

# Trickle Research

Every raging river, every great lake, every  
deep blue sea starts ... with a trickle



## Coverage Termination



### Gold Resource Corporation

(NYSE American Stock Symbol - GORO)

<http://www.goldresourcecorp.com>

**Report Date: 08/23/21**

**12- 24 month Price Target: \$7.35**

**Allocation: 5**

**Closing Stock Price at Initiation (Closing Px: 07/27/18): \$6.49**

**Closing Stock Price at Allocation Update (Closing Px: 11/15/18): \$3.90**

**Closing Stock Price at Coverage Termination (Closing Px: 08/23/21): \*\$3.86**

(\*The above termination price includes the associated spin-off shares in Fortitude Gold.)

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**Disclosure:** Portions of this report are excerpted from Gold Resource's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

Recall, on December 31, 2020, Gold Resource spun off its Nevada gold unit into a separate public company called Fortitude Gold Corp. (NASDAQ: FTCO). That transaction included the departure (from Gold Resource to Fortitude Gold) of Gold Resource Founder and CEO, Jason Reid. Some of our subscribers may also recall that we have followed Gold Resource for approximately 15 years when it first began developing the Mexico assets that are today the basis of its operations.

Our relationship has always been (and remains) with the original founders. That was the genesis of our initiating coverage on Fortitude Gold (04/14/21). Looking back, we initiated coverage of Gold Resource on 07/27/18. At that time, we were obviously familiar with their Mexico project, but much of our enthusiasm was around the addition of the Nevada gold assets.

In short, we do not have a relationship with new Gold Resource management, which really amounts to “starting over” with respect to Gold Resource coverage. Further, as we have noted in our Gold Resource coverage, while their name *implies* that they are largely a gold play, the Mexico project is in fact a poly metallic resource of which gold is not typically the dominant contributor to the revenue mix. We think that has always created a bit of a “messaging” problem for the Company. In retrospect, we thought the addition of the Nevada assets would help that posture because it would in fact double the Company’s gold production (which it did), making gold the dominant metal in the mix. In our view, the spin-off of the Nevada unit put Gold Resource “back to square one” in terms of that messaging problem.

To be clear, our termination of the coverage is not a critique of new Gold Resource management. We assume they are quite capable operators or they probably would not have been chosen to run the Company. Moreover, our termination is also not a critique of the property’s viability, as it has proven to be a profitable producer over most of the past decade. Rather, this is more about focusing our research on the most familiar part of the story (Fortitude Gold et al.) as well as what we think are emerging macro issues that we think may prove constructive to gold prices and by extension pure play gold producers.

We would add, normally our coverage termination corresponds to some sort of relevant price action. That is, we generally terminate or coverages when stocks breach our price targets (on the upside) or we determine that the company is not likely to achieve what we had hoped and are therefore unlikely to hit our price targets (on the downside). As we described above, the Gold Resource story is a bit unique in terms of the spinout into a separate public company, and in turn our specific interest in/preference for the spinout. To edify, this particular termination has less to do with pricing than with supporting the ongoing research. That is, we tend to think that Gold Resource is likely undervalued at current prices, which from a practical standpoint is a reason for us to continue covering it. However, given some of the issues we raised above we think our time would be better served on other names.

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## Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals \$250) and 10 representing 10 investment units or \$2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit \$25,000 to buying micro-cap stocks, that would assume an investment of \$1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at \$1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same \$250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting \$1000 into the position ( $\$250 * 4$ ). If we later raise the allocation to 6, you might consider adding two additional units or \$500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

**For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.**

**A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.**

**A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.**

**A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.**