

International Chart of the Week

Murchison United A new lesson on contrarian investing



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Dear Friend,

Every single investor has a particular weakness. Or at least, everyone that I have met so far does. That even includes me!

Some people tend to sell out too early. Give them a 20% gain and they happily sell out, only to miss a share doubling or tripling in value.

Others never pull the plug on their loss positions and stick to a loser for however long it takes to see the share rise back to its initial level. I do happen to know one particular investor who has held on to one of his loss position for a staggering 17 years, and he still checks the price every day.

Yet others cannot bear to not be part of every single promising investment sector that is presented to them by the media or their advisors. They end up with a chaotic portfolio containing 78 different shares. The odd real winner they do actually spot, never makes much of a difference in their portfolio as they only ever invest 1% or 2% of their holdings into any one single share.

For me, it's my tendency to get into things too early.

Here's my investment career's most often repeated mistake.

Just a few days ago, I told you the story how back in spring 2005 I got bullish for the Russian department store, GUM. Not only had my gut feeling told me that this was a share bound to rise. I also had the fundamental analysis as well as some pretty hot Moscow inside drift to back up my view.

Never mind that the market simply wasn't ready for the idea yet.

Do check out my in-depth report on GUM if you haven't already read it. Not only is it quite an exemplary example of my habit of being just a little bit too far ahead of the crowd, but it's also quite an entertaining read. It has already lead to several readers emailing me to ask for tips about when to best travel to Moscow, so that they can check things out first-hand.

Of a similar ilk, is the one reader who emailed me about potentially visiting Australia, to check on the progress of Murchison United. The company just last week announced that it's going to hold its yearly shareholders meeting in Perth on November 30th.

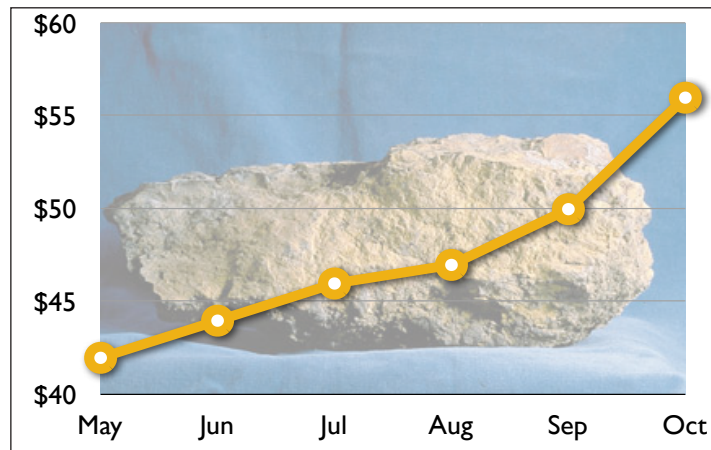
Looking back six months

The very first piece that I published to launch this website, was an in-depth report on uranium. That was back on March 2nd, when I churned out 43 pages on why uranium is going to be hotter than sliced bread.

Ever since, the uranium price has been going gangbusters.

When I first reported on the then little-noticed bull market in uranium, a pound of 'yellowcake' could have been had for \$36.50. It's basically only been heading up ever since and was last trading at \$56. Demand is so strong, that since I reported on it, there has not been a single week of falling prices.

To leverage this development to my advantage, I had to come up with a plan for buying something other than uranium itself. That's actually the only way of making a buck off uranium. If you did as much as try to buy some of the actual material, you'd soon get a visit by the CIA, the MI6 or a similar organization. You'd better be a nuclear power company if you do as much as ask about it.



Uranium has been rising for months

As an indirect bet on uranium, I took a position in Murchison United. This Netherlands-registered company is listed both in Australia as well as London. Reduced to nothing much more than an empty shell with some minor uranium assets and some cash, I figured that there'd eventually be some new life injected into the company – especially if or when Australia made the decision to reopen its uranium exploration sector.

It all started off on a promising note

After buying into the share at A\$0.09, it rose to A\$0.14 shortly thereafter.

The company's management had travelled to London to present some investment prospects. Lots was going on behind the scenes, judging from the rumours that could be heard on the street at the time. It seemed that up was the only way for Murchison, just as was the case with uranium.

Murchison is the ideal shell to launch an exciting new uranium play, not least, because of its double listing in Sydney and London. The uranium sector is seeing more and more investment, because of countries realizing that more is needed of this strategic commodity. What's more, with a sky-rocketing uranium price any new uranium project could bank on becoming extremely profitable if executed successfully.

However, as ever so often, things were supposed to take a little longer than expected.

The share price of Murchison eventually started to crumble, for lack of news after a presentation that wasn't strong enough to excite London investors. A while later, it all became a situation of the falling share price making the news rather than the other way around. Some investors got nervous, and sold out despite having no specific information on which to base their sale.

Then, came the day when I knew that the sell-off had reached its peak.

A short excursion into the irrational volatility of shell companies

Back in September, Murchison announced that it had successfully raised A\$1.5m from unnamed 'sophisticated investors' at an issue price of A\$0.06. The market's subsequent reaction was a classical case just how irrational the market can be.

During spring, when expectations for Murchison were high, the market would have most likely reacted along the line of, 'Oh, if a bunch of well-informed investors is willing to pay 6 cents a share, then I should buy them even if they are trading at 7 pence or 8 cents! There's something afoot and someone seems to know something!'

When Mr Market is depressed, the mechanics work exactly the other way around: 'God, if there is no one offering more than 6 pence for newly placed shares, then I had better get out, even if the price has already fallen to 5 pence. Something's gotta be wrong with this company.'

In the short-run, markets are much more about psychology than fundamental aspects.

Thus, came a multi million share sell-off at prices below 6 pence.

Strangely enough, someone was willing to pick up the millions of shares that panicky investors were dumping into the market.

Or maybe, it wasn't so strange after all.

Just why did someone write such a cheque?

The sum of A\$1.5m may not be a lot of money within the context of the world's global markets. But for a tiny firm like Murchison, raising such a sum is quite a telling signal.

Such a placement could hardly have been carried out if there hadn't been some specific prospects to present to investors. Also, placing the shares with unnamed 'sophisticated investors' instead of peddling them to the market, is usually an indicator that the placement ended up in the hands of a tightly knit group.

Personally, I like it when an well-informed circle of investors loads up on a share.

If anything, chances are that Murchison United will see that new activity has only gone up since the announcement. There's cash in the company's pocket, and most likely, there is something going on behind the scenes – something that made some people write a cheque for A\$1.5m.

A piece of advice from someone that you should never take advice from

It's quite telling, that the highest trading volume happened at a price level that in retrospect turned out to have been the very bottom.

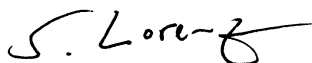
Just check the chart on page one. It's easily visible how record numbers of shares changed hands during September. These shares were sold at the very lowest price that this share has seen in quite a while. If the old adage advising to buy when everyone else is selling still holds true, then buying on the current level should be the way forward. Even the chart seems to say so, given that recent movements points towards a rebound.

So if anything, a new adage should be added to your investment rules (provided that you are going to stay with this website for a little longer).

When reading about one of my forward-looking research themes, file it away and refrain from buying the share for the time being. Then, six months down the road, take the old report off your shelf and read through it once more.

Chances are, that the investment theme has matured enough by then to buy into it.

And with a bit of luck, you might even get in cheaper than I did.



Sven Lorenz

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