

Today's Notes:

1. The Discovery Investing Scoreboard (DiS)

I have spent the better part of this week (the holiday week in general) researching Discovery companies and inputting my word-scores into the new DiS software. The results were startling. Let me start this Morning Note by listing the 10 factors that explain most (not all) of the variation in discovery company share prices. This tool will help you to rank your discovery companies from best to worst (a score of 0 to 10). More importantly as we build a very large data base of company scores and maintain these by updating them as events occur, we create a Crowd Score data base where many individuals scorings of any company are combined into a single score or ranking number, again on a basis of 0 to 10.

The basic mathematical engine allows the user to rate each factor in word phrases (very poor to very good) and allows imprecision of an individual in his / her knowledge of the Discovery company by specifying several categories of assessments. Once two or more Discovery Investors score the same company a Crowd Score is formed. Thus any future scoring will compare the analyst's rank with that of the Crowd. If the analyst does not have knowledge of a factor he or she may select the Crowd score for that factor or simply ignore the factor till the requisite knowledge is gained.

Each factor may be scored as Desired or Mandatory. Each factor scoring is also rated by degree of importance. A poor score in a Mandatory factor scoring will significantly lower the overall company ranking. So the basic capability of the DiS as it is now implemented is the development of the Crowd Score ranking for each company, the ability to update the score over time and the comparison of the powerful Crowd Score with your personal score.

I include a short definition of the 10 factors. A more complete definition will be found on the DiscoveryInvesting web site.

2. Introduction to Discovery Factors:

This tutorial will help you understand how to use the Discovery Investing Scoreboard (DiS). Using these 10 factors effectively will help you select winning micro, small and midcap discovery stocks. We use them effectively in our personal discovery investing practice.

In order to use the DiS effectively you must apply 10 discovery factors in your due diligence. The factors are scored using vocabularies or "word-scores" that explicitly allow your imprecise knowledge of the company. These vocabularies have been developed by researchers. Each factor has an associated membership function that reflects distributions of human imprecision of each word score.

For example, you might consider the world class potential of a particular project as "very poor." Others might consider it "poor" and still others, "average." You will score each factor with a forward-looking perspective, your belief in the future realization. In this respect the DiS is a forward looking ranking system and so more powerful than current analytical systems that rely on historical data.

In your factor word-scores you will provide your best estimate of each factor. We incorporate risk in the factor model by allowing users to specify their subjective word-score estimates of “goodness” or “badness” as well as the importance of each factor. Individual company scores are then combined to form a Crowd Score for each company – again on a factor by factor basis. A final single rank or score is adjusted for the shape of the overall footprint of uncertainty (FOU).

Before you can score a company using the DiS you must score each factor. Please remember that individually these factors may be positive at one point, may become increasingly positive over time or negative. In many respects developing the evolution of factor model scores over time is critical to understanding the discovery potential of the company. The 10 factors may be scored in any order although we prefer to focus on and score management and world class potential initially:

- 1) Management and Board:** Competence, track record and execution ability in achieving goals.
- 2) World Class Asset, IP, Technology:** The project may be best of class in the world.
- 3) Project Potential and Immediacy:** the discovery is a global “game changer,” a breakthrough possessing immediate impact, significant potential or innovative disruption capability.
- 4) Company Diversification:** Sustainable project diversification that creates discovery wealth and reduces discovery risk.
- 5) Cycle and Catalyst Identification:** Identification of events that may signal price changes and value / price equilibration. These include drill assays, results of clinical trials, PEAs or other events that change project potential. Cyclical market recoveries, S-curve revaluations or recognition of behavioral bubbles in asset and share prices may also realign prices.
- 6) Contrariness of Assets:** significant under or over-valuation relative to current asset/technology value, given market price and your estimate of project value.
- 7) Financial Soundness:** The Company should have access to capital markets, private equity funding or other sources necessary to sustain exploration and development to completion of the business plan throughout the discovery process.
- 8) Stakeholder Relationships:** Maintaining good relationships and information flow with shareholders, bond holders, money managers, Institutional research support, customers, suppliers, local populations and NGOs.
- 9) Percent Project Ownership:** maintaining ownership control through the discovery process. They control the project currently. They manage dilution effectively. Insider and friendly share ownership, institutional ownership and percentage project control are positive and significant.
- 10) Personal Investor Sentiment:** Owning a broken stock or one that is overly-revered by the market. Investors may have lost patience in the market, sector or the company or on the other hand irrational exuberance may dominate the market. The company may require rational reassessment. Your irrational biases, given the length of involvement and sting of disappointments, may force you to sell. You must decide if you will stay the discovery course.

3. A Few Initial Results from the Discovery Scoreboard:

Here I provide initial results from the Scoreboard. These are top decile scores from Incubator and Mature Discovery companies. They reflect only a very limited sample of all the firms currently evaluated on the data base. These Discovery scores are sorted by Crowd Score. Top companies tend to be mature Discovery names such as Alexco, Midway Gold and Revett Minerals. Relative to other companies these companies have been substantially de-risked. One should be aware that these are early estimates with a fairly small sample size and Crowd. Nevertheless they give some perspective on the capability of ranking discovery potential in the DiS. These are not buy or sell recommendations. They are simply some scores as evidenced by more than one analyst / expert on each company. Total sample size is approximately 300 companies as I publish this MN today.

If you have a special interest in becoming expert in this system please contact me at:
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Ticker	My Score	Crowd Score	Names
AXR	6.72	6.54	Alexco Resources
MDW	6.2	6.4	Midway Gold
RVM	6.36	6.31	Revett Minerals
ALS	6.16	6.15	Altius Minerals
GPD	6.19	6.1	Golden Predator
TEN	6.9	5.99	Terraco Gold
RPM	6.1	5.97	Rye Patch
AGC	5.89	5.92	Amarillo Gold Corp
HL	6.15	5.89	Hecla Mining
PEM	5.88	5.87	Premium Exploration
BAT	5.63	5.84	Batero Gold
SSP	5.71	5.6	Sandspring Resources
RDK	5.5	5.21	Redhawk Resources
QMM	5.29	4.64	Quaterra Resources

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