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A URANIUM MELT-UP?

James Dines Predicts a Buying Panic in Uranium

How high will uranium go?

StockInterview.com's Andy Barrett was delighted to talk to the preeminent financial newsletter writer, James Dines. A guru for many investors across the world, James Dines has scored a number of firsts. He was among the first to increase investor awareness about gold and precious metals stocks, when nearly all of Wall Street scoffed at him. Those who listened made money. Lots of it. Over the years, Dines successfully forecast the Internet mania, forecasting the giants of the tech boom, and forecasting the tech bust. A gold bug again, Dines also added uranium as the metal to watch over the coming years, saying, "This is my way of playing the whole coming energy boom. I think it's the smartest way. This is unique. This metal is just not there. We're just not going to have it."

James Dines
editor of the The Dines Letter
http://www.dinesletter.com/

StockInterview:
You have been calling a bull market in uranium and, once again, you appear to be the lone voice in the crowd once again.

James Dines:
What a surprise.

StockInterview:
Why are you bullish on uranium?

James Dines:
It's very important to get into a bull market early. The earlier, the better. That's when the biggest percentage gains are made. That's why we got into the Internets very early. We got stopped out in 2000. We were in cash for a year and then went to metals, as the way to play the China boom in 2001. We're still in those. In 2002, we turned bullish on uranium as a unique way to play the coming boom in the whole energy complex.

StockInterview:
But why uranium, as opposed to another type of metal?

James Dines:
Basically, the western world demand is outpacing supply by about 300 million pounds a year. Global uranium use, excluding the growing usage by China and the former Soviet Union, is running at around 155 million pounds a year, as compared with global production of only around 94 million pounds. There are only about 500 customers for this stuff, not counting terrorists (joke). Because of that, it's not a regular commodity. The public can't go and buy uranium. In August 2003, there was a shocking blackout in Canada. The utilities were shaken. They realized when they don't pay attention, the lights go out. That was a kick in the shin for utilities to begin immediate investment in the infrastructure of the electricity grid. But what is completely under the world's radar is that nuclear plants are also concerned about a shortage of uranium. If they run out of uranium, the lights go out. You can't switch to another fuel. You can't toss

another log on the fire, so to speak. Because of that, there is a growing panic among the buyers. That's why I became what I'm calling myself: The Original Uranium Bug. And calling, or predicting, the coming Uranium Melt Up and buying panic.

StockInterview:
A panic over uranium. Why do you say that?

James Dines:
There's going to be a buying panic. The bottom line is that in 2002, there were 441 nuclear reactors worldwide and another 34 under construction. Six new reactors began commercial production in 2002, three in China, two in South Korea and one in Japan. There was construction begun on six reactors in India and four in South Korea. There are more units coming in Finland, Russia, Ukraine, Romania, and Brazil. China announced recently they were going to build five more nuclear facilities. All of the governments of the world have been frightened by the talk of the difficulty in getting oil. I wouldn't be surprised if more of them began building up their strategic oil reserves as the US has done. That would turbo the whole carbon-based fuel crisis higher. That makes nuclear more than a competitor. The price of uranium hit $7.10 on Christmas Day 2000, and then began a low, quiet and slow climb. It's now at $18.50/pound, which it reached on June 28th of this year. That's a new high. It got above the $16.60/pound of June 24th of 1996. That's a phenomenal run we've had so far – it's up 160 percent, which is really big for a commodity. The bottom line, which I outlined in my book on Mass Psychology, is that a new bull market must be invisible to the crowd. The corollary to that is when you see bandwagon on Wall Street, you are too late.

StockInterview:
How can you really measure this "rally" in uranium if there are less than 500 customers and the public can't buy the commodity?

James Dines:
What I did was I formed my own average of uranium, which I called DIURANIA. It was 21 in July 2000. It hit 93 this month, which is more than a quadruple. That's just the beginning. It's been in a raging uptrend ever since, regardless of what the rest of the market is doing. As more and more of these utilities begin to wake up, they are in there bidding. Because of the long period of low prices, there is not a lot in the pipeline. You just don't dig a hole and find uranium. It's very complex. What's happening is that the uranium market has not registered with the public because that's typical of new bull markets. I'm looking for radically higher prices.

StockInterview:
Some are making predictions of $50 uranium or even higher. What do you think?

James Dines:
$50, $60, anything is possible. If you are running a utility and your choice was getting uranium at any price or having the lights go out, which would you do? This is my way of playing the whole coming energy boom. I think it's the smartest way. This is unique. This metal is just not there. We're just not going to have it.

StockInterview:
How much of a role does Cameco (NYSE: CCJ) play in this market?

James Dines:
They control the world's largest high-grade reserves and low-cost operations, a commanding position. They supply around 20 percent of the western world's uranium. It's America's only uranium producer, in Wyoming and Nebraska. Around 20 percent of America's energy is produced by nuclear. That accounts for around 35 percent of the western world's consumption.

StockInterview:
Is Cameco the only way to play the uranium, or can you play the forward market?

James Dines:
You can't play the forward market. It's not that kind of commodity. They sign contracts. The problem is a lot of contracts that they (Cameco) are now working under were signed at $7, $8 or $9 uranium. They've got lousy earnings. They're not going to really break through until 2005, 2006, and especially by 2007. There could be an explosion of earnings of the first magnitude because these are long-term contracts. The utilities are all rushing around trying to nail them down. There will be a final spike. But, the way to play it?

Well my experience has been to take the amount of money you're going to put into uranium, and put a significant chunk of it into whoever controls the center of a chessboard, which would be Cameco. But I also believe in a package of a number of lower-priced speculative stocks, which will have much bigger percentage moves than Cameco, the blue chip. Typically, by the time the mutual funds get in, they'll send the stock flying. There's a lot of money to be made in the lower-priced little ones. I'm sorry I can't reveal those. That's for my paying subscribers. I believe in buying a package of them. Cameco, I can certainly recommend to a general audience without any hesitation. They've got a market cap of around $3.5 billion (Canadian), so it's not expensive for something that controls the center of a chessboard.

StockInterview:
Is there any other way to play the uranium bull market?

James Dines:
There is no other way to play it, as far I know of. The utilities buy the stuff so you can't buy the metal. There is no other way. That's why I like the uranium way of playing the energy boom. Some of my other predictions, like the Coming Age of the End of Petroleum – this century is going to see the end of the petroleum age. We're going to use it up. You have China and India coming onstream. You've got the automobile age coming to those two countries. Not even one percent of their citizens own cars yet. With all these cars coming onstream, suddenly everyone is frightened about nailing down their petroleum supplies. I don't have to tell you how explosive the Middle East could be. Anything could happen there. A revolution in Saudi Arabia – the most valuable real estate on the planet and it's being gunned after by not just Al Qaedah, but every other big player on the land mass is saying, we need oil. That's where the pool is. As that pool shrinks, it's going to become more and more valuable. There will be more of a stampede into other energy sources. You already see it going into coal and natural gas. Unless they're going to start putting windmills on cars, it's over. When it will end, who knows?

StockInterview:
Any guesses?

James Dines:
You hear all kinds of guesses. There were only so many dinosaurs and ferns. It's finite, and it is dirt cheap. People snivel at $1.67 for gasoline, but they pay $10/gallon for Gatorade. White-out is $25/gallon. Evian is $21/gallon. Pepto-Bismol is $123/gallon. People have no concept of how high oil is going to go. Oil is going to go through the roof. A sound energy portfolio should certainly include some oils. But to me, the center of the chessboard is going to be uranium. It's going to get a lot worse before it gets better. Once you start getting sky-high prices for oil, there's no limit to what uranium could do. Even with an accelerated drilling program, it's going to take years to bring it on. And they haven't even started it yet. There's an energy crisis coming of the first magnitude.

Editor's Note: While Mr. Dines declined to name his small package of uranium exploration companies, it should be noted that there are a finite number of such companies. These include Denison Mines (TSX: DEN), UEX Corporation (TSX: UEX), Strathmore Minerals (TSX-V: STM), JNR Resources (TSX-V: JNN) and International Uranium Corporation (TSX: IUC)

James Dines
Editor of the Dines Letter

James Dines, editor of The Dines Letter since 1960, has been making recommendations to investors for over 40 years. Recommendations of The Dines Letter are based on mass psychology, technical and fundamental economics; thus studying both the company and investor behavior. Mr. Dines' insights have gained him a reputation as a well-renowned, highly respected and regarded investment advisor.

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