

# Discovery Investing: What to Look for in Discovery Stocks

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# What Is Discovery Investing?

It is an investing **discipline**

focused on risky investments likely to **create great wealth**

from market discounting of initial **world class discoveries.**

**“Western Silver’s Outcrop at Peñasquito.”**

**“The Apoptotic Gene Factor 5A1”**

It is driven primarily by realization that a significant increase in the human Quality of Life is possible for 5.5 billions of humanity.

# Why Discovery?

- Virgin Investment Space: Begins with Discovery a serendipitous event.
- Discovery Stocks: Are Contrarian / Independent of the business cycle.
- **Global Quality of Life cycle** begun in China in 1979 to last another two to three decades. *“China today is similar to the US in 1908.”*
- Resource Nationalism is everywhere: China and rare earth minerals.
- Boomers’ must create additional wealth as pensions evaporate, safety nets vanish and taxes and health care costs increase.

# What Drives Discovery Investing?

**It is driven by the strong force for a higher quality of life for 5.5 billion humans.**

**and**

**It is also driven by the realization that ~30 % of the world's wealth has been destroyed since July 2008.**

# What About China and India's Nascent QOL Cycle?

- If India as well as China were to catch up, world consumption rates would triple. If the whole developing world were suddenly to catch up, world consumption rates would increase 11-fold.
- It would be as if the world population ballooned to 72 billion.
- “Some optimists claim that we could support a world with 9 billion people. But I haven't met anyone crazy enough to claim that we could support 72 billion.”
- Our Conclusion:

Discovery Investing in Energy, Resources, Biotech and High Tech  
will become critically important and **HIGHLY VALUED**.

**Professor Jared Diamond, January 2008.**

Discovery Investing Michael A.

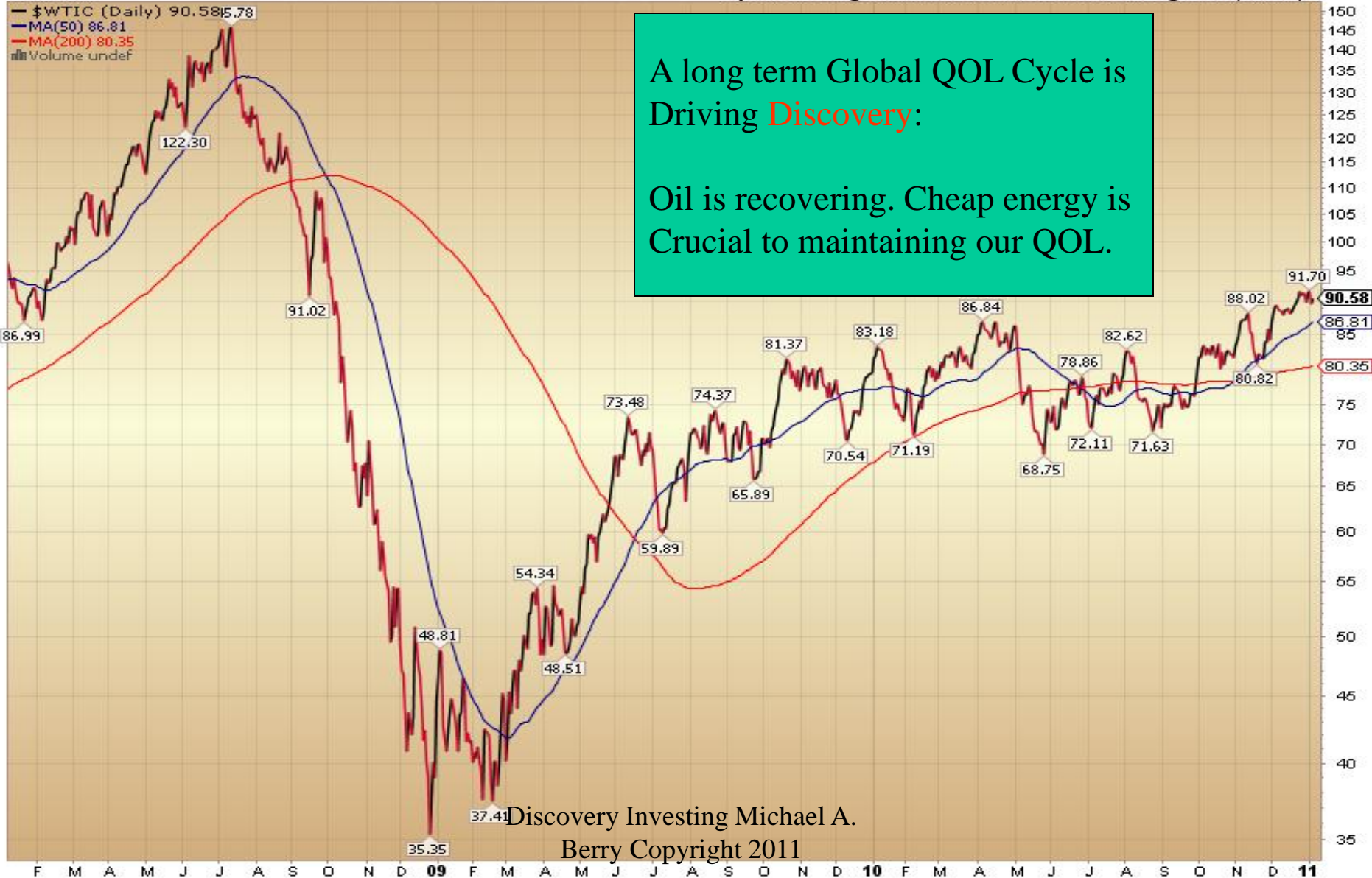
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# Evidence: The Strange Case of Oil

\$WTIC (Oil - Light Crude - Continuous Contract (EOD)) INDX  
5-Jan-2011

© StockCharts.com

Open 89.24 High 91.12 Low 88.35 Close 90.58 Chg +0.98 (+1.09%) ▲



A long term Global QOL Cycle is Driving **Discovery**:  
Oil is recovering. Cheap energy is Crucial to maintaining our QOL.

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# The Great 2008 Commodity Sell-off and Renaissance



# Discovery Wealth Creation: Noront

NOT.V (Noront Resources Ltd.) CDNX

19-Sep-2008

▲ RSI(14) 28.93

Open 1.600 High 1.690 Low 1.500 Close 1.610 Volume 417.4K Chg +0.080 (+5.23%) ▲

© StockCharts.com



**Hole 18: 18.8 meters averaged 7.4% nickel, 3.2% copper, 1.05 grams per tonne platinum and 10.16 grams per tonne palladium.**

# The Past Decade and The Future

- A new type of infrastructure growth engine is here.
- The BRICS and BRACS have come of age!
- Lifestyle in the western world is now at threatened.
- Discoveries of all sorts will be critical to continued world growth and increased QOL.

# Milestones In Discovery

- Nanotech Applications: Electrical Transmission, Semiconductors
- Infectious Disease Treatment: Vaccines / Drugs to counter Resistance
- Environmental: CO<sub>2</sub> Capture, Hydrogen Fuel Cells.
- Fuel Technology: Nuclear fuel reprocessing, enrichment and storage, Coal to liquids, Gas to diesel.
- **Resource: Exploration and Recovery Technology**
- Alternative Food and Energy Production: Farming, Sun, Wind, Geothermal.
- Fertilizer

# The Discovery Cycle

- All Value begins with discovery.
- Cyclical Wealth Creation: A Discovery **Supercycle**.
- 3 Distinct Classes of Discovery Investments.
- Legacy Creation through the Discovery Cycle
- The **Favorable** Risk / Reward Tradeoff of Discovery.

# Five Steps to Risk Management in Discovery Investing

- Asset Allocation - 5% to 10%
- Diversification Considerations – 10 companies
- Risk / Reward Estimation – 10 Bagger?
- Fundamental Company Analysis (Grid Calculation)
- Relative Company Ranking - 1 to 100

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6. Can you Identify a Dominant Cycle (e.g. the Global Quality of Life Cycle) and Catalyst (e.g. the discovery).
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**10. Can you exhibit self control, focus, patience and courage to sustain losses, and continue to invest?**

# Three Classifications of Discovery

## Stocks: Risk/ Reward (Examples Only)

- Discovery **Incubation** (Pre Discovery – Potential)

Grande Portage, Terraco Gold, Senesco, Neuralstem, Primary Petroleum

- Discovery **Maturation** (Post Discovery – Asset Valuation)

Quaterra Resources, Carlisle Goldfields, Galway, Sandspring Resources

- **Legacy** Discovery (Production /revenue /profits /cash flow)

Freeport McMoRan, BHP, GG, ADM, Apple. RIMM, Cleveland Cliffs, Genentech

# Quaterra's Value Chain

QMM (Quaterra Resources Inc.) AMEX + BATS

6-Jan-2011 2:55pm

Open 1.95 High 1.99 Low 1.91 Last 1.96 Volume 101.8K Chg +0.04 (+2.08%)

© StockCharts.com

QMM (Daily) 1.96  
MA(200) 1.51750  
Volume 101,800

100 million ounces of silver at Nieves, Mexico  
1.4 billion pounds copper at MacArthur  
200 million pounds moly at Cave Peak  
20 million pounds uranium at Arizona Strip  
14 other properties, all world class potential



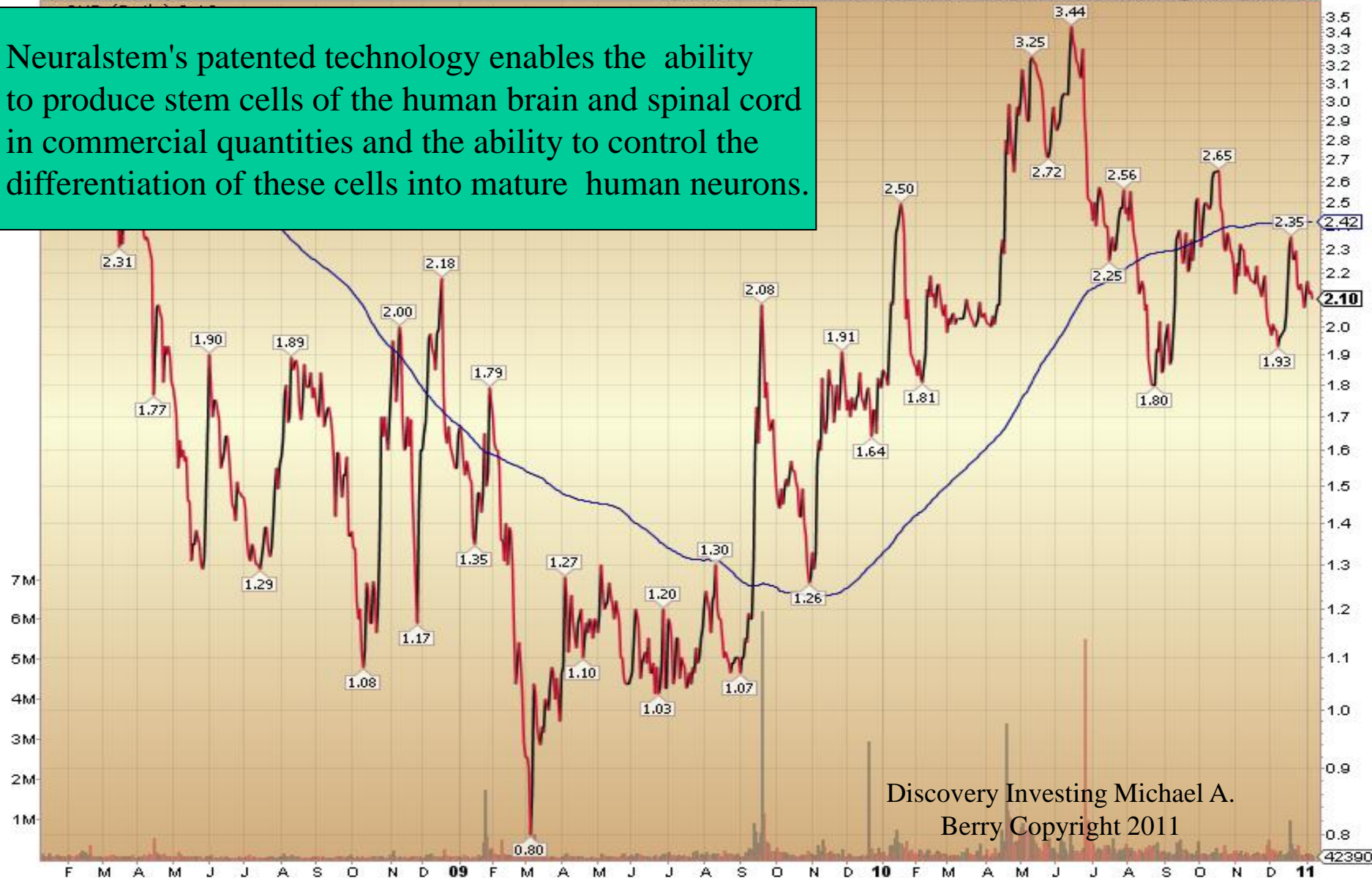
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# Neuralstem: ALS Discovery

CUR (Neuralstem, Inc.) AMEX + BATS  
6-Jan-2011 2:58pm

Open 2.11 High 2.14 Low 2.10 Last 2.10 Volume 42.4K Chg -0.03 (-1.41%)  
© StockCharts.com

Neuralstem's patented technology enables the ability to produce stem cells of the human brain and spinal cord in commercial quantities and the ability to control the differentiation of these cells into mature human neurons.



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# Discovery Investing

A most useful addition to traditional investment tools and segments of the market that will create great demand and hence personal wealth in the future.

The keys are superior risk management, analysis of discovery reward potential and an inquiring and patient mind.

# Contact Points

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