



October 23, 2024

THE LONG PULL: Some Musings on Silver and Andean Precious Metals (APM.V)

This will be a Golden Corral of a *Long Pull Report* ... we'll discuss precious metals, CoT data, and trade management, then dive into APM's potential futures, its path risk, and how we're managing the position.

Let's start with silver.

Silver: Wen \$50/oz?

Last week, silver broke out of its five-month inverse H&S and *finally* closed above \$32.50/oz (see below).

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Silver hasn't traded this high since October 2012. So, what's the next price target?

There are two ways to think about it.

The first uses the most recent inverse H&S breakout measured move of **\$38.43/oz** (\$5.9/oz from the base of the head to the neckline).

Then there's the cup and handle breakout on the monthly chart of **\$44.30/oz** (see below).

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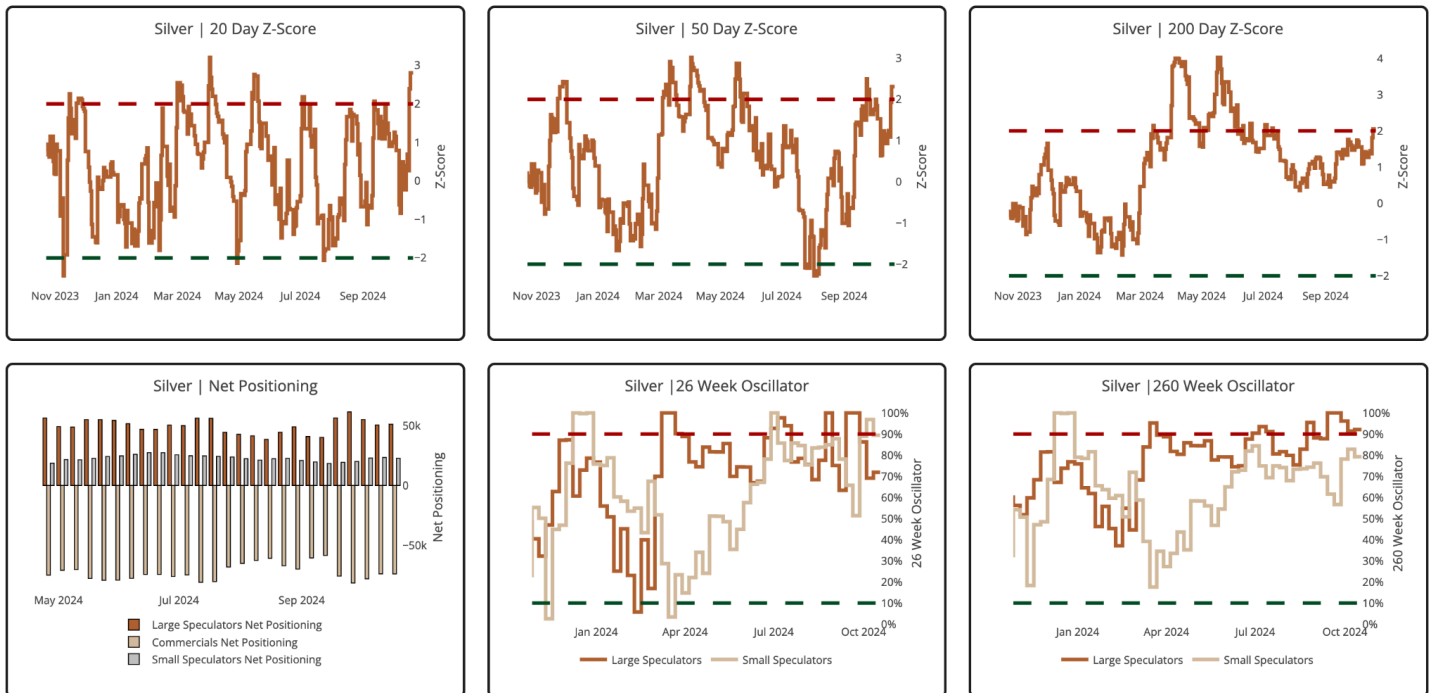
Call it \$5-\$10/oz of upside before we reach technical resistance.

However, silver being silver could also rip to \$50/oz by year-end with minimal pullbacks.

Let's head to the CoT.

What Does The CoT Say?

Here's our HUD's latest silver CoT data (see below).



I want to highlight four things:

- 1) Large/Small Speculator Positioning remains above 90%.
- 2) Silver is overextended from its 20, 50, and 200D moving averages by *at least* two std.
- 3) Maybe those things don't matter?

Here's what I mean. The last time Large Spec positioning was this high was in November 2015. Silver ran from ~\$14/oz to \$20/oz by July 2016.

This is where things get complicated.

On one hand, the CoT data says, *"Sell here and wait for a better entry."* But history tells us that the CoT data becomes as helpful as a tarot card reading behind a gas station when silver gets going.

When in doubt, follow the price.

Silver broke out from a Market Neutral Regime into a Bull Quiet Regime ("Blended Bull").

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This is important because Blended Bull/Bull Quiet Regimes *don't usually* signal market tops. Bull Volatile regimes do.

So yes, we're overextended from the moving averages, and large/small specs are at the 90th percentile long. But price is king. And price tells us not to worry about a blow-off top *yet*.

We'll look to add to our silver position on pullbacks to the midline throughout the Bull Quiet trend.

Silver Reading Material

Metals Focus publishes a weekly Precious Metals report. Somehow, I found the [October 3rd edition](#). If you can access these weekly reports, please share them in the #research channel (thank you!).

Here are my favorite nuggets from the report (emphasis mine):

On price inelasticity: *“The price inelasticity of silver mine supply is largely due to the fact that 55% of silver is mined as a by-product of base metal operations. Although silver can be a significant revenue stream, the economics and production plans of these mines are primarily driven by the markets for copper, lead and zinc.*”

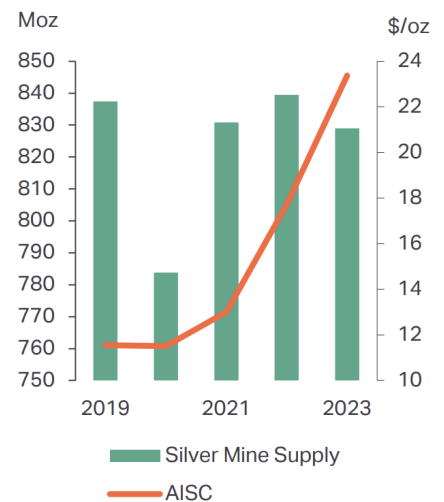
Consequently, even significant increases in silver prices are unlikely to influence production plans that are dependent on other metals.”

On suspending silver supply: “For example, Guatemala’s Escobal mine, which produced 21 Moz (653t) of silver at its peak in 2016, has been suspended since 2017 following a court proceeding brought about by community opposition.

Guatemala’s Constitutional Court upheld the suspension in 2018, citing a failure to consult with local Indigenous communities as required by law.”

On rising production costs: “Rising production costs have further constrained silver supply. Despite higher silver prices, operating costs in many cases have outpaced revenue growth, leading to little or no improvement in operating cash flow for silver-focused mining companies.”

Silver Mine Supply vs. AISC



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I also read an interesting article from *The Jerusalem Post* on [military consumption of silver](#).

The most intriguing part? Five US government agencies (including the Department of Defense, Energy, Department of Interior, and the U.S. Geological Survey) have stopped reporting silver inventories since 1995.

Then there are cool stories like how “in complete secrecy, the United States removed 430 million ounces of silver from the West Point Bullion Depository to turn 1,000-ounce silver bars into cylindrical billets and wound them onto magnetic coils.”

Finally, the article reviews five key reasons silver is a great military metal (see below).

The military uses silver for a variety of reasons, including:

- **Conductivity:** Silver is an excellent conductor of electricity, making it ideal for use in electrical components such as wires, switches, and connectors. This is particularly important in military applications where reliability and performance are critical.
- **Antimicrobial properties:** Silver has natural antimicrobial properties that can help to prevent the growth of bacteria and fungi. This makes it ideal for use in medical equipment, such as catheters and wound dressings, as well as in military applications where hygiene is important.
- **Corrosion resistance:** Silver is highly resistant to corrosion, making it a durable and long-lasting material for use in harsh environments. This is particularly important in military applications where equipment may be exposed to extreme weather conditions, salt water, or other corrosive substances.
- **Reflectivity:** Silver is a highly reflective metal, making it ideal for use in mirrors, optics, and other applications where light reflection is important. This is particularly important in military applications such as night vision equipment and laser systems.
- **Heat conductivity:** Silver is a good conductor of heat, making it ideal for use in heat sinks and other applications where heat dissipation is important. This is particularly important in military applications such as electronic equipment and weapons systems.

We're entering a multipolar world where governments shift from globalization to de-globalization and nationalism. This will create more turmoil, conflict, and supply chain uncertainty.

What could happen to the current 900Moz deficit?

Let's talk APM.V.

Andean Precious Metals (APM.V): Path Risk, Optionality, and Future

I've received a few DMs about APM.V asking the same question: *"What's the plan for APM now that the stock is up almost 200%?"*

It's a First World problem as far as investing goes, but it's still a good question. Underlying that question are essential assumptions like:

- *What's the current R/R and does it justify the current position size?*
- *How much upside is left if we're already up this much?*
- *When are we going to take chips off the table?*
- *What are some upcoming catalysts that could send the stock even higher?*

APM went from a single-asset, single-metal producer in a high-risk jurisdiction to a de-risked multi-asset, polymetallic producer, with double the silver equivalent production in one calendar year.

They did it with roughly 100% debt financing without diluting shareholders. APM has **more net cash** than before the transformational Golden Queen acquisition.

There are so many things to like about APM. Management owns 50% of the company, Eric Sprott can't buy enough of the stock, they've bought back ~3M shares this year, and they are on a path to doubling the company's size *again*.

Here's what I [wrote about APM earlier this month](#).

*Despite its share price increase, **the company trades for <1.3x cash, 0.6x revenue, and 1.5x EBITDA.***

I ask monthly, "Does this position still meet our Trifecta Lens criteria?" If it does, I look to add on pullbacks. If it doesn't, I start thinking about trailing stops and taking profits.

Does APM.V meet our Trifecta Lens criteria? Yes.

- *Fundamentals: Very cheap, growing production, not getting credit for Golden Queen acquisition or gold/silver price increases*
- *Technicals: Monthly VBO on above-average volume*
- *Sentiment: Everyone still hates precious metals/junior miners*

APM's CFO, Juan Carlos Sandoval, interviewed with *Proactive Investors* this week (watch [here](#)). Here are my takeaways:

- 1) There's plenty of low-hanging fruit at Golden Queen to improve grades, reduce AISCs, and expand mine life/resources.
- 2) The company wants to create an aggregates business with its Golden Queen waste rock (turning a cost center into a revenue center).
- 3) APM's subsequent acquisition will likely be a North American (US/Canada) asset.

Look what management has done in one year with this company. Who's to say they can't replicate their success and double the size by next year? All while improving profitability and cash flow at Golden Queen, strengthening the balance sheet, and returning *even more capital* to shareholders.

Finally, there are the potential TSX uplisting and institutional inflows. The company has already completed the necessary paperwork to be listed on the TSX. Now we wait.

Some funds have mandates that only allow them to invest in TSX-listed companies, even if they're "resource-focused" funds. Millions of dollars are on the sidelines, *waiting* to invest in APM.

APM is a low-float stock. Management owns 53%, Eric Sprott owns 15%, Ixios Asset Management owns 3%, and ETF Managers Group owns another 2%. That means only 21% of the company is left for retail/other investors.

Hence, APM's vertical share price.

We have a 15% position. If we add, it will be on significant pullbacks in the existing uptrend. For example, APM could fall 33% from today's prices before it hits the 50D MA. If you're new to the name, that would be a great spot to add or start a position.

Remember, the big money is made by sitting and doing nothing. When you have a winner, and the Trifecta Lens says to hold, don't let it go.

I'm excited to see what Alberto and the team do next.