

Correction digested, the charts give us positive guidance

Knowledge is power - well, sort of

Fundamentals are a useful starting point in analysis of stocks and the overall market. There is something in the psyche of humans that makes us feel more comfortable if we can explain events by referring to facts and figures. Knowledge is power, so we feel in control if we know what is going on - even if that confidence relies on a false premise. We have our news flows on economics, politics and corporate earnings. We might even have specialist industry knowledge so we can read technical announcements and extrapolate their significance. With all this knowledge, why haven't we got perfect vision when it comes to share price movements?

Guidance from the charts

Modern stock markets are very much social beasts with their performance being greatly influenced by group thinking. Surprisingly few investors really understand economics and fundamentals. They rely more on banter and chat rooms, with these providing the waves and the currents that dictate stock price movements. How do you factor such fickle factors and human reactions into your portfolio management? Well, I use charts as an objective tool for supplementary guidance as to what everyone else is thinking, and doing.

We have just survived a wicked correction as opposed to the beginning of the end - at least as far as ASX stocks are concerned. The All Ords had been exceptionally strong for a couple of months, surging way above a long term uptrend that commenced in early 2016. It had blown through the upper resistance line that keeps an uptrend from getting out of hand, but the effort to stay above this line became exhausting. The buyers dried up. Sensing this, the traders could see the path of least resistance was down, so we had our correction. This has taken the All Ords close to the support line, but falling a little short. So, it could fall a bit further whilst staying within the two year uptrend.

A very similar pattern occurred with the Energy Index, though in this one the fall has only taken it back into the uptrend, just below the resistance line. There is precious little room for this Index to move higher, so it looks like it could crunch down further before resuming a sustainable uptrend.

The Metals and Mining Index gives a different picture. You need to look back three years to identify what chartists call a rising wedge, beneath a long term resistance line. Some weeks back I referred to a breakout above the resistance line that signalled a game changer. I said that we should expect that action to be above this line in what will be a much stronger market. Immediately prior to this we had seen the first push through this resistance line, followed by a healthy pullback, then a very aggressive surge that seemed to say "game on guys". The correction of recent

weeks was a pullback in the order of magnitude of 50% of the previous rise (a common move), and last week we saw a surge through the pullback pattern.

Of three indices, the Metals and Mining looks the strongest and the most expansive. As I said last week, the wicked correction was a great buying opportunity.

Orinoco Gold has been an amazing performer

It has been only two months since Orinoco completed a last ditch placement at 2¢, when investors' expectations for the future of the company were very dire indeed. FEC risked another throw of the dice in a double-or-nothing exercise, participating in the placement which now looks as if it will probably be our best deal of 2018, with the shares having traded above 8¢. It shows how dramatically things can change when you hit an inflection point.

Back in the days of my chairmanship of Canaccord, I travelled to Brazil to have a good look at Orinoco's Cascavel gold project. I was amazed at the richness of the geology and was particularly curious about its proximity to the Sertão gold mine that was operated by Troy Resources in the noughties. Located 28 km away by road, Sertão was an incredibly profitable gold mine with cash costs around US\$200/oz.

When I went underground at Cascavel to inspect the orebodies and scratch away at the faces, I quickly exposed significant amounts of visible gold pieces. I had never seen anything so rich. However, as excited as I was to see this gold, my analytical head quickly turned to the practical issues of mining the ore to minimise dilution and maximise the head grade to the mill. Many rich gold orebodies have been squandered in the past by poor operators. Could Orinoco make this one work?

The answer to this question was initially a big fat no. Almost from the start of the development things went wrong. The high grades seen in the mine never came out the other end of the plant (or did they?)

OGX started to report recovered grades around the 2 gpt mark. The shares collapsed as excuse after excuse failed to satisfy shareholders, and there was no boost to the grade. There were board and management changes, but still the recovered grades were pathetic. A life saving entitlement issue was undertaken in Q3 of 2017, which facilitated the move from 70% to 100% ownership of the mine, but it continued to be dogged by poor recoveries. The end looked nigh.

In one final attempt to get it right the board was overhauled again, Jeremy Gray was appointed as CEO, and Richard Crew was given free rein to do as he thought best as COO. Richard is an engineer originally from the UK, who had spent many years assimilating himself into the Brazilian mining culture. His practical experience and back to basics

approach has been a godsend to the company. Richard has made changes to the mining method and equipment to increase the efficiency of the mine with the focus being on grade, not tonnes, but the master stroke has been the installation of very simple hammer mills to recover the gold rather than the fancy imported mill and associated processes. These initiatives have been very rewarding with high gold grades now being recovered. A recently released presentation by the company said that grades to the mill have been ranging from 9 gpt up to an amazing 149 gpt. The recent average head grade has been 30 gpt.

Remember earlier in this article I questioned whether the high grade gold came out? Well, it actually did come out, but it went to the tailings dump. OGX has recently announced that assays for the tailing material were as high as 9.27 gpt. It sounds incredibly stupid, but that is what happened. One of the priorities for the company is to reprocess these tailings as early as possible, to recover that which was thought lost. This should be a very useful boost to earnings over the coming months.

The Orinoco share price has been performing very well, on large turnover, based on the good news flow as opposed to sentiment alone. We look forward to further positive news flow

Disclosure: Interests associated with the author owns shares in Orinoco and have received fees for capital raising services.

Alternative energy is getting cheaper

Fortune Magazine interviewed Jeremy Bentham, the CEO of Royal Dutch Shell, in which he said he was preparing the company for lower oil prices in the long term; "lower forever", is how he described the future. His greatest challenge was the lack of certainty in the future. So, he is realigning the company for long term prices of US\$40/bbl.

The biggest influence on his thinking is the lowering of prices of competing fuel sources. Between 2010 and 2016, the average cost of electricity from a residential solar system and wind fell by 60% in the USA. At the same time, lithium-ion battery prices dropped 73%.

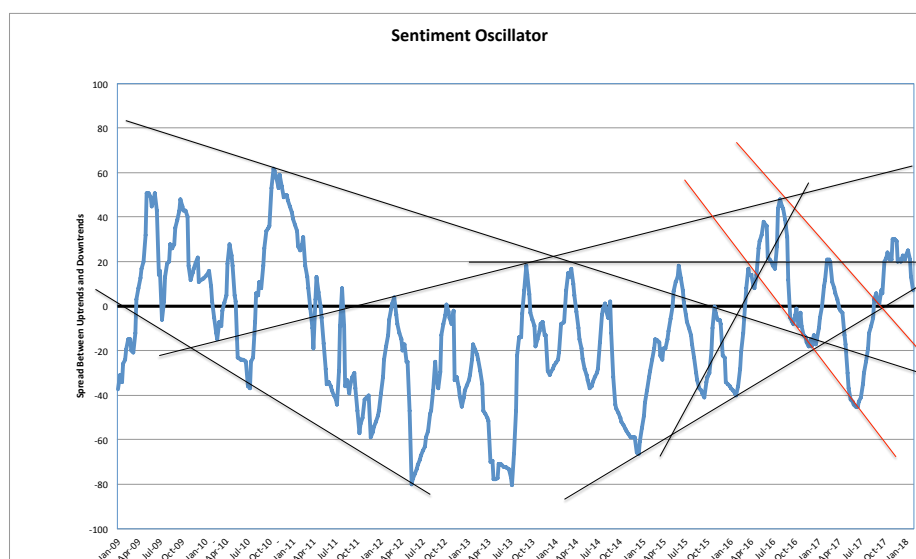
Alternative energy and batteries go hand in hand, and they will become increasingly important. That is why anything relating to battery materials continues to be strongly sought after by investors.

Front page journalism sinks to a new low

Seeing this headline you might have thought I was going to give you my views on Barnaby Joyce. But no, it relates to something much closer to my heart; bagpipes. On the front page of the Sun-Herald the big story is how the Australian Defence Forces have been spending money on musical instruments, singling out the \$62,000 spent on bagpipes out of a \$4.2m budget. Without debating how much a good set of bagpipes costs, and how important this musical instrument of war to the morale of our forces, how the hell can this be classified as front page news? Really, the journalist who wrote this needs some serious counselling and career guidance.

Given that bagpipes are so essential to the Scottish culture, should we be protesting that this is a type of racial vilification?

We have rotated some of the stocks under chart coverage this week, adding Celsius Resources (copper/cobalt exploration in Namibia), Frontier Diamonds (diamond production in South Africa), Gold Rim Resources (gold in Burkina Faso), Jervois Mining (nickel/cobalt in NSW) and Vector Resources (gold resources in the DRC). We have deleted Artemis, Aspire Mining, Atla Zinc, AWE, Canyon Resources, Intrepid and Silver Mines.



Sentiment Indicator: More stocks surrendered their uptrends last week. There were 34% (40%) of the charts in uptrend and 27% (27%) in downtrend on Friday's close, causing a shift downwards in sentiment. The Sentiment Oscillator has retraced back to the support line, which needs to hold if we are to continue to remain positive.

Detailed Chart Comments

NB. Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant.

Indices	Code	Trend Comment	
All Ordinaries	XAO	cpnsolidating after correction	
Metals and Mining	XMM	ST down, but holding long term uptrend	
Energy	XEJ	back within long term uptrend after spiking above it	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	testing steepest downtrend	gold
Aeon Metals	AML	correcting from new high	copper + cobalt
Alacer Gold	AQG	holding uptrend	gold – production
Alkane Resources	ALK	down after hitting LT resistance	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Agua Resources	AGR	new low	phosphate
Alicanto Minerals	AQI	breached support line	gold exploration
Allegiance Coal	AHQ	new high	coal
Alliance Resources	AGS	correcting back to support line	gold exploration
Altech Chemicals	ATC	holding on support line	industrial minerals - synthetic sapphire
Anova Metals	AWV	falling again	gold
Antipa Minerals	AZY	sideways	gold
Apollo Consolidated	AOP	breached uptrend line	gold exploration
Archer Exploration	AXE	breached uptrend	magnesite, graphite
Argent Minerals	ARD	still in downtrend	polymetallic
Aurelia Metals	AMI	punched through resistance	gold + base metals
AusTin	ANW	recovered to new high	tin, cobalt
Australian Bauxite	ABX	continuing in downtrend	bauxite
Australian Potash	APC	wedge forming	potash
Australian Mines	AUZ	short term down	cobalt/nickel
Australian Vanadium	AVL	breached steep uptrend	vanadium
Avanco Resources	AVB	downtrend	copper
Azure Minerals	AZS	down	silver
BHP	BHP	strong bounce	diversified
Base Resources	BSE	weakening	mineral sands
Bathurst Resources	BRL	new high	coal
Battery Minerals	BAT	correcting lower	graphite
BBX Minerals	BBX	holding uptrend	gold
Beach Energy	BPT	new high	oil and gas
Beadell Resources	BDR	new low	gold
Berkeley Energia	BKY	uptrend breached	uranium
Berkut Minerals	BMT	spiked to new high, then heavy fall	cobalt
Blackham Resources	BLK	new low	gold
Blackstone Minerals	BSX	rallying	gold, cobalt
Broken Hill Prospect.	BPL	testing uptrend	minerals sands, cobalt
Buru Energy	BRU	pullback	oil
Cardinal Resources	CDV	testing short term downtrend	gold exploration
Cassini Resources	CZI	rising	nickel/Cu expl.
Celsius Resources	CLA	downtrend	copper/cobalt
Chalice Gold	CHN	on support line	gold
Cobalt Blue	COB	pullback	cobalt
Comet Resources	CRL	testing uptrend	graphite/graphene
Consolidated Zinc	CZL	continuing weakness	zinc
Corizon Mining	CZN	testing downtrend	cobalt
Crusader Resources	CAS	new low	gold/iron ore

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Dacian Gold	DCN		rallying	gold exploration
Danakali	DNK		sideways under resistance line	potash
Doray Minerals	DRM		beginnings of an uptrend	gold
Draig Resources	DRG		testing uptrend	gold
Eden Innovations	EDE		testing downtrend	carbon nanotubes in concrete
Emerald Resource	EMR		softer	gold
Evolution Mining	EVN		new high	gold
Excelsior Gold	EXG		slump, testing uptrend	gold
Finders Resources	FND		sideways through support line	copper
FAR	FAR		sideways	oil/gas
First Cobalt	FCC		down	cobalt
First Graphene	FGR		heavy correction to support line	graphite
Frontier Diamonds	FDX		down after IPO	diamonds
Fortescue Metals	FMG		wedge forming	iron ore
Galaxy Resources	GXY		new downtrend	lithium
Galilee Energy	GLL		sideways	oil and gas, CBM
Gascoyne Resources	GCY		testing steeper downtrend	gold
Global Geoscience	GSC		new high	lithium
Gold Road	GOR		new high	gold exploration
Golden Rim	GMR		down	gold exploration
Graphex Mining	GPX		breached uptrend	graphite
Heron Resources	HRR		testing downtrend	zinc
Highfield Resources	HFR		rallying	potash
Highlands Pacific	HIG		breached uptrend	copper, nickel
Hillgrove Resources	HGO		sideways	copper
Iluka Resources	ILU		surged higher	mineral sands
Image Resources	IMA		breaching uptrend	mineral sands
Independence Group	IGO		rallied to new high	gold, nickel
Jervois Mining	JVR		downtrend	nickel/cobalt
Karoon Gas	KAR		testing new uptrend	gas
Kasbah Resources	KAS		still in LT downtrend	tin
Kibaran Resources	KNL		new low	graphite
Kin Mining	KIN		down heavily	gold
Legend Mining	LEG		falling to support line	exploration
Lepidico	LPD		back to near highs	lithium
Lithium Australia	LIT		testing uptrend	lithium
Lucapa Diamond	LOM		forming a base	diamonds
Macphersons Res.	MRP		downtrend being tested	silver
Marmota	MEU		falling to support line	gold exploration
MetalsX	MLX		breached uptrend, then a rally	tin, nickel
Metro Mining	MMI		at highs	bauxite
Mincor Resources	MCR		breached uptrend	nickel
Mineral Deposits	MDL		uptrend steepening	mineral sands
Myanmar Minerals	MYL		testing downtrend	zinc
MZI Resources	MZI		testing downtrend	mineral sands
Northern Cobalt	N27		breached uptrend	cobalt
Northern Minerals	NTU		down again	REE
Northern Star Res.	NST		new high	gold
NTM Gold	NTM		sideways	gold
Oceana Gold	OGC		testing downtrend	gold
Oklo Resources	OKU		in a rising wedge	gold expl.
Orecorp	ORR		breached recent uptrend	gold development
Orinoco Gold	OGX		steep uptrend	gold development
Orocobre	ORE		testing uptrend	lithium

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Oz Minerals	OZL		continuing in uptrend	copper
Pacific American Coal	PAK		breached new uptrend	coal, graphene
Pantoro	PNR		new high	gold
Panoramic Res	PAN		on support line	nickel
Peel Mining	PEX		surge to new high, then pullback	copper
Peninsula Energy	PEN		back in downtrend	uranium
Perseus Mining	PRU		breached downtrend	gold
Pilbara Minerals	PLS		breached uptrend	lithium/tantalum
PNX Metals	PNX		sideways	gold, silver, zinc
Red River Resources	RVR		holding longer term uptrend	zinc
Regis Resources	RRL		testing uptrend	gold
Resolute Mining	RSG		rallying off lows	gold
RIO	RIO		back to highs	diversified
Salt Lake Potash	SO4		less steep downtrend	potash
Saracen Minerals	SAR		testing uptrend	gold
St Barbara	SBM		strong	gold
Sandfire Resources	SFR		rising	copper
Santana Minerals	SMI		new low	silver
Santos	STO		correcting lower	oil/gas
Sheffield Resources	SFX		testing downtrend	mineral sands
Silver Lake Resources	SLR		breached downtrend	gold
Sino Gas & Energy	SEH		confirming uptrend	gas
Southern Gold	SAU		drifting lower	gold
Stanmore Coal	SMR		rising	coal
Sundance Energy	SEA		slump	oil/gas
Syrah Resources	SYR		rallying a little	graphite
Talga Resources	TLG		struggling at resistance line	graphene
Tanami Gold	TAM		down	gold
Tempo Australia	TPP		testing downtrend	mining services
Tiger Realm	TIG		spiked higher, off lows	coal
Torian Resources	TNR		testing downtrend	gold expl'n
Triton Minerals	TON		uptrend being tested	graphite
Troy Resources	TRY		back in downtrend	gold
Tyranna Resources	TYX		breached steepest downtrend	gold exploration
Vango Mining	VAN		but having a good rally	gold
Vector Resources	VEC		down	gold
Vimy Resources	VMY		testing uptrend	uranium
West African Resources	WAF		uptrend	gold
Westwits	WWI		sideways	gold exploration/development
Western Areas	WSA		rallying	nickel
White Rock Minerals	WRM		new low	silver
Whitehaven Coal	WHC		gently higher	coal
WPG Resources	WPG		breached downtrend on a spike	gold
Wolf Minerals	WLF		new low	tungsten
Totals	34%	48	Uptrend	
	27%	39	Downtrend	
		142	Total	

Guides to Chart Interpretations

- Charts usually go pass from one trend (up or down) into the other via a period of indecision and uncertainty during which the trend can either recover or change. This period is signified by the orange colour. The orange represent both the greatest risk and greatest reward possibilities.
- Once a chart is in confirmed up or downtrends it is not uncommon for 10-20% of that trend to have already transpired.
- There are trends within trends. The focus of this chart review is the immediate trend that affects the sentiment i.e. it can be a downtrend within a long-term uptrend.

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- Not every chart warrants a new comment every week. The new comments are in bold type. Grey type comments may be dated.
- Individual charts provide a single view. It is valuable to look at charts of other companies in similar commodities, and the overall sentiment is also very valuable. Not many stocks can swim against the tide.
- We periodically add or delete charts, some times for obscure reasons. If a chart consistent gives poor signals or is very erratic, we may delete it. Sometimes we add a chart because we want to see what all the fuss is about. We do have a preference for charting stocks that we cover in our research as well.
- Errors and omissions may occur from time to time, especially in fast moving markets.

Amber Lights in Tables: Just a reminder if when the amber light is used in the table – it is when the charts are ambiguous or when there is a change of trend taking place. If a chart is breaching a downtrend it can either be a positive sign or a trap. Only once it has done more work can it be confirmed as a new uptrend. Maybe it is a new uptrend (or conversely a new downtrend); the risk takers can decide to jump on board early (or sell). They will maximise their profits (or minimise their losses if indeed it is the start of the new uptrend (downtrend). More risk-averse investors should wait a little longer, being prepared to give up some of the gains in return for greater certainty.

Weightings of Sectors Represented in the Company Charts

Sector	No. of Companies	Weighting
Gold	33	23.2%
Gold Exploration	15	10.6%
Copper	10	7.0%
Coal	8	5.6%
Oil/Gas	8	5.6%
Graphite	8	5.6%
Mineral Sands	7	4.9%
Cobalt	7	4.9%
Zinc	6	4.2%
Lithium	6	4.2%
Silver	5	3.5%
Nickel	5	3.5%
Potash/Phosphate	5	3.5%
Uranium	3	2.1%
Bauxite	2	1.4%
Tin	3	2.1%
Diamonds	3	2.1%
Iron Ore	1	0.7%
Other	7	
Total	142	

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