“Magic” Metal Riches:
How You Could Make 3,000% Gains on the Commodity Trade of a Lifetime
THIS is the most incredible rock you will ever see.

It’s not silver, platinum or any other precious metal.

It’s not aluminum, nickel, iron ore or lithium, either.

In short, it’s a “magical” metal with unheard-of superpowers that other metals simply don’t have.

For example, it doesn’t rust. It’s not flammable. It’s 100% recyclable. And it can be transformed from a rock into a powder like this:

Or into a liquid like this:

No matter what form this metal takes, one thing is for certain: It is truly magical.

It’s in everything from airplanes to automobiles … batteries to boats … cosmetics to computers … surgical tools to smartphones … tractors to turbines… It even has miraculous medicinal powers.

Scientists are using it to fight diabetes, depression, low blood pressure, hair loss and fatigue. It aids in weight loss, improves vision and can even protect you against many kinds of cancer.

Hence, this “magical” metal is worth billions, maybe even trillions, to pharmaceutical companies such as Pfizer, Merck, Johnson & Johnson, and Bristol-Myers Squibb, to name a few.

Recent World Health Organization statistics show that 800,000 people with access to this resource will get a second chance at life every year.

However, there’s one giant, ugly problem.

It’s disappearing.

Why This “Magic” Metal Is So Vital

Our “magic” metal is zinc. While demand is soaring, supply is actually falling right now. We’ll go into the fundamentals shortly. Right now, I’d like to dig into what zinc is and why we need it so much.

Other than putting it on my nose to protect from the sun, I didn’t know much about zinc prior to 2016. I vaguely knew it stopped my boat motor from rusting and that the shiny coating on galvanized metal is zinc… I also ran into zinc minerals while looking for other, more precious metals over the years. It’s common to
find zinc in silver ore. I have a beautiful chunk of shiny silver, lead and zinc ore from an abandoned mine above Silverton, Colorado.

Since then, I’ve learned that zinc is a secret, critical metal. It’s in everything from the nails holding your house together to the car you drive to the plants you eat.

Statistically, zinc is the fourth most abundant element in the earth, after hydrogen, nickel and copper. The 27th most abundant material on the planet, it makes up about 0.004% of the earth’s crust. It is also the second most plentiful trace metal in the body, after iron.

Zinc is actually critical for us. An average adult has between 1.4 grams and 2.3 grams in his body. Kids need zinc for growth. Adults need zinc for reproduction and health.

It’s incredibly useful. It’s the third most used nonferrous metal after aluminum and copper. Mix it with copper, and you get brass. The average car contains about 38 pounds of zinc. Almost half of that protects it from rust, while 20 pounds go into die-cast parts like door handles and locks.

We even use it in our money: The U.S. penny is about 98% zinc. We also use zinc in our $1 coins. That’s appropriate, because zinc is about to make us a ton of money. Here’s what’s going on with the “magic” metal...

**Why Is Zinc’s Price About to Soar?**

Over the past 16-plus years, zinc supply and demand grew steadily. From 2000 to 2016, the supply of zinc increased by nearly 50% — from 9.1 million metric tons to 13.7 million metric tons. Demand grew at an even higher clip. It saw a 57% increase in the same period, from 8.9 million metric tons to 13.9 million metric tons.

What’s important to note is that the zinc market frequently had more supply than demand. There have been only six years since 2000 when demand outstripped supply, including a stretch from 2004 to 2007.

In 2003, the average price of zinc was $828 per metric ton, about $0.38 per pound. However, in 2004, the market supply was short by about 122,672 metric tons.

Then in 2005, demand exceeded supply again, this time by 277,395 metric tons. It happened again in 2006 and in 2007.

Not surprisingly, the zinc market exploded, as you can see in the chart below:

![Zinc Price Chart](image-url)
From 2003 to 2006, the price of zinc soared 456%.

By 2008, however, the zinc market had returned to surplus. You can guess what happened...

![The Zinc Price Collapse](image)

From its 2006 high, the zinc price plummeted 77% to a five-year low in 2009.

The market remained oversupplied until 2014, followed by a modest surplus in 2015. However, in 2016, we saw a real deficit of zinc. Demand exceeded supply by nearly 300,000 metric tons, resulting in a rebound in the price of zinc.

The lack of supply occurred because several large mines used up all the ore, resulting in the permanent closure of those mines. Low prices also contributed to the reduction in supply, because they led to the closure of more expensive mines — it cost the mine operator more to pull the mineral out of the earth than could be made selling it on the market. Those mines could one day open again, but only when it is profitable for the miner.

Mined zinc production fell by 1 million metric tons from 2015 to 2016. Giant zinc mines such as Xstrata’s Brunswick mine in Canada, Vedanta Resources’ Lisheen mine in Ireland and MMG’s Century mine in Australia all shut down.

In addition to the closures, mining giant Glencore temporarily halted 500,000 tons per year to wait for higher prices. And another giant is fading: Teck Resources’ Red Dog mine in Alaska has about only 10 years of ore left to mine.

In 2016, the world consumed about 13.9 million metric tons of zinc. Since 2000, demand for zinc grew by 3% per year. That means by 2020, we’ll need 15.7 million metric tons of zinc. Right now, we don’t have nearly that much.

Prices are going to go up. If 2004 to 2007 is any indication, they could go up by triple digits.

The only thing that’s kept a lid on prices so far is extra zinc supply. Back in the mid-2000s, I visited a zinc smelter in Tennessee. It produced pure zinc ingots from ore. As you can see on the right, they look like giant, shiny parking stops. And they don’t go bad no matter how long they sit.

From 2012 to 2014, we stored about 1.5 million metric tons of zinc.
In other words, the mines produced too much. At the beginning of 2016, there were approximately 2 million tons of zinc parking stops in warehouses around the world. By the end of 2016, they were almost gone.

In 2016 alone, we consumed over 1.4 million more tons of zinc than the world’s zinc mines produced.

Prices are going up:

![Zinc Price Bull Market Chart](chart)

Rising zinc prices turn ordinary mining companies into huge wins for investors. Here’s what I mean…

The best-known zinc miner on the U.S. stock market is Teck Resources. It’s the one mining stock that most resource investors would know produces zinc. Both the zinc price and the share price of Teck Resources bottomed in early 2016. As the zinc price rallied, Teck Resources’ stock exploded. The chart below shows what happens to a beaten-down stock in a bull market:

![A 1,000%-Plus Gain in 2 Years Chart](chart)
Teck Resources’ stock bottomed at $2.65 on January 13, 2016. Then it hit $30 per share as recently as February 2018. That’s a 1,045% gain in just two years. The stock went from $1.6 billion in market value to $15.6 billion today, as the price of the “magic” metal moved from $0.72 per pound to $1.49 per pound.

Teck Resources is the best example of a stock that went up nearly 3,000% in the past. As recently as 2011, the stock gained 2,300% in just two years, when it rose from $2.70 in 2009 all the way to $65 per share. However, the price of zinc went up only 140% in that period.

And the shortage in zinc is only beginning. Imagine how high Teck Resources could go if zinc runs to $3, $4 or more per pound…

That’s why we need to position ourselves right now. While Teck Resources’ shares are already soaring, there’s another company whose shares haven’t yet begun their meteoric rise. Here’s how we’re going to speculate on the coming boom in the “magic” metal.

We Already Pocketed Solid Gains in Zinc

We bought shares of Hudbay Minerals (NYSE: HBM) and Lundin Mining (TSX: LUN) on May 4, 2017.

Hudbay is a $1.7 billion mining company with assets in Arizona, Manitoba (Canada) and Peru. We like it because it produces zinc at two mines: Lalor in Snow Lake, Manitoba, and the 777 mine in Flin Fion, Manitoba.

As you can see from the chart below, Hudbay shares retreated in early 2018.

![Hudbay's Share Price Chart](https://www.stockcharts.com)

As shares retreated from their January 2018 high, we hit our trailing stop. We closed our position in Hudbay on February 9, 2018, for a 44% gain.

Lundin Mining is a $4.1 billion global base-metal mining company based in Canada. Founded in 1994, it merged with EuroZinc Mining Corporation in 2006. We liked it because it owns several operating mines: Neves-Corvo (Portugal), Tenke Fungurume (DRC, Africa), Candelaria (Chile), Eagle (U.S.) and Zinkgruvan (Sweden).

We closed our position in Lundin Mining on December 5, 2017, for a 6% gain. A landslide damaged one of its operating mines. That triggered our stop.
We had a third position in Tinka Resources (Toronto Venture: TK). Tinka is a small speculative explorer in Peru. We bought it on October 13, 2017, and sold it for a 15% loss on March 2, 2018. That trade went against us as Tinka struggled to raise the money it needed to continue to explore.

Those three trades netted us a 35% gain in an average of seven months' holding time. That wasn't the huge 1,000% we wanted, but it was a great start.

Today, the next leg of the “magic” metal trade just got rolling. I see a huge opportunity in these “secret” zinc producers.

**Magic Metals Get a Triple-Digit Tailwind**

“In 2018, zinc miners’ margins will be the highest in three decades…”

I slipped into the hushed conference room a little late.

It was mostly full, but I managed to find a seat in the back. All around me was a sea of dark suits. Men and women of the Toronto mining community have a “look” to them. Leaning into this lecture, they were universally fit and stylishly dressed.

You could feel the anticipation in the room. The crowd was dead silent.

Base metals — copper, lead, zinc, nickel, etc. — are major economic drivers. The mining, smelting and sale of these vital commodities reach all around the globe. The value of the copper market alone is around $261 billion. That's why this price forecast lecture was so important.

I try to attend this session each year at the giant Prospectors and Developers Association of Canada (PDAC) conference in Toronto. It’s the largest, and arguably the most important, mining conference in the world.

Up at the podium on stage, a distinguished man in a tailored suit finished introducing himself. He flowed into the fundamentals of base metals — copper, lead, zinc and nickel.

As you can imagine, when he concluded by telling us that 2018 would be the best year for zinc miners in more than 30 years … well, it caught my full attention.

Zinc has been the best-performing metal since the bottom of the bear market in 2016. While copper and nickel rose 68% and 87%, respectively, the price of zinc soared 148%.

After highlighting zinc, the speaker went on to paint a strong picture for copper and lead producers, too. This year will be profitable for base-metal miners. After five years of falling prices, it’s about time! That opens a lot of opportunities for us.

Later in the talk, the speaker discussed the components of a common zinc mine. What stood out to me was that zinc only made up about 45% of the revenue.

The rest came from other metals. That’s where we have a huge opportunity.

You see, zinc rarely shows up alone in a deposit. It usually forms from hot, acidic waters that leach lots of available metals as they circulate. When the water cools, sulfide minerals form. The most common are pyrite (iron), chalcopyrite (copper), galena (lead), sphalerite (zinc) and acanthite (silver).

That’s why it’s so difficult to find a “pure” zinc miner. However, that doesn’t typically matter. We made a lot of money on Hudbay, which produces zinc and copper. That’s because both zinc and copper prices headed up last year. It was a great investment. But there is a different play today.

There is a group of zinc producers that market themselves as something completely different: silver miners.

Silver is incredibly cheap right now. It’s at an extreme. A small group of mining companies combines huge zinc profit margins in 2018 with a potential run in silver prices. That adds up to big gains for us.

As I mentioned, we closed Hudbay with a 44% gain after just nine months. That’s a solid gain — one I’d be happy with again. But I think our opportunity today is much, much better.
Just How Cheap Is Silver Today?

The price of silver can make you crazy. It never moves slowly. It rockets and collapses. Watching the silver price is like watching a tennis match. There’s rarely a break in the action.

However, lately, the silver price action is down.

The price of silver fell 72% from its high in 2011 to its low in 2016. While it recovered briefly that year, it fell back. Today, the price of silver is down 66% from its high in 2011 and down 20% from its 2016 high.

The silver price managed a paltry 22% rise from that bottom in 2016 to today. That hasn’t matched the rise of gold, which is up 30% from its low in 2016. It doesn’t come close to copper, which is up 60% over that period. And zinc, which is up 148%, blew its doors off.

That means the silver price is out of step with the rest of the metals sector.

But to understand just how out of balance this situation is, we need some historical context. Gold and silver are “precious” metals. Historically, they both played a role as money.

Their prices rarely diverge too far from one another. However, sometimes that ratio can get out of whack. When that happens, we can make a profit as it returns to balance.

That’s the setup we see today.

The chart below shows the ratio of gold to silver. We measure it by calculating how many ounces of silver we could buy with an ounce of gold.

This chart shows just how widely that ratio varied since 2000. In October 2008, we could buy nearly 85 ounces of silver with a single ounce of gold. By April 2011, that ratio fell below 32 ounces. That’s a huge spread.

To understand it better, I added the average (thick dashed line) at 62.5. The standard deviation is 9.5 for the distribution. That tells us when the ratio reaches extremes.

The thin dotted lines show us one and two standard deviations from the average. When the ratio is beyond the first dotted line in either direction, we are moving into the extreme. When it is beyond the second dotted line (in either direction), we have an opportunity.
As you can see, today the blue line is near the top dotted line. That means silver is cheap, compared to gold.

To put this in perspective, the silver price only came close to this extreme three times since 2000:

- In May 2003, the silver-to-gold ratio spiked to 80.5. The silver price was $4.53 per ounce. By April 2004, the silver price soared 80% to $8.15 per ounce.

- In October 2008, the ratio hit 84.5. The silver price was $10.05 per ounce. That was the start of an uptrend for silver. It hit $43.25 per ounce by September 2011 — a 330% gain.

- In February 2016, the ratio hit 83.2. The silver price was $14.70 per ounce. By July 2016, the silver price hit $20.27 per ounce. That’s a gain of 38% in just five months.

The extreme ratio of gold to silver prices implies that we could see a rally in silver prices. However, this is just one data point. We need a second data point to make sure this is a real opportunity.

The chart below shows us how many pounds of zinc we can buy with an ounce of silver.

Like the silver-to-gold ratio chart, we need context. In October 2006, an ounce of silver would buy 6.3 pounds of zinc. By April 2011, it hit an extreme of 47.4 pounds. That’s a huge swing. The average value, since January 2000, is 17.5 pounds (thick dashed line).

Today, silver will only buy about 11 pounds of zinc. That’s extremely cheap for silver.

So, based on two different indicators, silver is mispriced compared to its peer metals. That gives us a huge opportunity.

Silver hit 11 pounds just three times since January 2000:

- In September 2001, the silver price was $4 per ounce. By April 2004, it was $8.23 per ounce.

- In October 2005, the silver price was $7.72 per ounce. By May 2006, it was $14.83 per ounce.

- In November 2011, the silver price was $14.64 per ounce. By March 2008, it was $20.80 per ounce.

As you can see, on those three earlier occasions, the silver price soared. I expect it to happen again over the next couple of years.
For zinc producers that also produce silver, this situation will be as good as, or better than, what we saw in the last couple of years. This is the next leg of the “magic” metal story. As I discussed earlier, the downturn in zinc prices caught the miners off guard.

The zinc price peaked in November 2006. It fell 77% from 2006 to 2016. Few companies invested in new mines over that period. By the end of that bear market, several major zinc mines shut down due to age or economics.

That’s what planted the seeds of today’s bull market.

The stockpile of zinc that built up in the bear market ran out. In 2017, the price of zinc hit a 10-year high. That situation hasn’t resolved itself yet. The lack of zinc should keep pushing the price up modestly this year.

That’s why we see this huge opportunity today. Miners will make more money from their zinc production this year than they have in 30 years. Plus, the silver price is historically cheap. Far too cheap. It could rebound sharply this year. Those two factors make silver miners the perfect buy for 2018.

However, finding the correct mining companies is a challenge. You see, few “silver” companies report their zinc production. Even when, as we’ll see, it makes up a significant part of their revenue.

After reading through many hours of financial reports, I found two fantastic miners…

**This Favorite Stopped the Show at the PDAC**

I will admit that I love this company. I recommended it years ago, and my readers made a lot of money. I went to its corporate presentation at the PDAC … and it blew me away again.

**Silvercorp Metals Inc. (NYSE: SVM)** is a $414 million mining company focused in China. The company runs five mines in two districts.

The GC mine is the latest addition to the group. It began production in 2014. However, most of its silver production comes from the Ying Mining District of Henan province, China. Its GC project in China’s Guangdong province produces higher grades of zinc and lead along with its contribution to silver production.
The climbing prices of zinc and lead have buoyed Silvercorp’s revenue. It now generates a near-50/50 split of revenue from its base- and precious-metal operations. That means 2018 should be a great year for the company.

Silvercorp spent the downturn from 2011 to 2016 cutting costs. Its all-in sustaining cost (AISC), the cost it takes to produce an ounce of silver, fell steadily over the years. It fell from over $14 per ounce of silver in 2014 to around $3 per ounce in 2017. That’s a remarkable 79% cost cut!

As you can imagine, that improved its profit margin.

That’s all good news for Silvercorp’s finances. Profits are up, it has cash to invest and it isn’t carrying any debt.

The table below shows a summary of Silvercorp’s fundamentals:

<table>
<thead>
<tr>
<th>Silver Production</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018*</th>
</tr>
</thead>
<tbody>
<tr>
<td>GC (oz.)</td>
<td>0.5</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Ying District (oz.)</td>
<td>4.6</td>
<td>4.4</td>
<td>5.9</td>
<td>5.6</td>
</tr>
<tr>
<td>Total (oz.)</td>
<td>5.1</td>
<td>5</td>
<td>6.5</td>
<td>6.2</td>
</tr>
</tbody>
</table>

*Numbers in millions; Data from company filings; *Estimated

<table>
<thead>
<tr>
<th>Zinc &amp; Lead</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018*</th>
</tr>
</thead>
<tbody>
<tr>
<td>GC (oz.)</td>
<td>14.2</td>
<td>21.3</td>
<td>19.5</td>
<td>20.1</td>
</tr>
<tr>
<td>Ying District (oz.)</td>
<td>53.2</td>
<td>48.6</td>
<td>69.3</td>
<td>63.8</td>
</tr>
<tr>
<td>Total (oz.)</td>
<td>67.4</td>
<td>69.9</td>
<td>88.8</td>
<td>83.9</td>
</tr>
</tbody>
</table>

*Numbers in millions; Data from company filings; *Estimated

2017 marked a fantastic improvement.

Revenue rose 51%, earnings rose 171% and its cash grew by another 55%. That’s an incredibly successful year!

But 2017 wasn’t a great year for the stock price.

The recovery in the silver price drove a massive rally in shares in 2016. However, the share price fell back to earth in 2017. The rally in 2016 was too much, too soon. Speculators cashed out, took profits and moved on.

That’s good news for us.

Today, it’s down 42% from its high. That’s a huge decline for this solid silver miner. It left the company too cheap, and we are going to take advantage of that.

The best metric to show Silvercorp’s value is enterprise value (EV) to earnings ratio. Enterprise value is the market cap, plus debt, minus cash. We use earnings before interest, taxes, depreciation and amortization (EBITDA).

Today, the EV/EBITDA ratio is 4.4. That means it will take less than five years of earnings to buy the company in full. That’s cheap! Silvercorp’s average ratio, over the past seven years, is 7.3.
Silvercorp is downright cheap today. If Silvercorp returned to its average EV/EBITDA ratio, it would have to go up 65% from the current price.

However, with a tailwind from zinc and silver prices, earnings should go up from here. That means Silvercorp’s share price would need to double just to get back to its average.

I suspect that the reason Silvercorp is cheap has to do with the company’s forecast production. It could drop slightly over the next year or so. If it can continue to increase its margins, a slight fall in production may not affect its profits.

With a miner, falling production is a bad sign. But there is good reason to be optimistic about Silvercorp. Silvercorp owns the BYP mine, a gold, zinc and lead mine in Hunan province, China. In 2014, at the depths of the bear market in metals, Silvercorp halted production. The mine went on “care and maintenance.” That’s a fancy term for closing the doors and waiting for prices to recover.

Four years later, the market is in a very different place. There is a strong tailwind in base metals and a favorable outlook for precious metals.

It will take an estimated $10 million to resume production at BYP. Silvercorp can easily finance this and add 10,000 ounces of gold production a year, based on historical production.

Silvercorp also owns a 29% stake in New Pacific Metals Corp., a C$200 million silver junior miner. That investment is worth about C$60 million today. The market isn't even pricing this asset into Silvercorp's valuation. We get it for free.

Silvercorp is most interested in New Pacific’s RZY silver-lead-zinc project in Qinghai, China. The company bought RZY from Silvercorp, which maintains a 20% interest in the project.

Silvercorp is a well-run mining company. It has an excellent balance sheet and shows a great track record for managing its mines. The market undervalues Silvercorp because it took a conservative fiscal approach during the bear market in metals.
Rising metal prices should spur Silvercorp to invest in new production at BYP. That will catch the market’s attention. In the short term, a strong zinc price and a rising silver price will give Silvercorp’s earnings a tailwind.

**Action to take:** Use a limit order to buy Silvercorp (NYSE: SVM) up to $2.95 per share, and use a 30% trailing stop on your position.

**A Familiar Face Lends Strength to This Miner**

**Sierra Metals** (NYSE: SMTS) is a $374.5 million midtier base- and precious-metal miner. When I evaluate mining companies, I look hard at management. This company stood out to me because of its people.

Director Steven Dean is an accomplished mining executive. A former president of Teck Cominco (now Teck Resources), he founded and ran several companies that are now part of major miners.

I knew Mr. Dean when he ran a small copper producer called Amerigo Resources. We spoke often. He’s knowledgeable and generous with his time. More importantly, he’s successful. Today, he runs Atlantic Gold.

The technical team is impressive, too. The president and CEO, Igor Gonzales, spent 15 years with giant miner Barrick Gold, finishing his term as the chief operating officer.

Sierra has three mines throughout Mexico and Peru. All three are operational and in production with upside potential. The mines generate most of their revenue from zinc and copper production, followed by silver and copper.

<table>
<thead>
<tr>
<th>Production</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018*</th>
</tr>
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<tbody>
<tr>
<td>Zinc (lb.)</td>
<td>31.8</td>
<td>43.6</td>
<td>76.1</td>
<td>68.2</td>
</tr>
<tr>
<td>Copper (lb.)</td>
<td>20</td>
<td>19.2</td>
<td>26.8</td>
<td>35.4</td>
</tr>
<tr>
<td>Lead (lb.)</td>
<td>36.4</td>
<td>34.2</td>
<td>29.6</td>
<td>20.7</td>
</tr>
<tr>
<td>Silver (lb.)</td>
<td>2.8</td>
<td>2.5</td>
<td>2.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Gold (lb.)</td>
<td>5.4</td>
<td>5.7</td>
<td>6.2</td>
<td>7.3</td>
</tr>
</tbody>
</table>

*Numbers in millions; Data from company publication; *Estimated

The Yauricocha mine in Peru is Sierra's major zinc producer. The metal generates half of the mine's revenue. Production of lead, silver and copper account for the other half. Sierra owns an 82% stake in this 70-year-old mine.

The Bolivar mine in Chihuahua, Mexico, makes 79% of its revenue from copper production, with silver and gold generating the rest. Sierra owns 100% of the mine.

The mine life should grow. The ore body is the La Sidra silver-gold quartz vein system. The vein stretches over 1.5 miles on the surface.

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>$134</td>
<td>$143</td>
<td>$154</td>
</tr>
<tr>
<td>EBITDA*</td>
<td>$28.7</td>
<td>$39.2</td>
<td>$76</td>
</tr>
<tr>
<td>Total Debt</td>
<td>$76.1</td>
<td>$78.7</td>
<td>$68.5</td>
</tr>
<tr>
<td>Cash</td>
<td>$25.1</td>
<td>$42.2</td>
<td>$28.6</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>$(5.1)</td>
<td>$19</td>
<td>$23.7</td>
</tr>
</tbody>
</table>

*Numbers in millions; Data from Capital IQ; *Earnings before interest, tax, depreciation and amortization
Sierra’s smallest mine, Cusi, is also in Chihuahua. It is primarily a silver producer. The mine is still under development and is going to ramp up production within the next year. The property covers 45 square miles and holds six inactive mines. In February, the company updated its mineral resources. It announced a 129% increase in ore volume. The grades are spectacular: 7 ounces of silver, 13.6 pounds of zinc and 11 pounds of lead per ton of rock.

Sierra increased its revenue and free cash flow over the past three years, while paying down its debt. It still has $68.5 million in debt, but this is mostly long-term debt with low interest rates.

Sierra’s plan is to use the revenue to pay down the debt while continuing to explore the surrounding land so that it can expand its mining operations.

As you can see from the share price chart above, Sierra Metals’ price peaked in 2017.

This is a typical silver miner chart today. The companies exploded out of the bear market in 2016, only to top out in 2017. That run should resume in 2018.

Our risk with Sierra is the cost to expand its mining operations. One thing we know is to be skeptical of mining cost estimates. Cost overruns could put negative pressure on the share price. However, even with this risk, the tailwind from metal prices should be more than enough to make up for that.

Like Silvercorp, Sierra is cheap today. It trades for just 5.8 on an EV/EBITDA basis. Its average is 8.8. Based on its 2018 forecasted EBITDA, that ratio falls to 4.2 ... which means its share price would have to double to get back to average.

That’s good enough for us!

**Action to take:** Use a limit order to buy Sierra Metals (NYSE: SMTS) up to $3.00 per share, and use a 30% trailing stop on your position.
The Next Leg of the Zinc/Copper Bull Market Will Include Silver

I love the idea that these solid mining companies could ride rising metal prices to double in value this year. As I discussed earlier, the silver price is too cheap. So far in 2018, silver and gold prices have diverged. That’s why, when I went looking for zinc prices, I wanted exposure to silver, too.

As I discussed, it’s a common occurrence. It gives us the best odds of making another big gain from zinc in 2018.

Good investing,

Matt Badiali