

3 PITFALLS TO AVOID WHEN INVESTING IN FLOW-THROUGHS

1 **Paying Too High a Premium:** This is by far the most significant pitfall to avoid. When individual companies price their flow-through shares, they know that these shares are desirable from a tax standpoint, so they price them higher than what the common shares are trading at. However, the premium can be so high as to negate the tax benefit of buying the flow-through shares in the first place. Generally speaking, this premium should not exceed 27%.

When we are analyzing flow-through investment funds, the first question we ask the portfolio manager is, what kind of premiums are you paying? A good manager will negotiate lower premiums. We look for funds that pay 5-10%, with 15% being the most that is acceptable.

2 **Wrong Time Horizon:** Private placement flow-throughs typically have a four month hold. Flow-through funds are available with maturities ranging from one to five years. Your investment is illiquid during this period. If you anticipate needing liquidity, make sure you are investing within the appropriate time frame.

Flow-through funds have a wind up event. This event involves being paid cash for the net asset value at termination, or more commonly, a tax-free rollover into an open-ended mutual fund issued by the fund manager.

3 **Poor Timing:** Flow-through investments are high risk bets on the exploration and discovery of mineral and energy assets in Canada. As such, the best time to invest in this sector is when the market is in total capitulation. By most measures, it appears this market bottom has occurred in late 2014. As such, the opportunity for timing of an investment in flow-through offerings is probably the best we've seen in years.

This is for informational purposes only. It is not meant to provide legal, taxation, or account advice; as each situation is different, please seek advice based on your specific circumstances. Flow-through shares may not be suitable for everyone due to the inherent risk of investing in resource stocks.