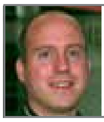

INSIGHTS & INVESTMENTS

Eric Hoesgen & Dennis Hoesgen

Opportunity knocks –

metal may be soft, but producers are strong

There is inevitably going to be speculation concerning the future price of gold; the present environment does not bear an exception. Some analysts see the current rise in the price of bullion as a bear market rally, while others think that the trend has shifted altogether. We think it is worthwhile to look at some of the arguments from either side and draw some conclusions that should be helpful going forward.

It was predicted at the end of last year, by many analysts, that the price of gold would be remain pretty flat during the course of 2014. This was back when most people had their eyes on Russia because they were about to host the Winter Olympics, not because they were trying to annex Crimea against the will of the Ukrainian people. The mounting geopolitical tensions between Russia and the West along with the potential for corporate bond defaults in China have only added some potential fuel to the tank of this current rally.

Total demand for gold was reported to be down by 15% last year as investors sold out of ETFs but the consumer demand has reached new highs. As Deutshe Bank AG points out, there are "powerful physical flows" to China and India and prospects of a weaker dollar supporting gold. In fact, Chinese consumption was up over 32% last year and so was Indian usage by 13%. The global demand for bar and coin purchases reached an all-time high of 1,654.1 tonnes last year. The lower gold prices seem to just be pumping the Asian demand with China now overtaking India as the world's biggest buyer.

From a technical analysis view, now that the $1,350/oz resistance level has been breached, the next resistance level is at $1,435/oz. It is, also our perspective that $1,435 is actually less of an obstacle than $1,350 was and so the ultimate target could end up being even higher at the following level of $1,550. This would be significant as it would have bullion return back to the original break-down level that occurred last May. Based on the current conditions it is possible that this move will be reached within the next three months.

We must balance these observations with the view of other analysts that are calling for gold to continue its correction, citing the fact that the price is still over double what it was in 2006. There are even those that challenge the traditional notion of gold providing a haven in turbulent times due to the fact that it is already priced high according to historic standards. These analysts don't think that the below expectation growth of the US economy or the conflicts in Eastern Europe are sufficient to tame the bear. Even if the US markets are heading towards a decline as some analysts fear, the recent profit taking of top earning, high-beta (a measure of the risk arising from exposure to general market movements) stocks signals, they would argue, that gold is just too expensive to provide a viable option.

Our perspective is simple. Whether gold goes up, stays flat, or goes down a little, there are still going to be certain companies with low production costs that are making money. It was predicted in 2013 that gold prices would remain pretty flat this year and bearish at the outset. They also predicted that, despite this fact, the bottom for gold equities would occur by mid-January with tax-loss selling and other window dressing activities, providing the grounds for a rebound. This is just an update that the write-downs we had written about previously have now enabled the strong companies that survived to position themselves well for the future. We think it is worth pointing out that since gold stocks suffered more than the commodity's value, the corresponding recovery has also greater potential. It has been suggested by some analysts that it could be, "perhaps by a two-fold margin of performance or better."

Our North American portfolio strategist, Martin Roberge, has done an analysis of the performance of gold and equities in the years following each of the eight recorded instances that gold prices shrank by a double digit percentage or greater. The average of those records would indicate a 1% drop in the price of gold this year and a 22% increase in gold equities. This year, bullion has already risen by almost 10% since January 1st at the time of this writing, which would provide some early optimism that the average will not be far less than this year's outcome by a wide degree. Lastly, the bottoming process would seem to be even more likely since companies have restrained capex long enough to cap the bullion downside and, when capex falls, gold stocks usually outperform the bullion and the market.

We would like to suggest that the bottoming trend should have shifted to a stronger trend that will present the opportunity for trading gains. Here just a few stocks that we follow and can recommend:

LARGE CAP

Goldcorp Inc. [G-TSX; GG-NYSE]
Target: C $35.00*
Market Cap: US $21,584M*
NAV: US $23,841M*
2013 Production: 2,559K oz.*
2013 Cash Cost: US $598/oz.*

*According to Canaccord analysts Tony Lesiak and Adam Melnik report February 19, 2014.

Yamana Gold Inc. [YRI-TSX; AUY-NYSE]
Target: C $13.00*
Market Cap: US $7,928M*
NAV: US $9,059 M*
2013 Production: 974K oz.*
2013 Cash Cost: US $599/oz.*

*According to Canaccord analysts Tony Lesiak and Adam Melnik report February 19, 2014.

SMALL CAP

Argonaut Gold Inc. [AR-TSX]
Target: C $8.00*
Market Cap: C $945M*
NAV: $1,177 M*
2013E Production: 124K oz.*
2013E Cash Cost: US $639/oz.*

*According to Canaccord analysts Rahul Paul and Gabriel Gonzalez r eport January 19, 2014.

B2Gold Corp. [BTO-TSX; BTG-NYSE MKT]
Target: C $4.00*
Market Cap: C $ 2,314 M*
NAV: US $2,359 M*
2013 Production: 366K oz.*
2013 Cash Cost: US $727/oz*

*According to Canaccord analysts Rahul Paul and Gabriel Gonzalez report March 16, 2014.

Dennis Hoesgen and Eric Hoesgen are Senior Investment Advisors with Hoesgen Investment Partners (HIP) at Canaccord Genuity Wealth Management, a division of Canaccord Genuity Corp., Member of Canadian Investor Protection Fund. The information contained in this article is drawn from sources believed to be reliable, but the accuracy and completeness is not guaranteed, nor in providing it does HIP, Canaccord Genuity Corp., or its subsidiaries, or affiliated companies, assume any liability. This information is current as of the date appearing in this article, and we do not assume any obligation to update the information or advise on further developments relating to these securities. This report should not be considered personal investment advice or a solicitation to buy or sell securities. Canaccord Genuity and holdings of its respective directors, officers and employees and their associations, from time to time may buy or sell any securities mentioned herein. The views expressed are those of the authors and not necessarily those of Canaccord. Eric Hoesgen and Dennis Hoesgen can be reached at 604-643-7705 or at HIP@Canaccord.com