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6 February 2017

## WHY RARE EARTH METALS ARE BOUND TO OUTPERFORM IN THE COMING MONTHS

Rare earth metals - a stupid name that should be renamed "lesser known base metals".

Ok folks, I've been working on this alert for longer than I probably should have.

The analysis was done and I wanted to dig deeper into some of the meat that goes in the sausage. In the end, the thesis is really simple and the execution of it just as simple so let's get to it.

- "Lesser Known Base Metals" will outperform over the coming months and years.
- This is I believe a low risk, high reward opportunity.
- The sector is about to rebound and there are some factors as to the why.

**The "short" of it:** Buy the VanEck Vectors Rare Earth/Strategic Metals ETF (REMX) as a stock.

It is about to start a multi-month bull run which will lead to at least a doubling over the next couple of years. It is at an extreme "oversold" level which means there is little in the way of downside.

**The "long" of it:** Obviously there is more to jumping to a bullish conclusion than the "squiggles of a chart" but a chart does say a thousand words.

The VanEck Vectors Rare Earth/Strategic Metals ETF had lost a whopping 92% of its value from its peak in 2011 to the start of last year. Although it has advanced a little over the last 12 months it is still down about 85%.



The VanEck Vectors Rare Earth/Strategic Metals ETF appears to have completed a bottoming process and has registered a higher high and higher low. The makings of a multi-month bull market are intact.

While the charts are compelling on their own, what is very encouraging is that no one is talking about this bull market in the making. A true bull market, like a good burglar, creeps up on everyone when they least expect it.

What exactly is this “rare earth metals” ETF?

Mention the term “rare earth metals” and folks conjure up images of metals that are difficult to pronounce like praseodymium, yttrium, promethium, or gadolinium.

It may also bring back memories of 2010/2011 when “rare earths” were all the rage and we were led to believe that the Chinese had cornered 80% of the world's supply of rare earth metals.

Metals vital to the very civilization of the world, without which we'd all be subjected to communicating with flares, carrier pigeons, and navigating our way around the streets with paper maps (the horror) while the Chinese would all be navigating their way to the outer planets with the grandest technology available to man.

Remember articles like this:

GLOBAL BUSINESS

## *China Said to Widen Its Embargo of Minerals*

By KEITH BRADSHER OCT. 19, 2010

HONG KONG — China, which has been blocking shipments of crucial minerals to Japan for the last month, has now quietly halted some shipments of those materials to the United States and Europe, three industry officials said this week.

The Chinese action, involving rare earth minerals that are crucial to manufacturing many advanced products, seems certain to further intensify already rising trade and currency tensions with the West. Until recently, China typically sought quick and quiet accommodations on trade issues. But the interruption in rare earth supplies is the latest sign from Beijing that Chinese leaders are willing to use their growing economic muscle.

I love stuff like this as it's so over the top that you have to take a stiff drink to take it seriously. And no sooner had the press done a wonderful job of convincing everyone that the only way for rare earth metals prices was up that prices stopped going up and indeed crashed. Rare earth metal stocks did nothing but go down for the next 5 years.

It is interesting to note that the listing of the VanEck Vectors Rare Earth/Strategic Metals ETF wasn't far off coinciding with a top in the market. Its listing was nothing more than a big fat contrarian sign.

I mean, when you understand that the underwriters of investment vehicles such as ETFs make their money by selling and not buying, then you'll understand why they so often provide us with the most amazing contrarian signals ever. Sellers instinctively think differently to buyers. Investment banks are built, designed, and run to SELL, not to BUY. Please remember that.

In any event, if we look beneath the covers, you will now find this ETF comprises companies which mine stuff you probably would have come across before, like titanium, lithium, molybdenum, manganese, nickel, and tungsten. In other words, nothing rare. In fact, many of the metals referred to as "rare earths" aren't even rare at all. They're as common as muck.

Rather than refer to it as a “rare metal” ETF it should be rebadged “lesser known base metals”. **Because all/most of these metals are used in conjunction with iron/steel to produce alloys.**

Here are the holdings of the VanEck Vectors Rare Earth/Strategic Metals ETF:

VanEck Vectors Rare Earth/Strategic Metals ETF (REMX)		
<a href="#">Click here to return to the ETF page</a>		
Holdings		
<a href="#">STOCK</a>	TICKER	<a href="#">STOCK</a> <a href="#">WEIGHTING</a>
China Northern Rare Earth Group High Tech-Co Ltd	600111-SH	7.51
Xiamen Tungsten Co Ltd	600549-SH	7.47
North Mining Shares Company Limited	433-HK	6.91
China Molybdenum Co. Ltd	603993-SH	6.45
Tronox Incorporated	TROX	6.33
ILUKA RESOURCES LIMITED	ILU-AU	6.19
Jinduicheng Molybdenum Co. Ltd.	601958-SH	6.03
Assore Limited	ASR-JO	4.84
Orocobre Limited	ORE-AU	4.83
CIA Ferro Ligas Da Bahia Ferbasa	FESA4-BR	4.67
Lynas Corporation	LYC-AU	4.61
China Rare Earth Holdings Limited	769-HK	4.55
OSAKA Titanium Technologies Co.Limited	5726-TO	4.50
Eramet	ERA-FR	4.24
Toho Titanium Co Ltd	5727-TO	3.98
Galaxy Resources Limited	GXY-AU	3.88
Pilbara Minerals Ltd	PLS-AU	3.78
Citic Dameng Holdings Limited	1091-HK	3.76
5N Plus Inc.	VNP-T	3.31
Cia Minera Autlan SA de CV	AUTLAN.B-MX	1.98
Cash	CASH\$	0.19

Not convinced it is just an ETF made up of “lesser known” base metals?

Below I have overlaid the price of French nickel producer Eramet (the biggest dedicated nickel producer in the world) with REMX in USDs and indexed to 100 in 2011.

After some 6 years they both equal each other in their dismal value destroying “performance”.



I think this relationship will give you a fair idea of what we are dealing with. There is some macro force at play here which is lifting economically sensitive base metals across the board.

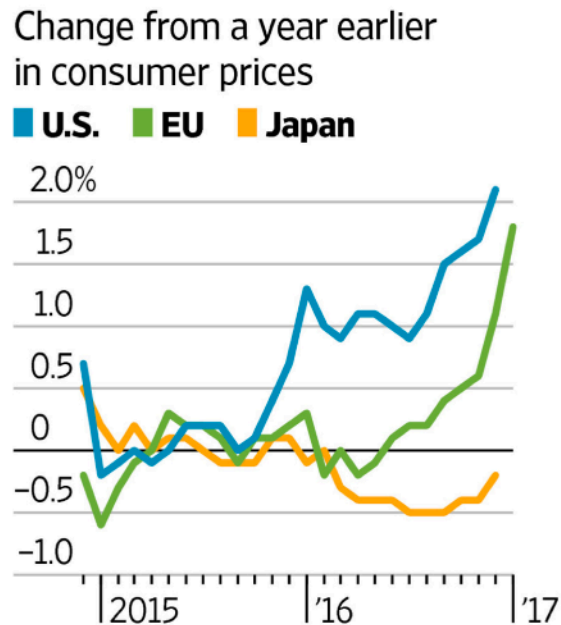
My suspicion is that it is to do with world economic growth picking up more than expected (not that it was expected to pick up any in the first place) and secondly due to the collapse in base metal prices (and commodity prices in general) there have been significant supply cut backs occurring over the course of the last few years.

The intersection of these two forces is pushing up the prices of the underlying commodities and stock prices of the producers.

Additionally, China, who are the largest producers in this space (controlling over 90% of supply), are set to become a net importer of the metals as domestic demand outstrips supply. Remember bear markets do a wonderful job of destroying supply in high capex businesses such as mining.

Another factor that is potentially contributing is a pickup in inflation.

There is growing evidence that inflation in developed nations is surprising to the upside and that it is the start of a long macro trend.

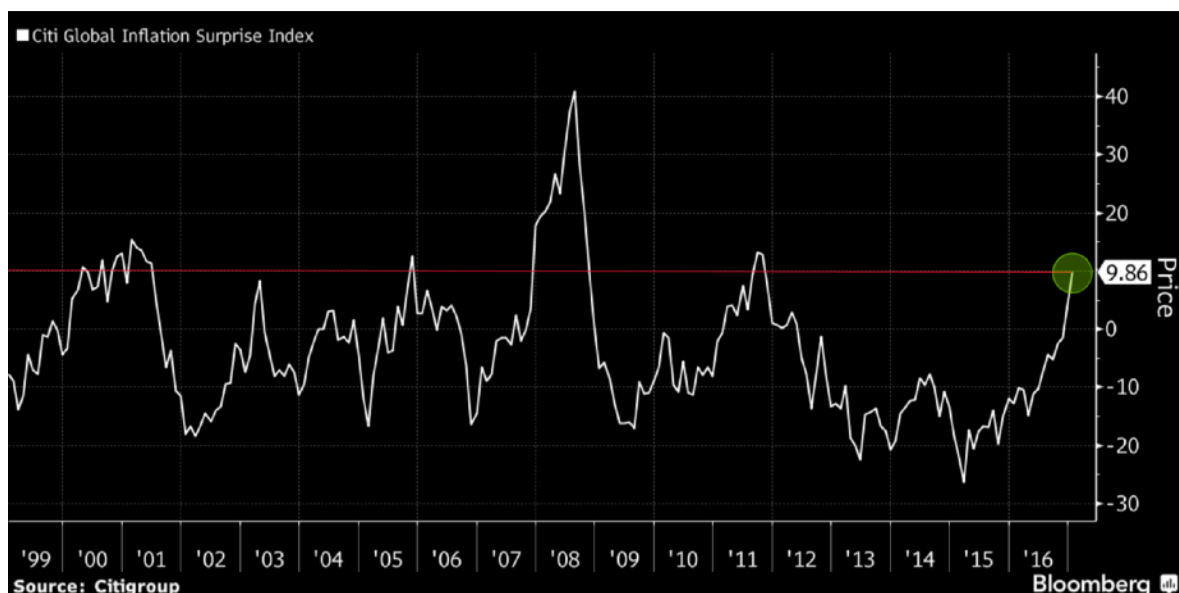


Note: Japan's CPI excludes fresh food  
Source: Federal Reserve Bank of St. Louis (U.S); Eurostat (EU); Ministry of Internal Affairs and Communications (Japan)  
**THE WALL STREET JOURNAL.**

We are even seeing a pickup in prices of goods and services in Japan. Could this be related to economic production picking up, coupled with a resistance to holding either currency or bonds?

And not only is inflation picking up but it is doing so much more than expected. Inflation across the world is beating analysts' forecasts.

Below is the global Citi Inflation Surprise Index. This index measures price surprises relative to market expectations and it is at the highest in more than five years. The reading turned positive in December - meaning inflation data were higher than expected - for the first time since 2012.



It is interesting to note that when this index spikes up miners generally do well. Note how it “trended down” from 2011 until the start of last year (yes, easy to identify after the fact). As it has been moving higher over the last 18 months so, too, have many miners.

Perhaps we are just seeing things that aren’t there but perhaps there is something to do with rising inflation and rising metals miners.

If our suspicions are right and inflation continues to surprise to the upside way more than what even the “inflation bulls” are touting, then the strength we have seen in base metal miners as of the last 12 months is a mere hint of things to come.

### **So Which Miners do We Pick?**

Which of the “lesser known” base metals is set to outperform the rest?

I have no idea! Yes, seriously. I don’t have any edge when it comes to picking which base metal will outperform over the coming months.

Furthermore, I think it is very risky to speculate because technology changes so quickly and so, too, can the demand for these metals. And I certainly don’t want to get caught up in spruiking wonderful sounding stories how the price of “marsridium” (if there is such a metal) is going to the moon.

However, I am quite sure that a macro trend has just kicked into gear, and one that will take the rare earths/lesser known base metals much higher.

I’m going to play this macro theme and buy the the VanEck Vectors Rare Earth/Strategic Metals ETF (REMX) outright as a stock. If there were long dated options on the ETF I would consider them but the aren’t any.

**The Trade:** Buy the VanEck Vectors Rare Earth/Strategic Metals ETF (REMX) at \$19 (or near enough). This is where we’re at as I pen this. If we get back to the highs of 2011, we’re looking at over a 6X return.

**Allocation to the Trade:** This is an ETF tracking an index of stocks so I would be comfortable with a 5% weighting.

**When to Take Profits:** When you hear the press touting the wonderful prospects of rare earth metals (as they did in 2010 and 2011) and when “analysts” start popping up with dozens of calls suggesting “to the moon Alice”, then we’re probably getting there.

When I say “analysts” really I mean the sales guys pretending to be investment minds who are as sharp as a bowling ball. We are probably someway off this (many months).

*Disclosure: The Asymmetric Opportunities Fund is long the VanEck Vectors Rare Earth/Strategic Metals ETF at \$18.80. If we sell, you will be notified.*

Sincerely,

Chris MacIntosh

Founder & Editor In Chief, Capitalist Exploits Independent Investment Research  
Founder & Managing Partner, Asymmetric Opportunities Fund



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