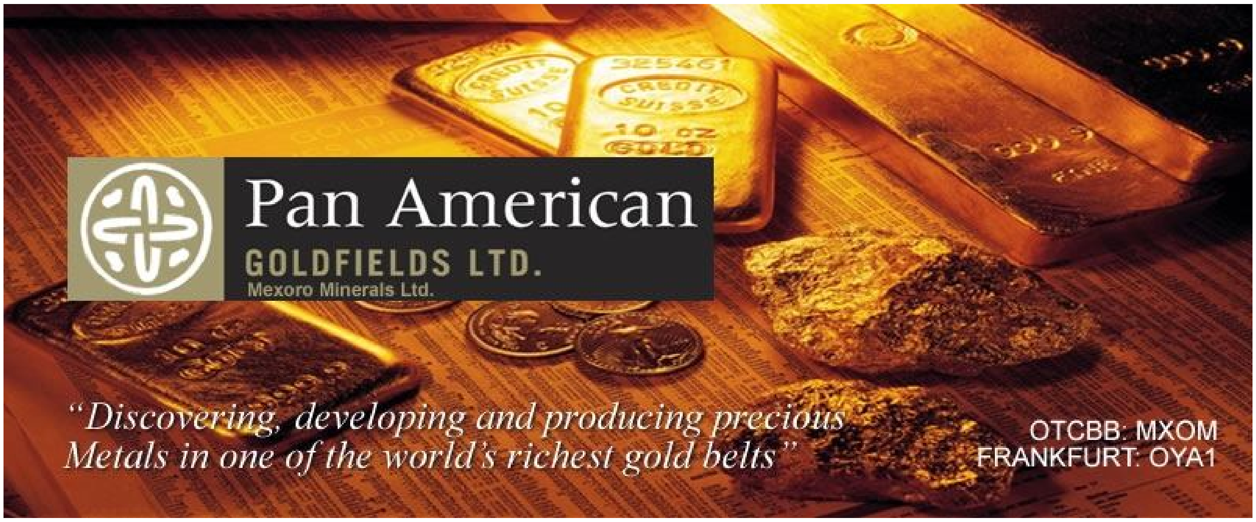

Victor Gonclaves has just visited the property and is now keeping a close eye on Mexoro.

(Now: Pan American Goldfields)
Read his comments in the recent issue of the Gold Report ...

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Featuring investment coverage of precious metals, base metals and gems

Victor Gonçalves Favors Juniors to Win the 2009 Gold Series

Source: The Gold Report 11/06/2009

An avowed Keynesian, Equities and Economics Report writer Victor Gonçalves braces against the economic gale-force headwinds that threaten to whip gold's stellar run into seasonal weakness. But, before the new year, the yellow metal will generally see more strength than weakness, according to Victor, after which "things really get sour." In this exclusive interview with The Gold Report, Victor says he's rooting for the juniors in the homestretch, affirming: "This is the best part about juniors-we're in results season."

The Gold Report: Victor, you and many others were expecting a major pullback in the market and we had some pullback in late October. Is that what you anticipated?

Victor Gonçalves: It's roughly what I expected. It could have gone one of two ways, but technical indicators have been showing that we have one of those triple-top occurrences that cascade on the way down. Preceding that pullback was a broad based rally but it gave a false sense of hope, if you will, in the sense that it wasn't going to go any higher. The TSX, for example, which is mostly what I follow, hit about 11,700 several times and then went down. That's telling me is that we're looking at an interim market top, at least. Whether we're going to have another major crash again now is still in the air. I don't think we're going to have a major, let's say, 50% correction on this dip. I think we might have another shot at a rally before a major correction. And although I do think one is imminent and investors are taking some profits off the table, I haven't seen all the signs a full-up crash this time, and fall-to-winter typically sees seasonal strength. The economic gale-force headwind will be bit of a problem when we get into the seasonal weakness.

TGR: When does the typical seasonal weakness begin?

VG: We see some tax loss selling toward the end of December, and then the Santa Claus rally coming out of that. It's a bit of a whipsaw, but generally more strength than weakness until the early new year, when it won't be so nice. That's when I expect things to really get sour. But I want to emphasize this could happen now.

TGR: When we get to the major downturn, will we retest the 2009 March lows?

VG: The short answer is yes. Based on my model, I don't think we'll break through them. If we do, it won't be by much. This is healthy. It tends to happen. With every major crash we've had, we've had a nice euphoric run after the first major cascading, which happened at the end of last year and the beginning of this year. It depends on which exchange you're looking at, but up until the top of the market we've had, effectively, between a 70% and 90% run. We could see the market correct now in a major way or just a 10%-15% pullback, which we're in the middle of right now.

TGR: How are you playing this market?

VG: I've been really aggressive this year. Right now I'm taking some profits, but I'm not selling everything. I'm keeping strong companies because they will still rally. A lot of companies have stopped or are winding down this year's drilling, and more results will be coming. The strong companies are likely to have better results and are likely to be able to capitalize on them, especially with the capital markets as strong as they have been. I've certainly kept a large enough position on a lot of these strong companies to feel the appreciation of these potential good results coming down the pipe.

TGR: You're a big believer in gold. It's had a pretty good rally this year, starting at about $850 and now about $1,030. Do you still see that going close to $1,200 or $1,300 by year end?

VG: I generally don't want to put an exact timeline because these things never work out as you plan them. Gold is going to have to get comfortable at $1,000. That's what it's been doing. We're going to have to get this comfort level really established and some more economic data before gold can really start taking off.

The price of gold has rallied strongly this year, but really not until the latter half of the year and not until the China effect kicked in. The Chinese government now wants the Chinese people to own physical gold. They're flat-out promoting it. If any one society acts as a collective, it's the Chinese-and when the world's largest population is acting as a collective, even if a small fraction buys gold, that can make a huge difference. This fresh demand is the reason why we have sustainably higher gold prices now. Once that buying really kicks in and has filtered into the full supply-demand equation, we'll get to that $1,200 or $1,300 price point or more.

TGR: Considering the great appreciation we've seen in the junior equities, do you think there's much more upside potential?

VG: Every commodity has a base of equity that trades around it. You've got the copper, silver and zinc stocks that tend to trade reasonably 1:1 with the commodities, depending on whether it's a junior, a mid-tier or a senior company. With gold it acts a little different. The majors trade about 1:1 with gold in terms of price increases and decreases. That makes sense because when you're buying a major, you're basically buying a produced ounce.

However, when you're buying a mid-tier, you're buying a near-term produced ounce, so mid-tiers normally trade at about 0.7:1. Over the past couple of years, the juniors have been moving only about 0.2:1 at best. So, really, zero correlation. Junior equities wouldn't really respond to the gold price, up or down, because junior gold companies don't represent gold, they represent management, land, cash and so on. In other words, they represent a venture that is trying to find economic gold and therefore will trade like a stock and not like gold. So when gold prices are consistently rising, stocks generally don't do well and gold juniors, because they don't represent gold, are no exception unless they actually made a discovery. Now people want to get in on the action of gold, and the best way to is not in the majors; you might as well buy physical gold. The mid-tiers and juniors will see the true appreciation because we have had the equity markets and the gold markets going up at the same time, which doesn't normally happen.

With gold where it is, juniors are more likely to retain equity prices when investors are taking profits. So while the market is treading water or getting these initial stages of a downturn, funds are going to flow somewhere. People are going into something that still has some sizzle and that's the junior golds and some other categories as well. So I still think there's appreciation in the gold juniors as a basket. That said, if the market corrects 50%-70%, everything goes down. When the tide goes out, all the boats come down.

TGR: If an investor's money is in the juniors, isn't it at greater risk in the event of a major market pullback, because these equities aren't as liquid as in the seniors?

VG: Absolutely. Once the market really starts pulling back, the best thing to do is just to go flat out in cash. That's what I will be recommending once I see that market really, truly turning south. There's no point in being in equities when people are selling them. At the moment, there's still money on the sidelines, there's still some money out there for juniors particularly because of the discovery factor that's going on. So as it stands now, juniors are still good to be in.

TGR: And when the market turns up again, investors can be ready and knowledgeable about which juniors are likely to bounce back first. So what are some of the companies that should be coming out with some good news and perhaps some stock appreciation?

VG: One worth looking at Mexoro (OTCBB:MXOM). I went to visit their property just an hour outside of Chihuahua Mexico in mid October and was very impressed. This project is really nice, and from what I understand, they've applied to trade on the TSX, which would give it a fair bit more liquidity, a lot more transparency, and a lot more access by the major funds. The company right now has about 1.2 million ounces of gold on the property, grading around 3 grams a ton. That's based on 50 drill holes. They drilled 103, so they're going to update their resource calculation with the balance of the holes plus some more drilling, so we can expect that the resource is going to increase reasonably significantly, I would say, just by adding the rest of the holes they've drilled already. Some time in early November the mill should be completed and they should be getting into production. Once it's up in full production and ramped up, this company should be producing about 30,000 ounces of gold at a cash cost of around $300. That's very cheap gold, and cash flow is good. I personally like to see a company with a) cash flow and b) exploration upside-and Mexoro has both. The exploration team is one of the best I've seen.

The company is trading at about 40 cents with 50 million shares out. So, really, it's a $20 million company with a mill that is basically complete, a resource of 1.2 million ounces of gold as it stands now, and production once it's ramped up at roughly 30,000 ounces per year. That's all worth more than $20 million, which is why I'm intrigued with this company.

Visit Pan American Goldfields (Mexoro Minerals Ltd) at the:

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