

Anglo American PLC

14:06 20 Feb 2020

Today's Market View - Anglo American, Shanta Gold, Sirius Minerals and more...

SP Angel . Morning View . Thursday 20 02 20

China cuts rates as Coronavirus hits output

MiFID II exempt information - see disclaimer below

Anglo American (LON:AAL) - Strong results but a rocky year ahead

Shanta Gold (LON:SHG) - Convertible note restructuring post acquisition of Kenyan assets

Sirius Minerals (LON:SXX) - Odey Asset Management risks scuppering Anglo deal

Expect another leg down for commodities as China continues to restrict movement of lorries, people and goods between regions

We expect manufacturers in China and elsewhere to report a worsening of the situation with reduced production and factory closures as inventories run out.

Manufacturers are not generally advised to start construction of machinery if not all the component parts are available though some parts will inevitably be smuggled by virus-busters.

Let's hope someone properly disinfected those key fobs just delivered in suitcases to Jaguar Land Rover from China.

China remains the world's largest raw-materials processor for most commodities. While most of this metal is then converted into finished goods in China much is also exported worldwide.

Interruption to these exports will cause problems for manufacturers worldwide which may raise premiums for LME metals and other commodities outside China as manufacturers scramble to find new supply.

There is little sign of the virus easing due to its high contagion and incubation though policy makers are hoping the spread of the virus will slow as the weather warms up, though we have seen no evidence to suggest this may be the case.

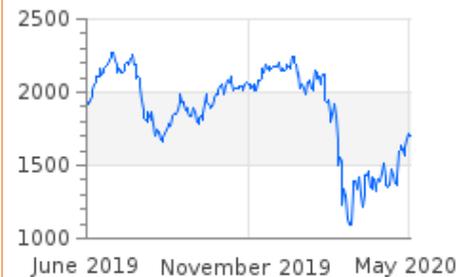
Our Healthcare team have explained to us the probable vaccine development path which can take more than a year.

This is apparently due to the need to test which parts of the virus work best for activating the appropriate immune response, dose levels, vaccine delivery, manufacturing, transport etc.... but at least they are confident that a vaccine will be developed.

Price: 1759.8

Market Cap: £23.99 billion

1 Year Share Price Graph



Share Information

Code: AAL

Listing: LSE

52 week High Low
2294 1018.2

Sector: Mining

Website: www.angloamerican.co.uk

Company Synopsis:

Anglo American is one of the world's largest diversified mining groups with portfolio of mining assets and natural resources includes precious, base metals and bulk commodities in Africa, Europe, South and North America, Australia and Asia.

action@proactiveinvestors.com

China is, thankfully, reducing the rate of spread of the virus within China and to the rest of the world giving us a chance for vaccination before the virus inevitably gets out.

Bill Gates-led fund invests \$20m in US lithium start up (Bloomberg)

Breakthrough Energy Ventures are leading an investment round of \$20m for Lilac Solutions, a US start-up which aims to deploy technology that makes the extraction of lithium less water intensive and more sustainable.

Instead of using traditional evaporation ponds, Lilac uses ion-exchange beads that selectively remove lithium and leave behind unwanted minerals. The beads are then treated with acid to remove the lithium and then reused.

The process requires less water and cuts down the amount of time needed to extract lithium from brine to just hours.

The beads are selective enough to recover about 90% of lithium in brines.

Orocobre announces agreement to acquire JV partner Advantage Lithium

Orocobre will acquire 100% of the issued and outstanding shares of Advantage Lithium. (Orocobre)

Each advantage share will receive 0.142 Orocobre shares, valuing Advantage at 42c/share, based on a closing price of \$3.29. Orocobre has been the largest shareholder in both Advantage, holding a 34.7% interest and its partner at its Cauchari lithium project with a 25% interest. (Seeking Alpha)

Orocobre have stated that the integration of the Cauchari project with their own Olaroz project in the basin will allow for cost-effective development. The deal will provide Orocobre with exposure to 4.8m tonnes of measured and indicated resources and 1.5m tonnes of inferred resources at the Cauchari development. (Mining.com)

The board of Advantage lithium has approved the transaction. The transaction does not trigger any need for additional financing for the ongoing development of the Olaroz and Cauchari basins. (Junior mining network)

Dow Jones Industrials +0.40% at 29,348

Nikkei 225 +0.34% at 23,479

HK Hang Seng -0.17% at 27,609

Shanghai Composite +1.84% at 3,030

FTSE 350 Mining +0.91% at 18,442

AIM Basic Resources +1.21% at 2,338

Economics

US - The Fed remained cautiously optimistic over the US economic outlook suggesting the current stance of monetary policy was likely to remain appropriate "for a time", FOMC policy meeting minutes read.

The central bank is planning to hold rates steady after three cuts last year should the economy perform in line with expectations.

The coronavirus outbreak "warranted close watching".

On liquidity situation in the banking system, the Fed is expecting to scale back its purchases in April-June.

The Fed has been buying \$60bn of US Treasury bills a month since last October to increase the level of reserves in the banking system in response to a liquidity crunch, Reuters reports.

China - The central bank cut the one-year loan prime rate to 4.05% from 4.15% and the five year rate to 4.75% from 4.80%.

New cases of coronavirus dropped to their lowest since Jan 25.

Central Hubei province had 349 new confirmed cases yesterday, down from 1,693 the previous day.

The death toll of 108 was lower than 132 the previous day taking deaths in China to more than 2,100 and total new cases to 74,000.

Japan - Two elderly covid-19 infected passengers of the cruise ship moored near Tokyo passed away with two more government officials are reported to have been infected.

The deceased were a 87-year-old man and a 84-year-old woman.

More than 620 passengers on the Diamond Princess liner were reported with the virus and have gone through a quarantine since Feb 3.

The National Institute of Infectious Diseases said in a report released yesterday that no new cases of the covid-19 disease were reported on Feb 16-17 with only one crew member case on Feb 15.

Commentators worried that the situation is not as contained as reports suggest.

A first share of passengers who had tested negative and shown no symptoms left the ship yesterday with a further 500 passengers began disembarking today.

People returning back home are likely to face another 14-day quarantine.

Japan has well over half the known cases outside China given close economic ties with the nation.

Questions are being raised if Japan is in the position to host the coming Summer Olympics this summer.

South Korea - South Korean SK Hynix, the world's second largest chipmaker, will quarantine 800 of its staff to prevent the spread of the coronavirus.

A precautionary measure came after one trainee had close contact with a virus patient in the south eastern city of Daegu, the epicentre of the outbreak in South Korea.

The 800 accounts for a fraction of the workforce of 18,000 people in Incheon, south-east of Seoul, a spokeswoman said.

The Company supplies Apple and Huawei among other customer.

Indonesia - The central bank trimmed 2020 GDP growth forecasts by 0.1pp to 5.0-5.4% accounting for the impact of the coronavirus outbreak in China.

Firm US dollar is causing SHFE base metal prices to fall (Fastmarkets MB)

The dollar index was at 99.68 on Thursday morning in Shanghai, up from 99.42 on Wednesday morning and near three year highs.

Positive results for the US housing sector and higher-than-expected producer prices on Wednesday caused the US dollar index to continue rising (FX Street).

With the exception of tin that was little changed, all base metals were down at the close of morning trading on Thursday. Lead performed worst, as the metal's most-traded April contract was down 0.3% to 14,505 yuan per tonne compared to Wednesday's close.

Other prices to fall were the April nickel contract down 0.3%, April aluminium down 0.2%, April copper down 0.2% and April zinc down 0.1% compared to Wednesday's close.

Last week's inventory inflows are doing nothing to support prices on the SHFE. Lead stocks increased by 34.5% or 9,513t, and copper and zinc stocks rose 27.4% and 24.4% respectively.

South Africa - US secretary of state warns against land grab

Mike Pompeo warned against South Africa's plan to allow expropriation of private property without compensation in a speech in Ethiopia on Wednesday.

The ruling ANC party has promised to address expropriation without compensation to address historical inequalities, however Pompeo said the move would be 'disastrous for the economy and the South African people'.

Critics of a land grab use Zimbabwe as an example, where violent land seizures from white farmers scared away investors and helped plunge the country into economic turmoil.

President Ramaphosa announced plans to accelerate land redistribution in an address last week, however is mindful not to scare away business by saying there will be no chaotic or illegal land grabs.

Newmont's Boddington to become world's first autonomous gold mine

The company announced yesterday that its Boddington operation in Western Australia is to become the world's first

gold mine with an Autonomous Haulage System (AHS).

The mine is expected to be fully operational in 2021, and the company say this investment will enhance safety and productivity, while also extending mine life.

According to Newmont, net investment in Boddington's AHS will be \$150m, with time efficiencies expected to extend the mine's life by at least two years.

Boddington is Western Australia's largest gold producer, producing 709Koz in 2018, and employing around 2,000 people.

Currencies

US\$1.0797/eur vs 1.0805/eur last yesterday. Yen 111.74/\$ vs 110.19/\$. SAR 15.127/\$ vs 14.953/\$. \$1.290/gbp vs \$1.299/gbp. 0.663/aud vs 0.670/aud. CNY 7.017/\$ vs 6.990/\$.

Commodity News

Gold US\$1,609/oz vs US\$1,609/oz yesterday

Gold ETFs 83.9moz vs US\$83.8moz yesterday

Platinum US\$1,011/oz vs US\$1,012/oz yesterday - Johnson Matthey - PGM metals group February 2020 edition

Last week, Johnson Matthey published their annual pgm market report, providing readers with an update on the supply and demand for platinum, palladium and rhodium in 2019, along with this year's outlook.

The platinum market entered a deficit in 2019, attributed to a resurgence in ETF buying which lifted physical investment demand to a record 1.13Moz.

Platinum use in autocatalysts dropped 2% on lower diesel car output and a delay in stricter heavy emissions rules in China.

Global mined supply from dominant producer South Africa fell 3% last year as high-cost shafts continued to close, however this was offset by a growth in autocatalyst scrap volumes resulting in overall supplies rising marginally.

JM predict that demand for platinum this year will be supported by rising pgm loading on heavy duty Indian and Chinese trucks, due to stricter environmental legislation. However this will be offset to some degree by further fall in platinum jewellery demand, which saw a double-digit fall in 2019.

Furthermore, unless investor appetites are sustained into 2020, the platinum market could move back into surplus.

The palladium market deficit widened to over 1Moz last year, as autocatalyst demand for the metal surged, whilst supply only grew modestly - causing the metal to increase in price by 59% to all-time highs.

Last year saw a 14% rise in global average palladium loadings on gasoline cars, resulting in palladium automotive demand reaching an all-time high of 9.7Moz - a 10% increase on 2018.

Palladium output from the world's largest producer Russia fell in 2019, however this was almost fully offset by increased production from the world's second largest producer, South Africa.

JM expect a further rise in automotive demand to push the market deeper into deficit this year, as efforts to reduce palladium consumption in the automotive industry are unlikely to prevent demand rising due to stricter emissions legislation increasing vehicle loadings.

The price of palladium has continued to rise in 2020, climbing over 36% since the start to the year to over \$2,600/oz.

Despite palladium's continued rise, some analysts believe this could be short-lived due to the affect that the coronavirus is having on the Chinese economy. The CEO of Faurecia, a French-based company which develops automotive technology believes Chinese auto sales could fall by 1.2m vehicles this year. Similarly, the chairman of the China Association of Automobile Manufacturers told Reuters that auto sales will drop by more than 10% in the first half of this year, and last year saw a total of 25 million vehicles sold.

The economic knock on effects of the virus depend on the extent to which the virus spreads, and as it has not yet been contained it is hard to predict how the auto market will be affected. However as the death toll continue to rise and more people don't go to work, buyer demand will continue to fall and supply chains in the auto industry will continue to be disrupted.

Palladium US\$2,750/oz vs US\$2,801/oz yesterday

Silver US\$18.35/oz vs US\$18.37/oz yesterday

Base metals:

Copper US\$ 5,773/t vs US\$5,800/t yesterday

Aluminium US\$ 1,713/t vs US\$1,718/t yesterday

Nickel US\$ 12,825/t vs US\$12,820/t yesterday

Zinc US\$ 2,144/t vs US\$2,146/t yesterday

Lead US\$ 1,879/t vs US\$1,883/t yesterday

Tin US\$ 16,555/t vs US\$16,570/t yesterday

Energy:

Oil US\$59.0/bbl vs US\$58.1/bbl yesterday

Natural Gas US\$1.958/mmbtu vs US\$1.968/mmbtu yesterday

Uranium US\$24.60/lb vs US\$24.55/lb yesterday

Bulk:

Iron ore 62% Fe spot (cfr Tianjin) US\$87.0/t vs US\$86.5/t

Chinese steel rebar 25mm US\$537.6/t vs US\$539.2/t

Thermal coal (1st year forward cif ARA) US\$59.5/t vs US\$59.7/t

Coking coal swap Australia FOB US\$161.0/t vs US\$160.5/t

Other:

Cobalt LME 3m US\$33,750/t vs US\$33,750/t - Cobalt suffers as Tesla is close to abandoning the metal in China

Reuters report that Tesla and CATL are in advanced talks that could lead to Tesla using cobalt free battery cells developed by CATL.

Discussions have been ongoing for over a year as Tesla looks to complete its journey to a cobalt free world, having already seriously reduced the amount of cobalt in its batteries and taken steps to avoid more dubious suppliers. In 2018 the company foresaw long term shortages of key minerals used in the production of batteries. (Cleantechnica)

Shares of cobalt miners fell yesterday on the back of this news with China Molybdenum and Huayou Cobalt, the country's two largest cobalt miners falling 8%. (Financial Times)

Tesla has agreed to purchase prismatic lithium-iron phosphate batteries from CATL for use in its Model 3 vehicles in China. The move will enable Tesla to further reduce the cost of the Model 3 in China.

On the flip side this move could be one that begins easing the bottleneck being created in the EV market. EV production is being constrained by supply bottlenecks created by a shortage of raw materials. Extraction of lithium and cobalt from the earth occurs in areas of geopolitical unrest, is often the target of sustainability and environmental protests and it has been suggested EV production could outstrip the rate at which they can be extracted. (Wired)

Jaguar announced earlier this month that it has halted production of its EV SUV and Mercedes-Benz has been forced to cut production on its EQC EV, both as a result of a supply shortage from LG Chem. (The Times)

NdPr Rare Earth Oxide (China) US\$40,963/t vs US\$40,986/t - China raises H1 rare earth output by 10% from a year earlier (Reuters)

China has raised its output quota for REE in the first half of 2020, as the government is looking to increase production due to virus-driven disruption in the sector.

The rare earth mined output quota stands at 66,000t for H1 vs 60,000t in H1 2019.

According to Chinese newspaper the Global Times, the country's rare earth sector has been running at only 20% capacity so far this year.

Lithium carbonate 99% (China) US\$5,576/t vs US\$5,579/t

Ferro Vanadium 80% FOB (China) US\$29.5/kg vs US\$30.0/kg - Ferro-vanadium rose 0.2% to \$29.5-30.8/kg in Western Europe according to FastmarketsMB

Ferro-vanadium prices rose 2.8% to \$13.25-14/lb (~\$29-31/kg) in the US last week followed by a smaller rise in Europe

for vanadium pentoxide

While we are wary that the reporting of Chinese prices may be affected by the impact of the Coronavirus we are also conscious that any loss of production of steel for export in China may be made up for by increased production in the US and Europe.

A lack of transactions in China is worrying as is the potential influence of government policy on the reporting of news and prices where it may be considered unpatriotic to report negative news.

FastmarketsMB reported 16 indications of prices in ferro-vanadium and vanadium pentoxide in China last Thursday but no actual transactions in stark contrast to transactions reported in Europe.

It may be that a lack of lorry drivers and strict regional travel restrictions are delaying transactions in vanadium and other metals while a lack of visibility on construction activity may also cause buyers to be more cautious.

Antimony Trioxide 99.5% EU (China) US\$5.1/kg vs US\$5.1/kg

Tungsten APT European US\$240-245/mtu vs US\$240-245/mtu

Graphite flake 94% C, -100 mesh, fob China US\$540/t vs US\$540/t

Graphite spherical 99.95% C, 15 microns, fob China US\$2,550/t vs US\$2,550/t

Battery News

Germany embraces the EV revolution

Germany has surpassed pace setter Norway in the shift to EV. The country saw sales of new BEV and PHEVs rise 60% in 2019 compared to 2018, 109,000 new sales compared to 68,000. (The Driven)

The news comes at a time when fossil fuel powered vehicles are falling out of favour, Germany saw a 15% fall in demand for petrol and diesel vehicles while EV market share increased from 2.5% to 6.5% in January. (Cleantechnica)

This trend is not unique to Germany, Europe more broadly is embracing EVs. The continent has seen a 45% increase in EV sales bringing total ownership to 3.53%. Italian EV sales have surged, new car sales fell 5.9% in January whilst demand for EV increased 89%, whilst in the Netherlands demand for EV has increased 146%. (Automotive New Europe)

The road does still have some bumps in it as Tesla found out in the last week with environmental protestors halting construction of the Californian EV makers new Gigafactory near Berlin, citing the forestry clearing undertaken as less than positive for the climate. The injunction could put a 6-9 month delay on the factory if not resolved before wildlife breeding in the area begins in mid-March. (Bloomberg Green)

Tesla - to use Prismatic cells (pouch cells) in low-cost China EV

Tesla is reported to be using prismatic cells in its new EV being made in China (Benchmark Mineral Intelligence).

Tesla has opted to use LFP battery chemistry for the short range Model 3 and NCM811 chemistry for the long-range

Model 3

The cells have lower power capacity and reduced range but are cheaper to make and are seen as better suited to the Chinese market where cost may be more important than range and capacity

The Nissan leaf uses a large prismatic cell which is reliable though the high-power version did suffer some hot-spots and thermal shutdown in early versions

In separate news Tesla's Gigafactory 4 site in Berlin may be held up by legal challenge over forestry clearance for the site.

Battery materials need to be produced close to Gigafactories due to transport quality issues

News is emerging that battery anode graphite material and lithium hydroxide do not travel well indicating to us good reason to base processing facilities close to end-user battery factories.

While we are not sure German environmentalists are going to be welcome lithium and graphite processors popping up near Berlin this may be an unintended consequence of the Green-agenda.

Mark Thompson, ceo at Talga Resources* recently commented that battery anodes do not travel well if imported on rolls while AMG reckons lithium hydroxide doesn't travel well in ships.

*SP Angel acts as broker to Talga Resources.

Company News

Anglo American (LON:AAL) 2122p, Mkt Cap £27bn - Strong results but a rocky year ahead

Anglo American worked hard last year to report a significant improvement in its four key divisions of Diamonds, Copper, PGMs and Bulk commodities (mainly coal and Iron ore).

Mark Cutifani, Anglo's CEO is demonstrating why he has such a good reputation within the mining industry. Cutifani is known as a leader who pulls teams together and gets things done.

Earnings were driven mainly by strong performance at Anglo Platinum and at the Kumba iron ore operations based in South Africa.

A weaker South African rand served to help most divisions while the key EBITDA drivers for the group were higher PGM and iron ore prices.

Anglo American report underlying EBITDA of \$10bn today vs 9.16bn in 2018.

EBITDA by division:

De Beers - \$558m vs \$1,245m - fell 55% due to lower diamond production combined with an -8% fall in prices causing a 20% drop in sales. Unit costs rise 5%.

Copper - \$1,618m vs \$1,856m - fell 13% due to a 5% fall in production and a 4% fall in realised prices. EBITDA fell 13% yoy despite Unit costs falling an impressive 6%

PGMs (Amplats) - \$2,000m vs \$1,062m - rose 88% driven by a \$831m gain from PGM prices and a \$203m gain on the SA rand, mainly Palladium and a 1% rise in production volumes.

Kumba - \$2,243m vs \$1,489m - rose by 51% led by a \$925m benefit from higher iron ore prices and a \$137m gain on the SA rand. Costs rose by 3% and volumes fell by 2% knocking \$167m off the EBITDA.

Minas-Rio - \$1,164m vs a loss of \$312m in 2018 - driven by a strong turnaround from suspension in 2018 with a \$506m gain from higher volumes and a \$223m gain from higher iron ore prices and a \$79m SA rand gain.

Met Coal - \$1,707m vs \$2,158m - fell 21% due to a \$497m hit from lower prices and a \$55m loss on higher costs despite a 2% increase in production. The fall in the SA rand provided a \$110m gain

Thermal Coal - \$128m vs \$1,038m - EBITDA collapsed largely on lower prices down 30% for South Africa and 33% for Colombia.

Nickel - \$191m vs \$181m - most of the 6% improvement in EBITDA was down to a \$25m foreign exchange gains plus a small \$16m gain in prices, Inflation and other costs knocked \$31m off the EBITDA line.

Others - \$400m

Free cash flow rose to \$3.4bn.

Unit costs fell 6% .

Capital expenditure was \$3.8m last year but is set to rise to \$4.7-5.2bn this year and \$4.7-5.5bn in 2021-2022 with long-term sustaining capex of \$2.8-3.1bn thereafter.

Cost and volume improvements are targeted at \$3-4bn from metallurgical coal, Minda-Rio, bulk ore sorting and coarse particle recovery as well as the delivery of the Quellaveco copper mine and Moranbah

Net debt \$4.6bn represents a gearing of 13% and less than 0.5 times EBITDA.

Underlying EPS delivered \$2.75 per share.

Dividends of \$1.4bn are to be paid representing a payout of 40% on underlying earnings

Buyback program \$0.8bn.

Margin improvement to 42% last year vs 30% in 2012.

Profit attributable - \$3.5bn vs \$3.5bn yoy

Conclusion: Anglo has done well to report improved EBITDA and stable attributable earnings for 2019. The results were helped by good cost control and weaker local currencies partly driven by a stronger US dollar.

The PGM division performed well driven by a substantial increase in prices while Minas-Rio and Kimba the iron ore businesses also did well driven by a substantial increase in prices.

Unfortunately for all the good work done 2020 may prove to be very difficult for Anglo as the Coronavirus had hit LME prices. Iron ore prices into China have fallen despite production problems at Vale in Brazil. If restrictions on the movement of people and goods remain in China for long then shipments of iron ore and other commodities may be turned away (force majeure). Consumer confidence will impact demand for diamonds and other consumer goods with China representing around 16% of polished diamond demand. Experts expect Auto sales to fall by as much as 1.2m vehicles in China this year.

Shanta Gold (LON:SHG) 12.4p, Mkt Cap £98m - Convertible note restructuring post acquisition of Kenyan assets

The Company received approval from 77% (by nominal value) of convertible noteholders with regards to a restructuring of outstanding Loan Notes.

Maturity will be extended by one year while also a provision for early repayment has been included.

Outstanding amount under the 13.5% convertible loan facility stands at \$9.8m with the repayment date proposed to be moved to Apr/21.

Sirius Minerals (LON:SXX) 5.2p, mkt cap £364m - Odey Asset Management risks scuppering Anglo deal

The Guardian, which has a remarkably good business section, reports today that Odey Asset Management plans to vote against Anglo American's offer for Sirius Minerals.

While it is possible that Anglo might be persuaded to raise its bid shareholder opposition might equally cause Anglo to walk away from the deal.

Our completely independent view on this is that Anglo does not need to do the Sirius deal and that the board could easily decide to walk away.

This would leave Sirius Minerals shareholders high and dry with very slim chance of securing the necessary finance to complete and fully commission the Woodsmith mine.

Sirius Management's plan seemed to be to finance the mine through the bond market along with some specialist institutional support.

Problem was that the Bond market does not fund this type of high-risk venture unless there is cast-iron big-company cash flow backing in our experience.

Anglo American provides that type of backing and has the financial and technical resources to complete the construction of the Woodsmith mine.

Conclusion: There are no other offers for Sirius minerals and it is our view that competing offers are unlikely to emerge for Sirius' unless the business falls into Administration.

Analysts

John Meyer - 0203 470 0490

Simon Beardsmore - 0203 470 0484

Sergey Raevskiy - 0203 470 0474

Sales

Richard Parlons - 0203 470 0472

Abigail Wayne - 0203 470 0534

Rob Rees - 0203 470 0535

SP Angel

Prince Frederick House

35-39 Maddox Street London

W1S 2PP

*SP Angel are the No1 integrated nomad and broker by number of mining brokerage clients on AIM according to the AIM Advisers Ranking Guide (joint brokerships excluded)

+SP Angel employees may have previously held, or currently hold, shares in the companies mentioned in this note.

Sources of commodity prices

Gold, Platinum, Palladium, Silver

BGNL (Bloomberg Generic Composite rate, London)

Gold ETFs, Steel

Bloomberg

Copper, Aluminium, Nickel, Zinc, Lead, Tin, Cobalt

LME

Oil Brent

ICE

Natural Gas, Uranium, Iron Ore

NYMEX

Thermal Coal

Bloomberg OTC Composite

Coking Coal

SSY

RRE

Steelhome

Lithium Carbonate, Ferro Vanadium, Antimony

Asian Metal

Tungsten

Metal Bulletin

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Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

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