

Book Review of Michael Coulson's 'An Insiders Guide to the Mining Sector'

by *Keith Davison*

As a committed mining sector investor I was delighted to receive this book for reviewing. The book is very readable and has to my mind the right balance of technical, financial, geographical and political information.

To start the book Michael gives an industry background spanning all the major mining countries Australia, Canada, South Africa, USA and the UK, as he points out companies have to go to where the minerals are found and unlike factories which can move to the most favourable location. The factors affecting investing in each of these areas was assessed warning of the effects of Black Empowerment and environmental pressures and aboriginal land rights. Here I was rather disappointed that he gave only a cursory view of countries of the former Soviet Union and South America, to my mind areas of great excitement.

Also in this section of the book he gives an insight to all the major metals and minerals mined together with their potential markets, uses and likely future demand, indicating how some are more cyclical than others. Included are 30-year charts of price fluctuations and how these substantial price movements are driven. London is highlighted as having the 3 largest mining companies incorporated here together with a large number of mining junior companies listed on AIM. The fact that London is geographically central to the major producers from Australia, South Africa and Canada seems to give it an advantage over other financial centers.

Gold shares form quite a large part of this sector, delving into the pitfalls and pointers of investing in the wide range of companies from large producers to minor explorers, showing how each can have a place in one's portfolio. He quotes Julian Baring as comparing gold shares in terms of insurance against times when other financial sectors are in retreat.

An interesting section explores the development of mining companies and how the large ones differ in background, production, mineral sectors and geographical spread. The rate of growth of large combines quite often relies on the success of smaller outfits to explore and develop resources only to be swallowed up or merged. For nimble investors dealing in the large mining finance houses can be a profitable exercise. Medium sized companies too have definite patterns of operation either as fast growing, mature high quality operations or ageing producers with highly leveraged output. All potential takeover targets for different reasons. Finally the small companies, these are the ones that when the sector is hot find raising funds fairly easy but then can suffer during the down cycle. Several examples are quoted.

The life cycle of an imaginary mining company is a valuable way of understanding further the sector. A vital part of the book looks at methods how to value mining companies and share prices showing the different approaches required when assessing explorers against developers. The Madness of the Market gives examples of scams and bubbles over recent years, a must read for any speculative investor and underlines the need to take profits earlier rather than later.

Finally Michael ends with an insight into information sources, valuable as today's main press seem to give scant coverage of the sector. He gives a comprehensive list of web sites but does not give a rating on their performance or value, perhaps due to the ever-changing availability.

Overall a valuable and interesting read, which should be free issue to brokers and journalist. Even if currently not an investor in this sector it should be bought and studied as it also gives useful insights to market thinking generally.

WINNING SECTORS

The top three sectors based on increase in their indexes since 30 December 1999 (the FTSE 100 peak) are Tobacco 145%, Personal Care & Household 135% and Household Goods & Textiles 126%. All three had not lost ground at the low of 12 March 2003 – Tobacco up 88.7%, Personal Care 53.6% and Household & Textile 20.2% (all consumer goods). These three sectors represent 3% of the All Share Index by Market Capitalisation.