

May 25, 2009

A clarion is a medieval trumpet that had clear, shrill tones. Trumpets were often used to get people's attention when making announcements. We are also using "clarion" in the context of making announcements, as well as being thought-provoking when sharing our information and opinions with those people who are interested in new investment ideas.

for your Information

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Topic: Assessing Research

The Financial Analysts Journal of March/April 2009 featured an article entitled "The End of Soft Dollars?". It was written by John C. Bogle, the founder (1974) and retired (1996) CEO of the Vanguard Group, which came to be the second largest mutual fund company in the world. He remains active as president of Vanguard's Bogle Financial Markets Research Center.

One of the statements Mr. Bogle makes is the following: *"Although widely disseminated sell-side Wall Street research, whether independent or a product of investment banking and brokerage firms, has proved to have little, if any, demonstrable economic value, that fact does not seem to matter"*. To me, that is a very strong statement and denunciation of analytical research. Mr. Bogle, with his unbounded wealth of experience, has come to believe that it is folly to suppose that, over the long-term, an investor can successfully choose actively-managed mutual funds and expect them to outperform stock index funds. With that guiding principle, it is no wonder that Mr. Bogle holds a jaundiced view of the merits of written research.

In an effort to justify some research, Mr. Bogle says *"That all research lacks intrinsic value does not necessarily follow. Although the value of an original, comprehensive, and insightful research study obviously becomes zero at the moment it becomes available to all market participants ..."*. Let's stop there. That statement presupposes that all market participants get the research at the same time, all read it at the same time, and all act on the content (recommendations/opinions) at the same time. Not very likely. In addition, research from full-service investment dealers is targeted only at their specific clients, and often takes a while to leak out into the Street. Thus, the dissemination of research and its effect in the investment community takes place over time.

The quoted sentence ends: *"... the value, however positive or negative it may prove to be, of the same study by the research department of a single institution remains high so long as the information remains proprietary."* Thus, Mr. Bogle recommends that *"... mutual fund firms should beef up their own proprietary portfolio management, security analysis, and internal research capabilities."* Why bother if your clients are only going to buy index funds?

... continued

Stock-of-the-Week

(Will return)

Assessing Research (continued)

In his repudiation of the benefits of research Mr. Bogle says *“Although the billions spent by Wall Street and institutional managers on research doubtlessly elicit useful information, stimulate trading activity, and foster liquidity, ...”* But, is that not exactly what written research is designed to do? If we research providers can accomplish that, we have done our job, and that has to have real value to investors and portfolio managers alike.

The quoted sentence ends: *“... the costs of that research guarantee that beating the market will remain a loser’s game for investors as a whole.”* But, what is that cost? How do you measure it? Mr. Bogle goes on to say: *“Thus, we ought to ask some existential (??quintessential??) questions about investment research: What is it really worth? How should it be valued? Should it be mass-produced or proprietary? Who buys it? How much does it cost? Who bears that cost?”* But he already concluded that the costs result in a loser’s game. Something wrong there.

Back-pedaling, Mr. Bogle states, *“ I am not completely opposed to Wall Street research; the constant up-dating of financial information by talented, often brilliant, security analysts and strategists clearly enhances market efficiency and lowers execution costs.”* In all, I think Mr. Bogle really has more use for the merits of written research than he lets on.

With regards to paying soft dollars for research, although there does not seem to be much following by large institutions to Fidelity Investments’ lead of separating the cost of research from trading commissions, no doubt that regulatory pressure, public opinion, and self-interest reasons may, in time, lead others to follow Fidelity’s example.

For firms like eResearch Corporation, the end of soft dollars cannot come too soon.

Next week, we will look more closely at the benefits of written research for investors.

Bob Weir

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**New eResearch
Material Since
May 13, 2009:**

1. Initiating Reports

[Globex Mining
Enterprises Inc.](#)
05/20/2009

[Research In Motion](#)
05/15/2009

[North Atlantic
Resources Ltd.](#)
05/15/2009

[Garson Gold Corp.](#)
05/13/2009

[Cash Store Financial](#)
05/13/2009

**2. Update Reports,
Bulletins, Analyst
Comments**

[Quorum Information
Technologies Inc.](#)
05/22/2009

[Seacliff Construction
Corp.](#)
05/13/2009

[A-Cap Resources Ltd.](#)
05/13/2009

3. Analyst Articles

None

In addition to these reports and articles, our full complement of research is available at www.eresearch.ca

BriefCase

NewsBytes from May 19 – May 22, 2009

Complete coverage on these companies is available at www.eresearch.ca. For the latest eResearch publications, see sidebar opposite.

Macusani Yellowcake (\$0.35 - May 19, 2009; YEL-TSX) Macusani Yellowcake announced plans to raise \$2,247,500 in a non-brokered private placement of 8,990,000 units at \$0.25 per unit. Each unit will comprise one common share and one-half of one common share purchase warrant. A full share purchase warrant will allow a holder to purchase one common share at \$0.30 for a period of 24 months from the closing date of the offering. Proceeds of the offering will be used for (1) the full purchase price of Macusani's acquisition of the Corachapi and Kihirtian mineral concessions on the Macusani plateau in southeastern Peru; (2) to fund exploration of properties on the Macusani plateau, and (3) general corporate purposes. Further details are contained in the Company's May 19, 2009 news release, available on SEDAR at www.sedar.com.

Volta Resources Inc. (\$0.14 - May 20, 2009; VTR-TSX) Volta Resources has begun a 1,500-metre reverse circulation drilling program on the Company's Mamena-Fofora prospect at its Kampti III property in southern Burkina Faso. The drilling will assess three target zones identified in previous drilling programs and enhanced in recently completed auger drilling. For further details, see Volta's May 20, 2009 news release at www.sedar.com.

HTC Pureenergy Inc. (\$2.35 - May 22, 2009; HTC-TSX-V) HTC Pureenergy has announced warrant amendments. Conditional on regulatory approvals, the Company will: (1) extend the terms of the common purchase warrants (issued October 12, 2007) to expire October 12, 2010, and (2) delete the acceleration event clause (it had provided for an acceleration of the exercise period if the shares traded on a recognized stock exchange at or above \$5 per share for 20 or more consecutive trading days). A warrant entitles the holder to purchase an additional common share at \$3.

Kola Mining Corporation (\$0.09 - May 22, 2009; KM-TSX-V) Kola Mining has appointed Victor Tskhovrebov as President and CEO. He replaces Sergei Dubovik, who will continue to serve Kola Mining on the Company's Advisory Board. Mr. Tskhovrebov was formerly an independent consultant specializing in infrastructure projects and mergers and acquisitions in Russia. His main focus will be on Kola's Bogunay gold property, where production is expected to resume this year.

Opportunity Knocks

These are challenging times, and we at eResearch are not immune to what is happening all around us. But, we are adapting to this difficult operating environment. In this respect, we need more business development personnel. Anyone with a penchant for sales, please contact us.

Also, having recently become a Limited Market Dealer, our Capital Services division requires someone with financing experience to lead our efforts.

If you are interested in either of the above, I can be reached at bweir@eresearch.ca.

"Research is the bedrock underpinning all capital markets"

eResearch's Newest Partners

1. **StockResearchPortal** ("SRP").

SRP has an impressive investor-information website with an extensive library of data, including linked or referenced economic reports, in-depth industry research, and an impressive collection of company research. SRP is focused solely on the mining and oil & gas sectors. It has an extensive information databank on most of the 1,500-1,600 mining companies, oil & gas production and services companies, and oil & gas income trusts that are quoted on the TSX or TSX Venture exchanges. The SRP website can be accessed at www.stockresearchportal.com.

eResearch Corporation is pleased to provide our Subscribers with the bi-weekly **StockResearchPortal** Newsletter. It features independent and objective experts in gold, silver, base metals, uranium, geology, oil & gas valuation, and equity valuation who each have agreed to write an article sequentially each quarter.

2. **Objective Capital Research Limited**

Objective Capital of London and New York is a dedicated corporate research firm providing institutional-quality research on under-followed small- and mid-cap companies. It focuses on providing widely-distributed, high-quality corporate research coverage of public and private companies, both listed and pre-listed. It is retained by a company to ensure its shareholders, as well as the wider investment community, are provided with an objective view of the company's progress.

eResearch and Objective Capital, two leading providers of issuer-sponsored research, have agreed to collaborate in increasing the awareness of the advantages to small- and mid-cap companies of receiving fair and impartial research coverage.

Monthly Top Ten

The top ten downloads from www.eresearch.ca since May 1, 2009:

1. Weekly Clarion
2. Canadian Stock Market Outlook, May 3
3. StockResearchPortal Mining Article, May 19
4. Avante Information Report, May 5
5. Synergex Corporation, Bulletin, May 1
6. Globex Mining Enterprises Inc. Information Report, May 20
7. North Atlantic Resources Ltd., *StockPotentials*, May 15
8. Garson Gold Corp. *StockPotentials*, May 13
9. Pinnacle Digest, Featured Company #2, May 1
10. Radisson Mining Resources Inc., Bulletin, May 4

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