

CHUCK JAFFE



Feb. 18, 2011, 1:28 p.m. EST

Not-so-precious metal

This small-cap proves that all that's gold does not glitter

By [Chuck Jaffe](#), MarketWatch

BOSTON (MarketWatch) — You can make a strong case for buying gold these days, but that doesn't mean it applies to all gold stocks equally.

When investors started receiving promotional e-mails and flyers touting Brazil Gold Corp., they were looking at all of the buzzwords and sound reasons to buy gold. They were also looking a gold mine of puff and fluff.

Sift through the hype and — despite the undeniable appeal of gold — what you're left with the Stupid Investment of the Week.

Stupid Investment of the Week highlights the concerns and characteristics that make a security less than ideal for average investors, and is written in the hope that showcasing danger in one case will make trouble easier to avoid elsewhere. While obviously not a purchase recommendation, the column is not intended as an automatic sell signal.

The problem here is not gold stocks, penny stocks — Brazil Gold is trading currently for less than four bits — or even stocks touted by email. The problem is that the hype on the stock could convince someone to take a flyer on a junior gold company hoping to hit a grand slam; there's a history of stocks that have gone from penny to big-time when their mother lode came in, but Brazil Gold is not a good bet to be the next one.

What's more, while gold may be strong, it can only support the weakest stocks in the field for so long. The weakest stocks — like Brazil Gold — have the potential to crater even if the price of gold continues to climb.

Brazil Gold (OTC:BRZG) is a Seattle-based gold exploration company that is looking to strike it rich primarily in its namesake country. Typically, companies that produce gold are considered “senior” gold stocks, while the exploration companies — with the promise and potential of finding gold — are “junior” companies. Brazil Gold, on its own Web site, acknowledges that it is working to become a “mid-tier gold-producing company.” That's a good aspiration, but what it means now is that this OTC Bulletin Board penny stock would be more like a sophomore or freshman gold stock, if there actually existed a level below the junior-company level.

The recent e-mail promotion came from Carpenter Global Stock Advisory, and it laid it on thick.

“As you have seen, I am convinced that the moment Brazil Gold starts mining a slice of the Mountain of Gold, its shares could fly from around 33 cents to \$5.92 ... or beyond,” wrote Andrew Carpenter, the newsletter's editor. “That result would translate into huge gains in the neighborhood of 2,860% ... but only for agile investors who get in at, or near, BRZG's current low.”

The newsletter quotes a lot of impressive people talking about all of the positives of gold.

None of those people is actually talking about Brazil Gold.

When the newsletter snow job actually talks about the company, it mentions the strength of management, most

notably that the CEO “is a smart man named Thomas E. Sawyer, Ph.D. He served as a senior advisor to Presidents Nixon, Ford and Reagan.”

The whole case made for the stock is nonsense. Not only is Carpenter Global Stock Advisory mostly known for its expertise in Asia (wrong continent), but the fine print makes it clear that the firm has done no real research of its own. “Facts ... were supplied to endorser from third-party sources. Endorser makes no representations as to such facts’ reliability, accuracy or completeness. Endorser is not responsible for errors or omissions. Endorser does not claim any special expertise or knowledge regarding the natural resources sector or gold exploration and mining.”

Carpenter, who could not be reached for comment, “has been contracted to receive \$5,000 by a third party for coverage of Brazil Gold Corp. In addition, the Carpenter Global Stock Advisory expects to receive new subscriber revenue as a result of this advertising effort.”

The ad was bought and paid for by Blue Diamond Equities Inc., and no information is given as to its interest in Brazil Gold.

Beyond the slimy feel of things here, you don’t have to dig deep to find the mettle of a case against BRZG. For example, while the newsletter touts the presence of Sawyer, he actually signed an “executive separation and release of claims agreement” with Brazil Gold on February 3; in short, he quit and agreed to take \$50,000 out the door, to settle the unpaid invoices he had with the company. You’d think if he was so important to the company, they would have paid him on time and kept him.

The last available numbers — from the third quarter of 2010 — show Brazil Gold with an operating loss of \$1.4 million. That looks particularly bad compared to minimal losses the year before, except that the year before the company was in the security business and not searching for Amazon gold.

What’s more, the financial statement includes a footnote wondering if the company can continue as a “going concern.”

“The company has negative working capital and a stockholders’ deficit and has losses to date of approximately \$3,868,000,” according to the report. “These matters raise substantial doubt about our ability to continue as a going concern. In view of these matters, realization of certain of the assets in the accompanying balance sheet is dependent upon the Company’s ability to meet its financing requirements, raise additional capital, and the success of its future operations.”

To that end, Brazil Gold has had a flurry of recent press releases (another red flag when combined with the stock promotion), including a letter of intent on 20,000 hectares of leases in Brazil, and \$5 million in bridge financing. That will further the hope of supporters, but it doesn’t change the likely end.

Truth be told, no one would give this company a sniff if it didn’t have gold in its name, and when a hyped company has nothing but a name to rely on, it’s due for a fall no matter how frothy the market. (The one other time this column picked on a junior gold company, it was American Sierra Gold Corp. (OTC:AMNP) late in 2009; while gold prices were rising heavily, shares in that company were losing 95% of their value.)

It doesn’t even deserve the sniff, because someone looking to play gold can find better value in the senior gold stocks.

Thomas Winmill, manager of the Midas Fund (NASDAQ:MIDSX), noted that the small-cap gold space is frothy right now, coming off a strong fourth quarter and start to 2011. “With a senior [gold stock], you get historically discounted valuations, current cash flow and all of the plusses from investing in gold, but you also win if the gold price goes down because they still have mountains of cash coming in,” Winmill explained. “Based on current valuations, I don’t see why anyone would buy Brazil Gold when they could buy an established company like Barrack Gold (NYSE:ABX) or Newmont Mining (NYSE:NEM) and have something real there.”

Added Marshall Berol, portfolio manager of the Encompass Fund (NASDAQ:ENCPX), and a fan of junior mining stocks: “The real upside right now if you are a believer in the future price of gold is those companies that have active projects underway, where they will take it to production or will be bought out. A company like Brazil Gold very

likely won't be around if there's a downturn in gold, because they won't have the capital.

“You might want to believe in this environment that no gold company could fail, but that would be wrong.”