Chairman’s Note

When the AI Bubble Breaks: Buy the Rocks

Every crisis is a gift. Almost no one opens it.

The question on everyone's mind is AI. How likely is a bust, and how bad are the knock-on effects? No one knows. But it looks inevitable when too much capital gets invested too fast.

When something breaks, whether the dot-com collapse, the Global Financial Crisis, a pandemic or, in time, AI, the junior resource market gets sold harder than almost anything else. The rocks didn't change. We're simply the least liquid, most speculative corner of the market. When investors see risk, they sell risk. Even physical gold gets hit in the first wave.

Life is a cycle and investing is no different. In 2008, the TSX Venture fell roughly 80% from its 2007 high, bottoming below 700 that December. Gold, the safe haven, was liquidated alongside everything else and fell below $700 an ounce. Investors asked, as they always do in a panic, whether gold was a haven at all. But it was just a margin call.

Then central banks opened the taps. Rates went to zero, quantitative easing became permanent and real yields collapsed. Gold ran from roughly $700 to more than $1,900 an ounce, and the Venture rallied about 250% off its bottom.

2020 was the same story, only faster. Juniors fell roughly 50% in weeks. Then came unprecedented stimulus, gold hit a new all-time high by August, and the Venture tripled from its March low in less than a year. The dot-com collapse fits the same pattern. Gold was already near a generational low which helped ignite a decade-long bull market in nearly every metal. The explorers that survived went up 20, 30 and, in some cases, 50 times. Eye-watering returns, and how one gets hooked on this crazy business.

The trigger changes, the crisis has a different name, but the cycle's structure is remarkably consistent. The crash is a liquidity event. For gold, the crisis actually improves the long-term fundamentals with easier monetary policy, lower real rates, currency debasement and renewed demand for hard assets.

The juniors that fall the hardest can recover the most. Down 80% can precede a 250% recovery. Down 50% can precede a triple. This doesn't apply to every junior. Bad assets stay bad, and weak balance sheets and poor management become fatal. But distress itself is not the thing to fear. Properly understood, it is the source of the extraordinary returns.

Keep in mind the companies that turn a panic into a generational return generally share four things - quality assets, good management, a balance sheet that can survive the downturn, and a shareholder base that can too. But all else equal, a drilled-out resource is worth the same the week after a crash as it was the week before. A district-scale land package does not shrink. Infrastructure does not disappear.

What changes is the price someone is willing to pay for it today. The spread between what the screen says and what the asset is worth is the opportunity.

Rest assured, a panic is coming. When and why are separate questions. What matters is what you do when it arrives, and very few people do the right thing. So, when the world looks like it is ending, and at some point it will, check the assets, check the balance sheet and figure out who survives. Then separate price from value, and go shopping.

At Ore Group, we look to discover and deliver mines to the market. The money is the derivative. That means we care about the rocks, and the cheapest rocks you will ever own are the ones nobody wants on the worst day of the cycle.

Stephen Stewart

Chairman

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