

# Investor's Digest

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*Most of these elements have names you can't pronounce; nonetheless, demand for them grows with our appetite for high-tech gadgets*

## Rare earth metals — will the next boom start here?

**A**s an investor seeking leverage to all resources, I have a well-documented bias towards precious metals stocks. But I have also maintained an interest in rare elements and exotic metals — a subsector



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that few people seem aware of. As new technologies and high-tech products are developed, more and more of these largely unknown raw materials are in demand to supply critical components.

This includes just about everything created for our consumer society including cell-phones, flat-screen televisions, hybrid cars and those gadgets that we all want to own because they are smaller or faster or more fun than the last product we all just had to buy. Well, the demand continues to grow.

A small group of junior exploration stocks are actively looking for new deposits of these valuable and important "rare earth" metals, and since many people have never heard of metals like tantalum, gallium, niobium or indium, there is not a huge following for the companies that explore for them. But there should be. More to the point, I think there will be an investment mania for this sub-sector sometime in the future,

and there a few very good stocks to own now.

**Zimtu Capital** (ZC-TSX/VEN, \$1.30) is not a pure rare-elements play. It is more appropriately defined as a project generator and also functions as an incubator of resource companies. Many

investors may remember the technology mania that was a big story in the 1990s. And a very successful subgroup in those days were the incubators that put together capital, management and technology and then launched these new ventures with market listings to advance as independent companies. Zimtu has taken on the same business model and this should be of interest to speculative investors that believe we are headed for the same kind of market for the resource juniors.

Through its ability to acquire properties and then complete transactions to vend them out, the company offers participation in the mineral exploration sector without bearing the risk and expense of development. The company has created value for shareholders through a diversified portfolio of holdings in these partners that, in turn, invest in the development of the projects. It is like having your cake and eating it too. And with

each new transaction there is more cake on the way.

Since Zimtu began trading, it has participated in the formation of several public companies, including **Commerce Resources** (CCE-TSX/VEN, \$0.31) and **Evolving Gold** (EVG-TSX/VEN, \$1.08). As these companies gain listings and begin trading, Zimtu has spun off part of its ownership as a dividend to its shareholders. So far Zimtu has spun off shares in six different companies and this dividend is just further icing on the cake for its shareholders.

Over the last year or so, Zimtu has completed several significant transactions. As the vendor of property holdings the company acquired shares in **Weststar Resources** (WER-TSX/VEN, \$0.05) and **Ultra Lithium** (ULI-TSX/VEN, \$0.05) (leverage to lithium in Alberta), **Trivello Energy** (TRV-TSX/VEN, \$0.07) (leverage to gold in Northwest Territories), **BonTerra Resources** (BTR-TSX/VEN, \$0.12) (leverage to rare earth elements in Quebec), **Quantum Rare Earth Developments** (QRE-TSX/VEN, \$0.49) (leverage to rare earth elements in Australia and Saskatchewan and Niobium in Nebraska) and **Fieldex Exploration** (FLX-TSX/VEN, \$0.16) (leverage to rare earth elements in Labrador).

In addition, the company built leverage to other juniors by purchasing shares in private placement offerings including deals to invest in La Camera Mining (Mexico gold leverage) and Discovery Harbour Resources (diversified mineral exploration).

Many of the above companies are attractive juniors with few shares outstanding and the potential for rapid growth. I have always favored a basket approach to the junior mining sector and Zimtu has that virtually built in. It is almost a one-stop shop, controlling an impressive and diversified portfolio of holdings in junior mining and exploration companies.

Despite this track record of successful transactions and leverage to exploration, it seems few people are aware of Zimtu. The stock is tightly held with less than eight million shares outstanding and a market cap under \$11 million. Yet the holdings in its portfolio alone are valued at more than \$10 million and the company has a clean balance sheet with \$500,000 in cash and no debt. Basically investors participate in about a dollar's worth of asset value for every dollar of stock they buy. That kind of value is a hell of a bargain for a growing, well-managed company.

This one little company functions similar to a mutual fund in

the mining sector. As Zimtu continues to grow, its shareholders will build further leverage to a diversified portfolio of resource stocks. And as each of those individual companies advance their projects further along the development curve, the value of this total portfolio will increase. Investors benefit from Zimtu's management with proven suc-

cess to identify new projects and close transactions and even gain the payout of dividends as new companies are launched. This is the kind of business model that should be attractive for those seeking exposure to early stage resource development.

In the years ahead, I think the market will begin to reward this business model with a hefty pre-

mium. I expect that the rare elements and exotic metals will attract much more speculative interest, and new money flow into this tiny subsector could trigger a rapid rise in the value of these companies. Zimtu should be well placed to benefit through the portfolio ownership in high-quality companies and through organic growth as a project gen-

erator. Zimtu Capital is thus a lower-risk way to play in this important resource group that our technology will depend on even more in the years ahead.

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