

Less Silver More Gas

Yesterday we lightened up on some of our position in Coeur d'Alene (CDE). We've liked this silver mining company for quite some time – it's been trading at a substantial discount to the NAV of its mining assets and represents a good way to invest in bullion at a discount. Earlier this year there were fears that Bolivia would change the terms under which CDE mines silver at the San Bartolome mine, but even though such fears were unfounded the stock persisted at a wide discount to its underlying assets.

With yesterday's earnings release the valuation of the stock has largely retraced its steps, and while it remains cheap to its assets we don't believe it's as mispriced as it has been. We still own some shares but not as much as before.

We invested the proceeds in McMoran Exploration (MMR). How could you not invest in a company run by someone called Jim Bob? We've never met, but he sounds as if he grew up on Walton's Mountain (a syrupy TV show from the 70s about a Depression-era family). Joking aside, MMR is engaged in drilling for natural gas and oil in the Gulf of Mexico (GOM). Shallow water (as little as 100 feet) but deep wells (up to 32,000 feet so far). The theory is that the geology onshore continues offshore. It's worth checking out their recent presentation. If you're not a geologist, it represents a high risk but potentially high return opportunity that will likely resolve itself within the next couple of months when they expect flow test results from Davy Jones No. 1. Jim Bob Moffett, MMR's CEO, knows a bit about finding valuable minerals having founded Freeport McMoran which is perhaps best known for mining gold and copper at the Grasberg Mine in Indonesia.

The extraordinary depths at which MMR is drilling in the GOM require the development of new technologies to handle the high

heat and pressure. There are some interesting and presumably well-informed shareholders, including Plains Exploration (PXP) who owns 23% of MMR's shares and is restricted from selling until year-end. PXP's CEO Jim Flores recently stated on a conference call that, "I think you're going to hear some exciting things out of McMoRan in the next 3 to 6 months, about plans for 2012 that are mind-blowing."

Admittedly that doesn't look like detailed financial analysis. Short of having the technical knowledge and information access to independently evaluate MMR's findings so far, it's a story stock and not a solid investment. But the different moving parts add up to something interesting, and we have a modest position because we think MMR provides sufficient potential upside for the risk of failure.

Disclosure: author is Long CDE and MMR