



**On ASX Gold
Investments
...The Nerds have
the numbers**

ESSAY 1: HOW TO SCAN FOR QUALITY GOLD PRODUCERS USING GOLDNERDS PRO

When opening the GoldNerds spreadsheet for the first time, many users are blown away by the sheer volume of data that stares them in the face! Unless you are an experienced investor and know exactly which investment criteria are important to you, it is very easy to get lost in all the information. This essay will be one of many written in the future to assist subscribers in tailoring their searches to arrive at a short list of gold mining companies which best fits their own personal requirements. In other words, companies which display attributes that you consider to be important. I will now share with you some of the criteria I personally consider important when looking for quality junior gold producers to invest in:

- **Evidence of responsible capital management demonstrated by a relatively small number of outstanding shares.**
- **A solid balance sheet with small manageable levels of debt and a healthy cash balance.**
- **Reasonably priced reserves in the form of cheap mineable ounces.**
- **Limited hedging. I am personally bullish on the gold price and want to invest in companies which will be able to capitalize on higher gold prices going forward.**
- **A relatively low cash cost. This gives companies a margin for error when things inevitably go wrong.**
- **Modest levels of political risk. I am not completely averse to political risk provided the quality of the deposit compensates me for this risk.**

Many of the above factors may appeal to you. There may be some that you disagree with. That's ok. This is my own personal criteria, not yours! I will be using it simply as an example to give you ideas on how to tailor the spreadsheet to your own requirements. GoldNerds subscribers generally struggle to make this transition. How do you take the above factors and turn them into a meaningful search using the spreadsheet? It's not nearly as hard as you might think. Let me step you through the process.

Step 1: Scoring

When you click into the **Scoring** sheet of the spreadsheet you will see a rectangular box with the heading **Weights**. This is the section that allows you to tailor your search according to the criteria you deem to be important. The bigger the number the greater the level of importance. For the above factors I use the following:

<i>Weight</i>	<i>Factor</i>
0	Large company
0	Small company
100	Cash, investments, etc
100	Liabilities
0	Percentage in gold
100	Less hedging
0	More hedging
0	JORC reserve
0	JORC resource
100	Mineable gold
0	Market cap per resource ounce
0	Market cap per mineable ounce
0	EV per resource ounce
100	EV per mineable ounce
100	Production
0	Cash cost
100	TCO
0	Market cap per production ounce
50	Country risk
750	<i>Total (= Maximum possible score)</i>

Step 2: Customization

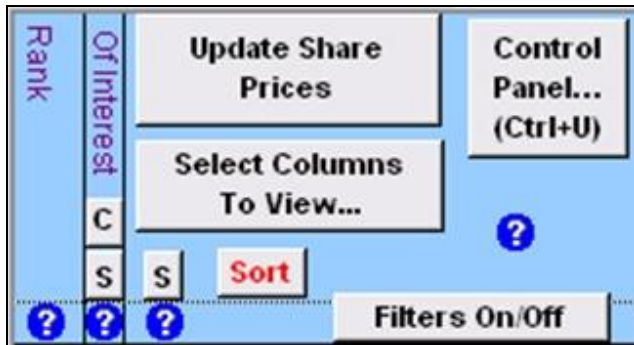
The next step is to click into the **Customization** sheet and alter the **Mineable Gold** section as follows:

Mineable gold is the sum of:	
100	Percent of Reserves
20	Percent of (Resources - Reserves)
0	Percent of (Potential - Resources)

I personally like to be conservative with this setting. I am generally only interested in looking at ounces where there is demonstrable economic viability (reserves). I also include a modest 20% of the resource base over and above the reserves. The resource ounces left over are considered a bonus, which increase the likelihood of the replacement of depleted reserves in the future.

Step 3: Filtering the Gold Stocks Sheet

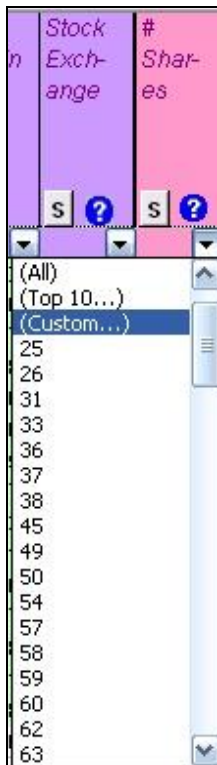
Once you have completed Steps 1 and 2, click into the main **Gold Stocks** sheet. In the top left blue section you will see an option: **Filters On/Off**. Click this button.



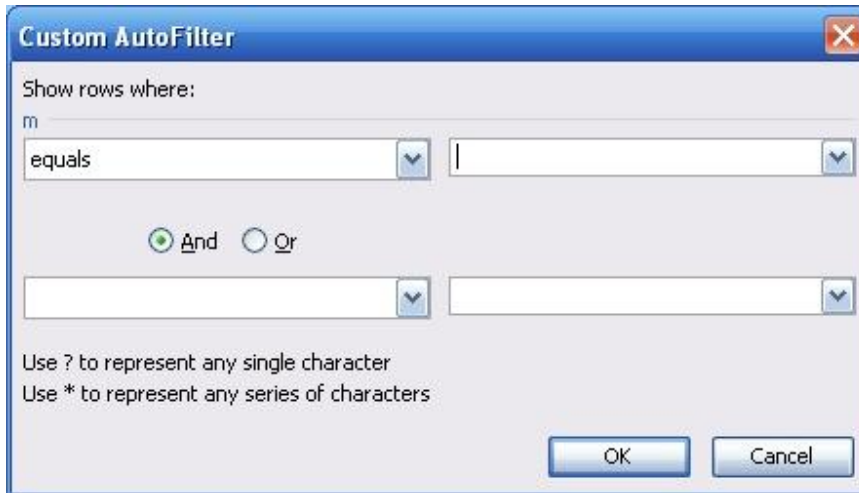
You should see little drop down arrows appear in each column. Go into the **# Shares** column and click on the arrow.



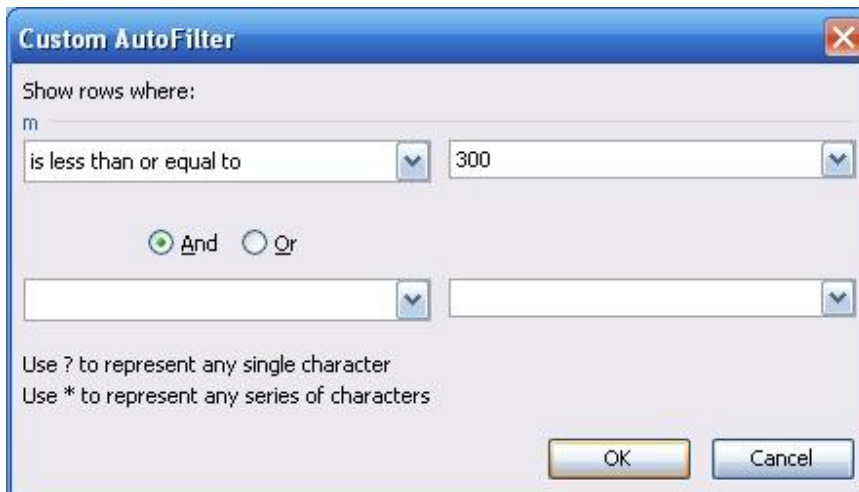
Next chose the **Custom** option.



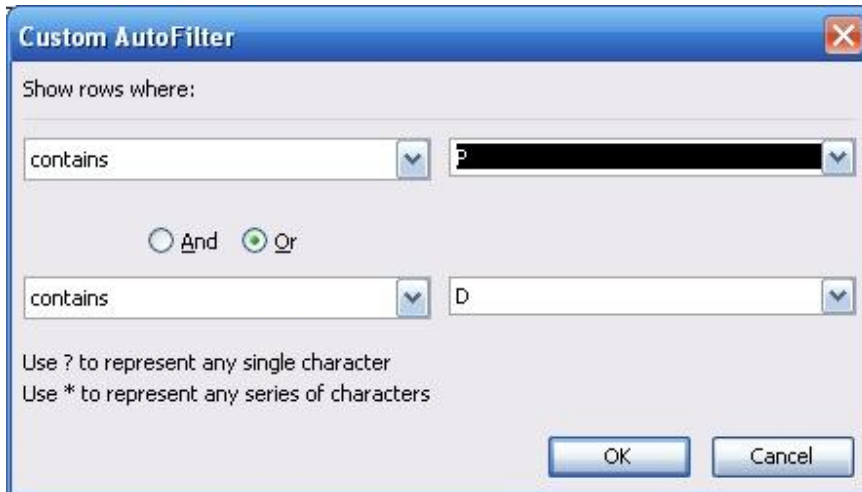
The following window should pop up:



Choose the pick list and change the **equals** to **is less than**. Then go into the box which is horizontally adjacent and type in **300**. Click **Ok** to apply the filter. This will limit the search to companies with less than 300 million shares. I personally like to see Gold mining companies **do more with less**. Reverse stock splits aside, I generally like to see companies use share capital sparingly in their activities. Examples of companies that have undertaken Reverse stock splits in recent years include Dioro Exploration and OceanaGold. A reverse stock split is when a company consolidates its share capital by offering shareholders 1 share for a multiple of shares of their existing holding.



The next filter to apply is in the **Status** column. Click on the down arrow and choose Custom as you did before. This time change the **equals** parameter in the left box to **contains**. Then go to the box horizontally adjacent and type the letter **P**. Click **Ok** to apply the filter. This will narrow the search again to companies which are producing gold. For the time being, I prefer to invest in companies which generate positive cash flow and self fund their growth activities. Alternatively you can simply run this same search for Advanced Development stage companies by changing the P to a D as shown in the bottom section of the lower diagram.



Step 4: Sort the results by the Scoring Column

Last but not least, sort the **Scoring** column by highest to lowest by hitting the **S** button in that particular column.



This will then apply the scoring parameters we stipulated in Step 1 to the filtered companies we have shortlisted in the spreadsheet. Use this list to conduct your own research, perhaps working your way down the list from the highest to the lowest scoring companies. By all means change the scoring and/or filtering to tailor to your own needs and preferences.

Step 5: Applying some Alternative Filters

A couple of alternative filters I like to apply which help me to scale down my searches even further involve the **% in Gold** and **Current Production** columns. The **% in gold** filter involves limiting my search to companies with greater than 50% of their activities in gold with the customized filter setting looking as follows:

Custom AutoFilter

Show rows where:

is greater than 50

And Or

Use ? to represent any single character
Use * to represent any series of characters

OK Cancel

This will ensure the companies I am concentrating on have most of their activities in gold related assets, which is my area of focus. The second filter I apply ensures I am looking at companies which can produce a meaningful amount of gold. I like to limit my search to companies that can produce a minimum of 20koz annually. The customized filter setting looks like so:

Custom AutoFilter

Show rows where:

koz/yr

is greater than or equal to 20

And Or

Use ? to represent any single character
Use * to represent any series of characters

OK Cancel

If you are doing a search for advanced development stage companies you simply apply this same filter in the **Planned Production** column instead.

Some Important Things to Consider

Occasionally we have subscribers who use the GoldNerds spreadsheet with unrealistic expectations of what it can do. They enter scoring parameters and expect the spreadsheet to magically deliver a list of companies which will guarantee superior returns. Oh, if only it was that easy! Many of you who have invested in this sector long enough will understand and appreciate that this spreadsheet is not designed for this purpose. What it can deliver is what I consider to be a very useful shortlist of companies from which to undertake further research.

Some other things you need to consider when using the spreadsheet include:

1. The GoldNerds spreadsheet cannot determine strong management. You can however, get a feel for this yourself by following company activities and seeing if management delivers on its promises including project deadlines, production and cost targets etc.
2. The GoldNerds spreadsheet will not take into account the economic climate of the day. This is something you the investor have to assess and tailor your scoring parameters accordingly. For example, if capital markets are tight, as they are presently, you may want to pay closer attention to the financial strength of the companies you search for. How much cash do they have? How much debt do they have? Can they fund their activities going forward?
3. The GoldNerds spreadsheet is only as good and effective as the data entered. Much of this data comes from company announcements and for whatever reason may not be accurate or realistic. Additionally, despite the researchers best endeavors to enter accurate information, mistakes can and do occur. It is important for users to double check and assess the information as part of their due diligence process.
4. Circumstances change. Once you invest in a company, it is important to follow its progress and keep track of its activities. The GoldNerds spreadsheet enables you to do just this. For example, if any of the above factors adversely change, you will see it in the scoring or via following specific factors such as cash costs, the cash balance, etc. Gold stocks are not a passive investment. Things can and do change rapidly. What was a good investment one month can turn into a bad investment the next.

I personally like to think of the GoldNerds spreadsheet as a **Gold Portfolio Management Tool**. It effectively helps you keep tabs on the companies you own shares in and assists in determining new and better opportunities as they arise. This will be discussed in more depth in future essays. For now, I hope this essay has helped you to get a brief but practical sense of how this spreadsheet can be utilized to good effect. If you have not invested in a GoldNerds subscription before, I encourage you to do so. If you are already a subscriber and are considering a re-subscription, I hope this essay has made your investment decision somewhat easier.

Troy Schwensen

Editor

[The Global Speculator](#)

Research Analyst

www.goldnerds.com.au

DISCLAIMER

The search results which are generated from following the above steps should not be misconstrued as a recommendation to buy or sell the resulting securities. It should be considered a useful short list of companies from which to undertake further research and due diligence prior to making any investment decisions.