

This gold stock is a flying turkey

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Stupid Investment of the Week

Commentary: This gold stock, formerly in music biz, should stay undiscovered

By Chuck Jaffe, MarketWatch

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BOSTON (Menafn - MarketWatch) -- With gold at all-time highs, the market winds have begun blowing so hard that turkeys are starting to fly. Once they get off the ground, viewed in the right light, those turkeys can almost look like hawks or falcons.

When a recent e-mail ad campaign started pumping American Sierra Gold Corp. and its stake in the "global gold movement," investors may have had visions of an eagle soaring after take off, but what they're being sold is nothing more than a jive turkey, the Stupid Investment of the Week.

Stupid Investment of the Week highlights the concerns and conditions that make a security less than ideal for the average investor, and is written in the hope that spotlighting trouble in one situation will make it easier to sidestep danger elsewhere. While obviously not a purchase recommendation, neither is the column intended as an automatic sell signal.

It's not a problem with gold stocks, penny stocks -- American Sierra Gold currently trades north of a buck, but it hasn't for most of its existence -- or even stocks touted by email that makes this a stock to avoid. While all of those things can raise red flags, the real problem here is that even if you wanted to take a flyer on a junior gold company hoping to hit a grand slam -- there is a history of stocks that have gone from penny to big-time when their mother lode came in -- American Sierra wouldn't be your bet.

The advertising email may catch some investors' attention because it is marked as a paid advertisement from the Fidelity Independent Adviser, a legitimate independent newsletter that covers Fidelity mutual funds. While the disclaimer notes that the company is not affiliated with the newsletter, the connection is sufficient to make some recipients take a look.

What they find in the email is a classic hot-stock sales pitch, invoking the names of several established, big-name stocks to try to get you impressed by the potential of the new, small fry.

Gold in them thar hills? Maybe

American Sierra is an "undiscovered gold exploration company," which isn't a statement about how Wall Street feels about it, but rather about where it is in the gold process. If you want gold, well, the company doesn't have any yet. It probably won't for a long, long time. While there's good reason to believe that the gold rally can continue, it is much harder to believe it will still be going strong many years from now when -- if management gets lucky -- American Sierra actually mines gold.

What the company does have is the rights to some properties that may someday produce gold. There's more than 70,000 acres right next to a mine that is producing \$200 million in annual revenues for GoldCorp . Next, there are properties in the Sierra Madre -- think treasure, like in all of those old movies -- and even a project in Northern California (a new gold rush), to stir the imagination.

All you need to get this turkey off the ground is a huge tailwind. From the email: "In 2000, gold was up to \$279.11 an ounce. By 2004, the price shot up to \$409.72. And last year, 2008, ended with gold commanding \$871.96 an ounce. Now gold is over \$1,000 an ounce and analysts see the price climbing so furiously that some are calling what's ahead, 'The New Gold Bubble.' And if Washington keeps printing currency at this rate, gold prices hitting \$5,000 within five years has become a real possibility. Major investors are hedging for this right now."

Ladies and gentlemen, we have lift-off.

Do some due diligence, however, and you will see that while the big picture holds true, the small picture about American Sierra is unnerving.

From Ukrainian music to gold exploration

Marshall Berol, portfolio manager for the Encompass Fund , a fund that has earned a triple-digit return this year, in part due to some investments in junior, or lesser-known, gold stocks, got the email and was curious about this mining company of which he had never heard.

"The company is only two years old, but it hasn't been a gold-mining stock for most of that time," Berol explained, revealing the fruits of a simple Internet search. "A few months ago, it was CE Entertainment, based in Seattle, specializing in Ukrainian musical products. Now it's headquartered in Reno, renamed American Sierra and saying it has gold projects."

There have been no financial statements filed since the end of April; it shouldn't have been too hard to keep track of things, as there were no revenues, apparently no employees actually drawing a salary and the office costs amount to about \$222 a month. One of the biggest expenses on the last balance sheet was a \$20 bank fee.

A spate of press releases (red flag!), about two per week for the six weeks, has hyped esoterica trying to make it seem like American Sierra has a lot percolating.

Tom Winmill, manager of the Midas Fund was particularly concerned about an October announcement of a deal that apparently had been entered into in late June; he also noted that one of the company's key project reports that generated other "news" actually dates to 1996.

Clearly, an investor looking for gold exposure can find plenty of ways to get it without resorting to a non-producing company where the business is more about hope than about the price of gold and the economy. They can buy the big companies that were name-dropped in the email ad, for example, or can use gold funds or exchange-traded funds, rather than focusing in on one small, high-risk operation.

Even if they want to go for the big take-off, Berol said it will be easier to catch a ride on stocks that are nearing production but still priced like a nascent company -- stocks like Timmins Gold or U.S. Gold or Fronteer Development . "If you want to make this kind of move," he said, "look for stocks that are at the finish line. American Sierra is just nearing the starting line."

Added Winmill: "There's clearly room for gold to rally from here, which is good news for all gold stocks, but I doubt the average investor is going to find the gold play they are looking for in an email."