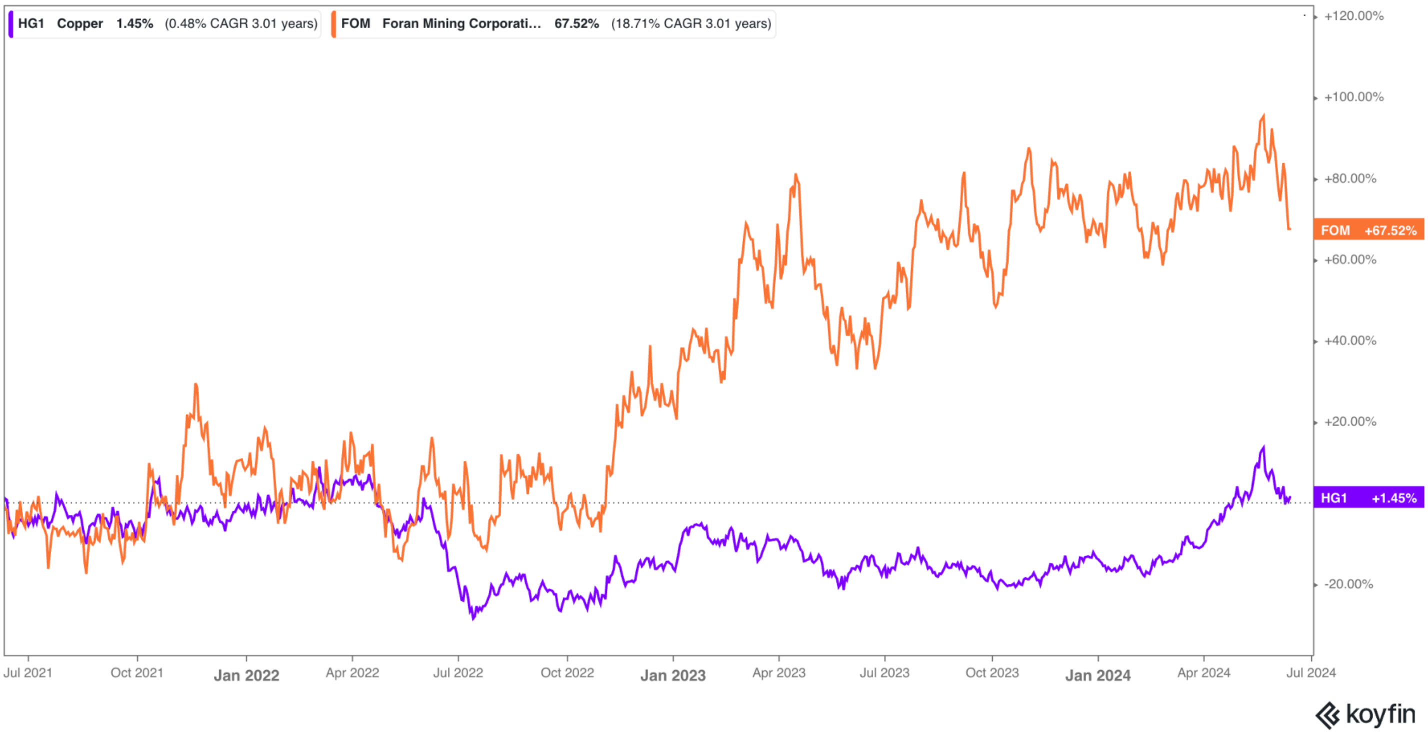
I've written a lot about one way to do that … finding cheap small-to-mid-tier producers growing reserves, generating free cash flow, and using that cash flow to reduce debt, pay dividends, or buy back stock (APM.V and MSA.V, for example).

So far, that's worked well for us.



The other strategy we've discussed is buying developers trading at massive discounts to NPVs in solid jurisdictions with good metallurgy and a management team that owns a bunch of stock.

Like [Foran Mining](#) (FOM.V).



Last week, I discovered what might be my favorite mining stock strategy … **The Pre-Production Sweet Spot** (or PPSS).

The PPSS takes the second-most explosive yet half-as-risky part of the Lassonde Curve to capture 100%+ returns through the cycle.

My friend Lobo Tiggre of *Independent Speculator* was the first to publish this strategy. You can read the original white paper here.

This *Long Pull Report* will explain the PPSS strategy and offer a systematic way of finding PPFSS stocks you can use *today*.

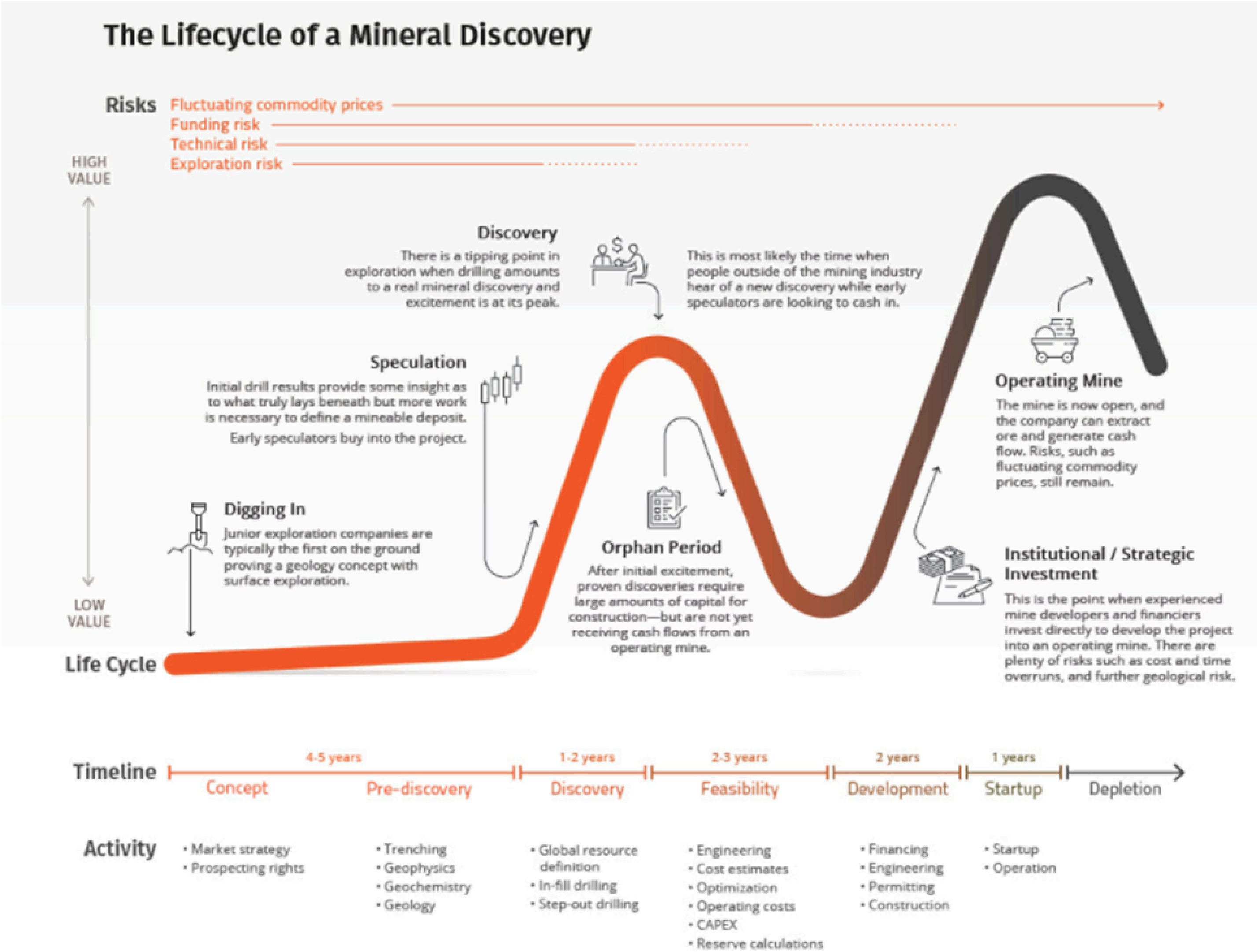
Remember, the more eyes we have on these strategies, the better our chances of finding great ideas.

Let's get after it!

The Pre-Production Sweet Spot (PPSS): Capturing The Lassonde Curve

Before we dive into the strategy, let's review the Lassonde Curve.

The Lassonde Curve plots the lifecycle of a mining company from exploration to production (see below).



You can think about the curve as moving from highest to lowest "risk." For instance, something like [1 out of every 1,000 discoveries]() becomes a producing mine.

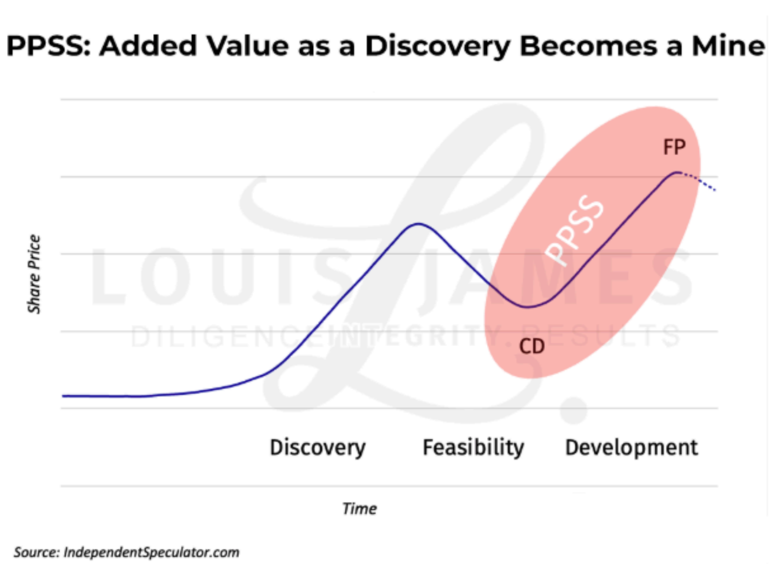
On the far left side are the lottery tickets. Even if you're the world's best geologist, your odds of winning are low. So I don't play there.

That doesn't mean you can't win big. One positive drill result can send an exploration stock up 100%+. Check out Bravo Mining (BRVO) from this past week (see below).

But we want something repeatable. Something with better odds than a lottery ticket … especially as generalists.

Enter the PPSS.

The Pre-Production Sweet Spot is the second significant upswing on the Lassonde Curve (see below).



Lobo defines the PPFSS as *"The slope from a construction decision (CD) up to the first production (First Pour, First Plate—FP)."*

The idea is **to buy the company's stock right when it starts constructing its *first* mine.**

Simple enough? You find a company that's discovered a project, passed PEA/PFS studies, received permits, and now they're doing the thing!

The Numbers Behind the PPSS

Lobo backtested 124 cases of first-time mine builders going back to the 1980s. He used the following criteria:

- ➢ *Exploration companies with a published CD or an announcement that construction has started.*
- ➢ *We counted those that reached FP and commercial production (CP).*
- ➢ *We counted those that failed to reach either FP or CP.*
- ➢ *Cases with incomplete or unclear data were excluded.*
- ➢ *Cases in which existing mines on care and maintenance that were restarted were excluded.*
- ➢ *Companies buying producing mines or building on existing production were excluded.*

Here are the results (emphasis added):

- ➢ **91.9% succeed at building their mines** (making it from CD to FP).
- ➢ 95.2% succeed if we count mines built after a takeover.
- ➢ 568.8 days is the average time from CD to FP.
- ➢ **97.0% is the average gain from CD to FP.**
- ➢ **111.0% is the average gain from CD to Commercial Production (CP).**
- ➢ 745.5% is the average gain from CD to FP for the top five cases.
- ➢ **20.2% is the average gain during bear markets.**
- ➢ 132.4% is the average gain during bull markets.
- ➢ **75.4% of all PPSS cases delivered positive gains** (counting zero as negative).

I'll just leave this here … *"The overall odds of success are 92–95%; the average gain of these is almost 100%; and it's possible to bag around 750% on the top performers."*

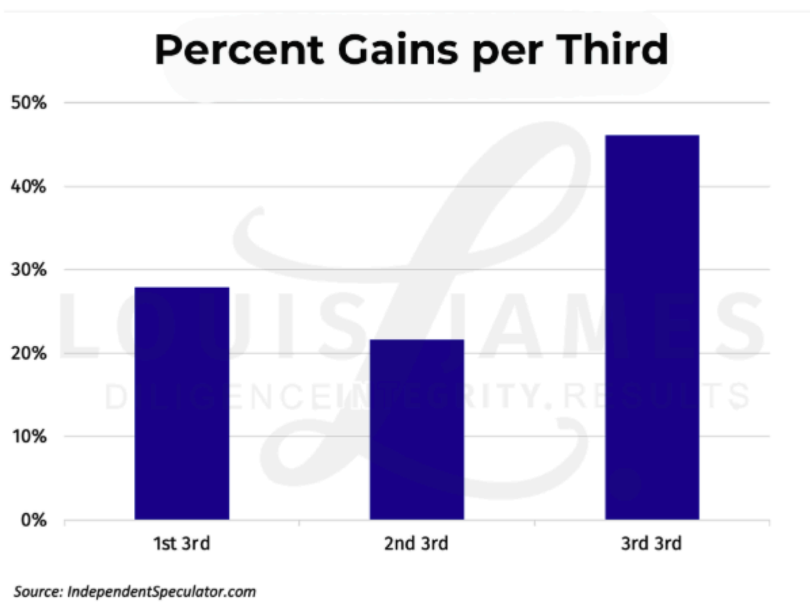
What About Timing? What If I Miss Construction?

My first thought was, what if I didn't buy *right* when they put shovels in the ground? Would I miss all the gains?

Not according to the study (emphasis added):

> *"The results show a decent start after the construction decision.* ***Gains increase as the word gets out that the company is building a mine.*** *Then, there's a slump as construction drags on. The most excitement—and hence highest gains—come in the final quarter as companies race up the slope to FP …*
>
> *The takeaway is that* ***while we maximize gains by buying in at the CD, there's no huge rush.*** *If we don't notice that a company is building its first mine or if the markets look iffy at the time of CD,* ***we can still cash in on the bulk of the gains well into the construction period.****"*

Total returns skewed more positively the closer you got to the first pour (see below).



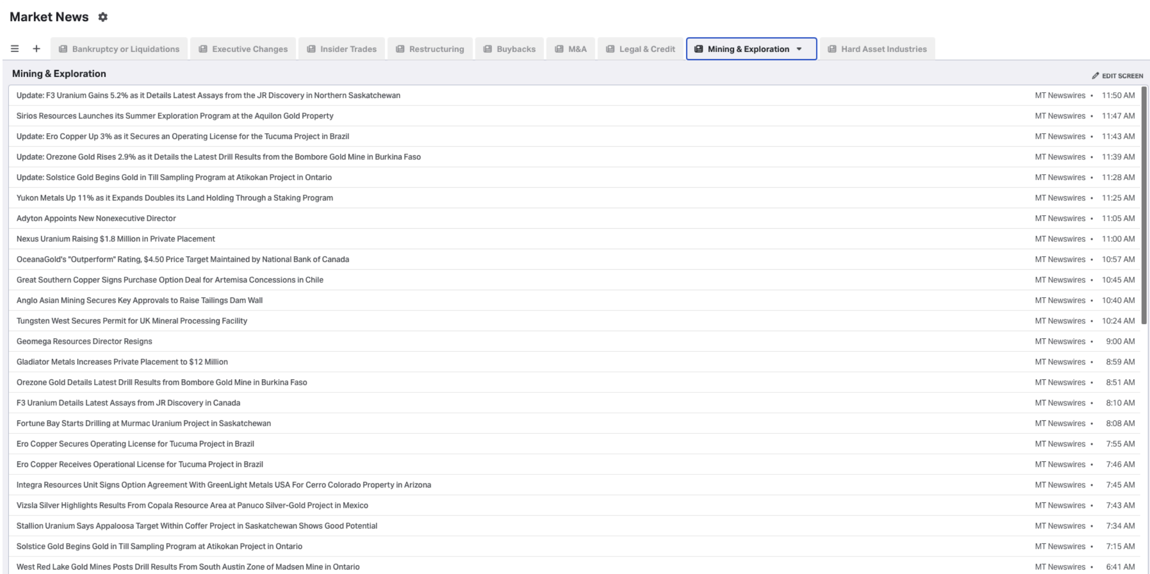
So, to recap … PPSS removes all the exploration risk while delivering similar magnitude returns, and it's OK if you miss the first construction date announcement because most of the returns come in the final two-thirds of the construction period.

Not bad. But how do we find companies that are starting construction? And can we create a systematic approach to this thesis?

Designing Our Event-Driven Mining System

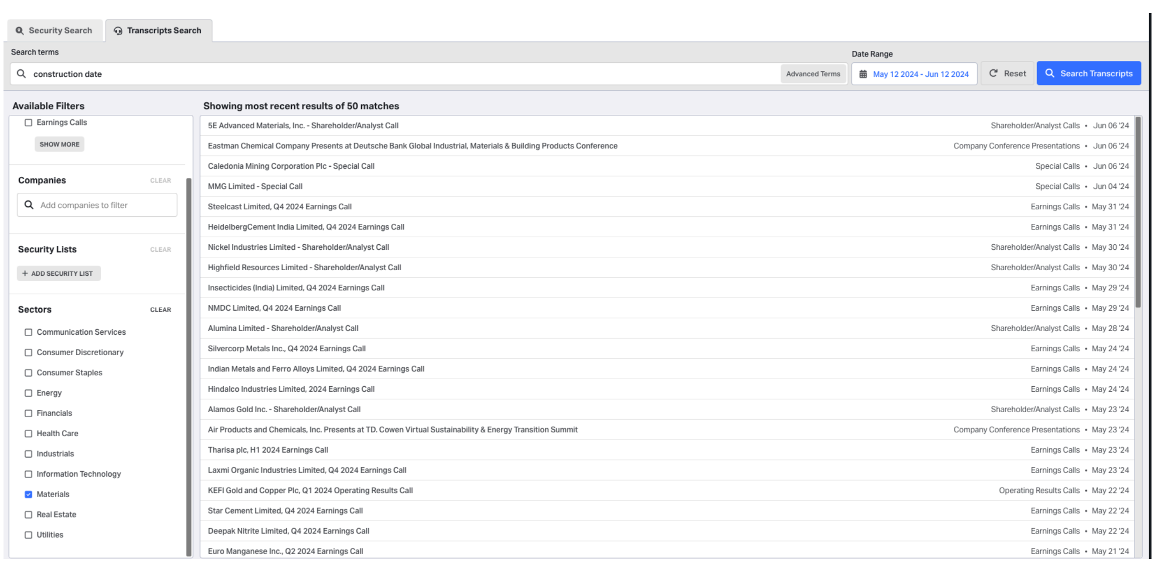
There are three "engines" to my v1 Event-Driven Mining System.

The first engine is brute force, reading news releases from the mining and metals industry via Koyfin (see below).

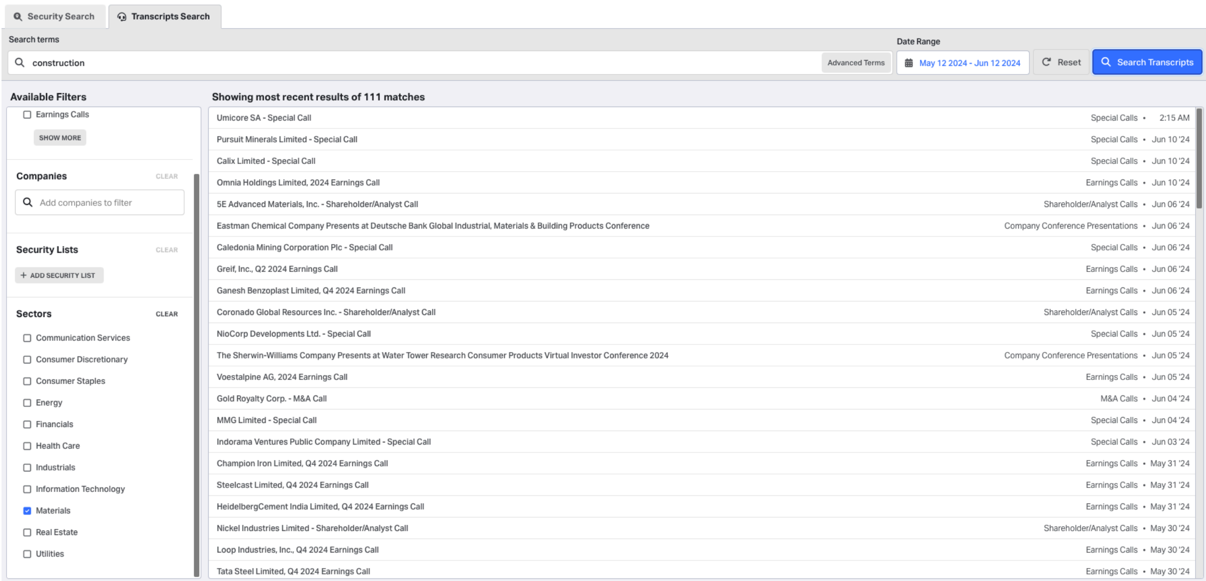


Yes, it's a ton of work. But stay disciplined, and you won't have a backlog of hundreds of alerts. You can quickly discard most of these if you don't see the words "construction" or "build date." I usually read this every morning before the market opens.

The second engine is Koyfin's *Transcript Search* function. I enter the keywords "construction date" or "construction" or something similar… specifying that I only want results from the "Materials" sector, and then select everything from the past month (see below).



This produced 50 recent results. I can broaden my scope by only using “construction” as my keyword (see below).

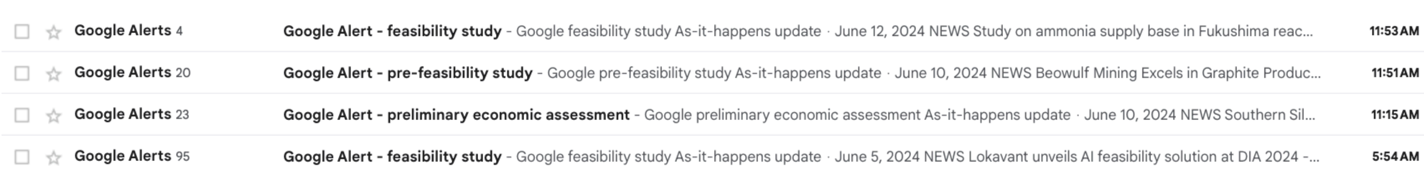


That doubled the results. And yes, most of these won’t hit. But that’s the point. You must turn over a lot of rocks.

The final strategy is a simple Google Alert for the following keywords:

- ➢ **Construction Date Mine**
- ➢ **Feasibility Study**
- ➢ **Pre-Feasibility Study**

So my inbox looks like this …



Here’s what I’m looking for within each alert.

- ➢ **Construction Date Mine**

I hope they say, *“Yes, we started construction today, please buy our stock now.”*

- ➢ **Feasibility Study**

Banks and investors finance great projects, and great projects usually have great feasibility studies. I'm looking for everything we explained in our 80/20 primer … high NPV to Capex, high NPV to market cap, initial capex figures, etc.

This tells me the odds of someone building the project, whether the existing company or a JV partner.

Then, I subscribe to the company's email list and wait for the construction date announcement.

- ➢ **Pre-Feasibility Study**

I'm trying to find a project earlier in its lifecycle. This will allow me to more deeply understand the company, its assets, the management team, and its valuation before construction begins.

Like every other engine, this requires a lot of work. But you'll find ideas that don't appear on screeners. And most times, those are the best ideas.

Conclusion: Another Tool In Our Metals/Commodities Toolbox

I hope you enjoyed learning about this event-driven mining strategy.

The metals and mining space will offer some of the highest returns in markets over the next decade.

This strategy is another tool to find alpha in an otherwise capital-starved and hated industry.

I can't wait to see the ideas and situations we uncover that nobody else thinks about.

It's one of the reasons why I wake up every morning excited to get after it.

Until next week,

Brandon