

2019 outlook

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Precious metal and mining

2019 looks like a transforming year for gold. This is what my view of 2019,

1. Fed will likely stop or raise interest rate only once. It will mark the end of interest rate raising cycle.
2. The only compromise Trump, Republicans and Democrats can reach in 2019 is likely the infrastructure spending. This will increase the already huge federal deficit further and may further weaken USD.
3. As Mueller investigation coming to the close, fights will likely break out among Trump, Republicans and Democrats on the Capital Hill as the report comes out and can lead to weakness in USD.
4. Weaknesses in China will likely lead the world into a mild recession or worse, regardless of the potential trade deal with the US. Countries related to China growth could be the first heading to recession, starting from Australia, possibly Japan, EU and even Canada.

All these are pointing to a good year for gold in 2019. Lower currency will make mining in Australia and Canada particularly attractive. To play devil's advocate, the scenario I am afraid of is that US-China reaches a trade deal by the deadline of March 1st. Optimism returns to the market and fed raises the interests rate in March. It is a long shot, but I need to guard against this, I advise to book some profits, especially in the highly leverage future positions, around the Chinese new year in 2019.

One of my best calls in 2018 is to buy gold and silver future, ETF as well as miners aggressively starting in early December. As I put in letter 2105, 12/5/2018: "**There is only one trade here, buy gold!** When I heard the news(Huawei executive got arrested in Canada), I was watching my son's basketball game. I immediately started buying as much gold future as I could. If a full trade war breaks out, US will likely head into recession in 2019. Fed will start cutting interest rate. The biggest winners of the US-China trade war will be Vietnam, Brazil, Russia, EU and Japan etc etc. Their currencies will likely be stronger and the USD, already overvalued in my opinion, will likely be weaken. Everything pointing to better gold price ahead. I will try to add more gold miners to my already large collections as well. " I actually had a good year in gold miners, escaping the huge correction in the first 11 months. My top gold picks like **Wesdome Gold Mines Ltd. (WDO.TO)** and **OceanaGold Corporation (OGC.TO)** as well as top silver pick **Maya Gold and Silver Inc. (MYA.TO)** all had a great year. WDO was one of the 3 best performing mining stock in 2018 on TSX, OGC was the top 3 best performing gold stocks on TSX and MYA was reportedly the best performing silver stock on TSX after a dismay year in silver mining. I also booked a lot of profits in NVO in early 2018.

My call to buy silver and silver stocks one week later was even more timely. Letter 2113, 12/13/2018 "I really like silver here. Attached are the silver 1 year, 5 year and 10 year charts as of today. It seems to me that silver really set up for a bounce here. I am not looking for 20+ but 17-18 dollar if fed is dovish next week, is very possible. I am loaded with silver future positions plus I also have quite a few silver stock, like **First Majestic Silver Corp. (AG)**, **MAG Silver Corp. (MAG)**, **Tahoe Resources Inc.**

(TAHO)(Taking over by PAAS), Gold Resource Corporation (GORO)(half silver and half gold), Maya Gold and Silver Inc. (MYA.TO)(best performing silver stock in the past two year, unfortunately under heavy profit taking recently as traders positioning into “high beta stocks”). I also have juniors like Alexco Resource Corp. (AXU) and Avino Silver & Gold Mines Ltd. (ASM) which I started to add this week. Today, after long thoughts, I am buying another silver play, Coeur Mining, Inc. (CDE) from 4.03-4.05. I am also buying its January 4 call options at 35c.”

Cerro de Pasco Resources Inc. (CDPR.CN) is a junior that I have high hope for 2019. You can read the most recent statement from the company in the PR on 12/21/2018. Basically it implies that the company is looking to consolidate **the whole mining district** with the blessing of Peruvian government. The goal is to build **the biggest and most profitable silver mine in the world!** It is a new story that most people are not familiar with and the timing is almost perfect. They will likely upgrade to TSX in 2019 if the progresses are as good as we hoped. Then a lot of funds can finally buy it and can drive the share a lot higher. News should come in early 2019 as the PR implied.

“The management of the Corporation are continuing to advance on several fronts including discussions with relevant parties regarding the possible integration of Parcela K into the existing minerals package. The Peruvian government received a significant confidence boots at the December 9th Referendum, and is now expected to introduce major institutional reforms aimed at reducing corruption and reviving foreign investment. The current political, social and economic climate in Peru creates a positive platform from which the Corporation can execute its vision for the fully integrated and multi-dimensional economic rehabilitation of all of the current and legacy minerals assets within the city of Cerro de Pasco. The Corporation continues to advance a dialogue with leading experts on mineral waste recycling and site remediation with the aim of achieving an ambitious “zero waste” solution and the creation of a Circular Economy for the city of Cerro de Pasco. The Corporation has received encouraging signals from multiple levels of the Peruvian Ministry of Energy and Mines beckoning an intensive exploration and development phase starting in 2019.”

Going forward, my plan remains the same. I am planning to sell some around the Chinese new year, which is usually the seasonal peak of gold. Of course it depends on the market conditions. If gold breaks out from 1400 USD or 1800 CAD, it will be a major breakout and can last for 5-10 years. Then I will likely overweight gold for a while. See this chart.



Energy

Oil had the worst year since 2015. Most energy stocks were down big. I actually had a good year in my energy stocks in 2018. 2019 should be a crucial and exciting year for most of my energy stocks. As I discussed in the past years, I am focusing on natural gas stocks at good locations outside the US and Canada. As a result, the energy companies I invested in have highly visible profit margin, consistent cash flow and held extremely well despite of the recent oil weaknesses. However, there are disappointments in 2018: i.e. the continuing delay of KUB nitrogen unit and drilling and the failed TAT takeover. However, these will likely be good setups in 2019.

Pan Orient Energy Corp. (POE.V) is actually more “oily” than originally thought, thanks to the well drilled last year. It is one of the best performing energy stocks of 2018 and has a great 2019 ahead of it. They had a nice discovery in Thailand in late 2018. Two wells producing, each will produce around 500-600 bpd at the cost of \$10-15/barrel all in. They get Brent pricing as Thailand is an oil importing country. Each well has pay back about 1.5 months and they will likely drill 3 more wells to produce the 3 best zones discovered. If you add these together, POE is probably trading at 1x cash flow net cash on their balance sheet. In addition, this opened up a big area for more exploration. Plus they are going to drill the big Indonesia target in Q2 of 2019. This is what I have been waiting patiently for in the past 5 years. 2019 will be the most exciting year in the POE history. When the Indonesia drilling date is confirmed, I won't be surprised that management will start the road show and tell the story as well as share buyback if the Thai wells perform well and generate good cash flow.

TransAtlantic Petroleum, Ltd. (TAT)/Valeura Energy Inc. (VLE.TO) is for the big Turkey Thrace basin BCGA gas discovery. VLE will drill at least two wells with its partner and TAT plans to drill one well. TAT has additional catalysts including the high impact Bulgaria well in early 2019. Personally I believe TAT offers better value, more catalysts, but it also has more oil exposure. Once the BCGA is proven, both companies will become good takeover candidates, though I believe VLE probably will be the first to go.

2019 should be the year for **CUB Energy Inc. (KUB.V)** after long delays. High impact drilling in the west funded by its JV partner will likely happen in Q2-Q3. In the east they seem to have found a good way to double its production as long as no war breaks out. Finally their nitrogen unit should be done and operate on site some time in 2019. Fingers crossed.

Canacol Energy Ltd (CNE.TO) should dramatically increase its natural gas production in 2019 thanks to the new pipeline. They are planning to use the excessive cash to pay dividend(s), share buyback and reduce debt. Their gas price is multi-year and based in USD. Very stable business and you can sleep well at night holding its shares.

Biotech

After 3 huge years of triple digits return, Q4 of 2018 is probably one of the worst 3 months in biotechs that I have seen. My frustration is best expressed in my letter 2119, 12/26/2018:

“On Friday, 12/21/18, I was stunned by the STML FDA approval and stock actually came in hard on the news. Most surprising the stock was trading at 20 dollar months ago! For those who don't know, I bought STML at about two years ago because I believe it has a great drug candidate and will get FDA approved. It went through a turbulent period, a patient died during trial and our old friend Adam Feuerstein launched a short attack on the stock and drove it to 6 dollar. I was firm despite of all the negativity and encourage subscribers to pick up at bargain price. Fast forward for almost two years, STML received FDA approval last Friday, two month ahead of schedule! Guess the stock is trading at 8 dollar and if I didn't sell some months ago at 20, plus other successful swing trades, I would have loss money in this investment!”

*I dialed into the STML conference call Friday afternoon. The management were very excited and **it is the first ever CD123 target medicine that got approved in the world!** Let me tell you how important it is. I met a friend, a mining analyst, at the conference early this year. During our conversation, he told me his daughter is dying off terminal cancer and one of her cancer expressions was CD123. I told him that I invested a company that was making the first ever CD123 cancer drug, likely getting FDA approval in February. I promise him that as soon as STML gets approved I would call him. But it was too late, she died two months ago and I never had the chance to make the phone call. One of the saddest thing in life is to bury your own child. I have kids too, my greatest condolences to him and his family. Though STML's Elzoris is too late to her, it will save many lives from terminal cancer. My biggest puzzle is that had I not swing trade it (and told everyone) I would have loss money in STML! **Going forward, who is going to invest in biotechs to cure these incurable diseases?** We are in the nuclear winter of biotech and market dominated by machines are sell sell sell. Eventually common sense will prevail, but we need to live through the current difficult period to see that day.”*

My advice for biotech in 2019 is that the market is going through cycles. We had 3 great years in biotech and we had 3 tough month in Q4 of 2018. I heard some biotech hedge funds, the “smart money” are almost wiped out. That's how difficult the Q4 2018 was. I am pleased that we survived the big corrections in biotech and look forward to the new year. I believe the “good old days” that we many multi-bagger in short period time is over for now. Investors should stop dreaming of “making a killing” in the short period like we used to. However, biotechs fundamental still works because large pharmas have huge cash ready to deploy and buying assets using the market downturn. As I discussed many times in my letter, every biotech needs to have one year investment horizon. My strategy was outlined in letter 2114, 12/17/2018. *“I am separating my biotech holdings in two groups. First group doesn't have any known catalyst in the next a few months, I am trying to use any bounce to reduce my positions. Next year, when the catalyst come close, if the market is more friendly, I am thinking to come back in and accumulate more. These are, **Sorrento Therapeutics, Inc. (SRNE)**(reason discussed in #2111), **OncoSec Medical Incorporated (ONCS)**(Sold almost half in #2109), **TG Therapeutics, Inc. (TGTX)**, **Abeona Therapeutics Inc. (ABEO)**(Sold most months ago at 20), **Viking Therapeutics, Inc. (VKTX)**(Only sold half at 25-26, regretting big time!), **Sarepta Therapeutics, Inc. (SRPT)**, selling more at 100+. The other group is for stocks that do have near term catalysts. **Immunomedics, Inc. (IMMU)**, potential FDA approval in the next month. **Stemline Therapeutics, Inc. (STML)**, potential FDA approval in two months. **Aldeyra Therapeutics, Inc. (ALDX)**, phase 3 results in a month and potential takeover candidate. **Affimed N.V. (AFMD)**, potentially restart AFM11 trial in a month or*

two. Clovis Oncology, Inc. (CLVS), possible take over target or do a big deal with a major pharma. Quotient Limited (QTNT), EU approval in one month. Acasti Pharma Inc. (ACST), expect rebound after tax loss selling and first time a major US research report coming in January. Fennec Pharmaceuticals Inc. (FENC) is expecting approval in 2019, the NDA filing should be close. For stocks in this group, I am planning to use the potential catalysts to take profits and reduce my positions. “ As the 2018 tax loss selling comes to the end, many stocks are already in rebound mode. Investors cycle greed to fear and back to greed. I believe in my biotech investment in the long run.

Conclusions

In conclusion, I had a good year in gold and energy. The first 9 months were fantastic in biotech but I was hurt in the huge correction in Q4. Still, 2018 was a good year compare with many seasonal “smart money” going out of business. I am excited about many catalysts of my stocks as we are heading into 2019.