

## HRA - Special Delivery

**#269 – 19 May 2006 – in market**

### **Capitulation?**

The correction we've been concerned about for the past couple of months has dropped the TSX Venture Index, our proxy for resource stocks, 16% in a week. There was really no place to hide since the broader market wasn't faring much better. Weak US economic stats were followed by a core CPI number for April that shocked the market and had everyone hitting the sell button. The Dow is back where it was a month ago, after what looked like a longer term double-top to some technicians, and NASDAQ is again red for the year. The main cause was the 0.3% core CPI gain for a second month in a row, which has traders thinking the Fed will keep hiking rates. They may add another 25 basis points at the last meeting before the summer break, though the general weakness of other economic readings could stay their hand. Fear of rate hikes strengthened the Dollar (briefly), which hurt precious metals. And fears that the Fed would overdo things lead to selling of oil and of base metals. But Thursday felt like a capitulation day, the day of heaviest selling that flushes out weak players but also marks a bottoming, and Friday seemed to confirm that.

**Copper** and **Zinc** both lost about 10% of their price in a week, which is not really that much considering what the six month charts look like. There is potential for more downdrafts, but the tight copper inventory and still falling zinc inventory make both of these metals dangerous to short. They are either likely at or close to near-term bottoms. **Gold** and silver markets are easier to play both sides of and a lot of speculative money was washed out them last week. The Dollar resuming its decline should stabilize bullion. Our previously noted caveat on **silver** that a lot of spec money going long ahead of the new ETF could make for a race to the exits has proved right. The "sell on ETF news" gave silver the biggest drop for the week (16%) and it may remain soft for a few more days, but we expect a bottoming before month's end.

Where from here? We think most metals are close to if not at trading bottoms. The same is probably true for better metals producers and explorers. This sell off was not a surprise per se, and may best be thought of as an early summer sale. There could well be further down drift during the northern beach season, but last week was hard enough on good stocks that picking gainers is doable. It will take results to move stocks higher and some of the more crowded exploration sectors (uranium comes to mind) will see increasing differentiation between companies with good results and the merely mediocre. Companies that generate new finds, or have strong finds and orderly rather than parabolic charts should be the first to recover.

**Everton (EVR-V; closing @ \$1.10)** also put out strong Dominican Republic results last week, from the same trend that hosts the Cerro de Maimon (C-M) deposit. Results from its Loma el Mate JV with Linear Gold included **10.6 metres of 2% copper, 3 g/t gold, 9.4% zinc & 105 g/t silver**, and a second hole in the same target area cut **4.6 metres of 0.75% copper, 1.4 g/t gold, 8.1% zinc & 120 g/t gold**. This project is about 10 km from C-M, and a short walk from the existing road base. Like C-M this zone has good grade gold-silver in oxides layer overlying the sulphide deposits, which offers a rapid capital repayment potential. This round of drilling followed up on results from a three hole program last year, and its broad spacings means it is too soon to gauge the tonnage potential. So even though this was a "discovery hole" announcement, coming from an explorer that has had a strong market meant it presented a profit taking opportunity in weak market. Given the regional picture we consider these results quite likely to pay off for the JV one way or another, and expect greater market interest when the drill returns to the project. However EVR's big picture potential is on the eastern end of the DR and in the Eleonore area of Quebec, both regions that are moving to drill targeting stages over the summer. ***On a multi-shots basis, we therefore maintain our speculative buy on weakness basis for Everton.*** <http://www.evertonresources.com>

Regards for now – David Coffin and Eric Coffin

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