



KOPERNIK PERSPECTIVE:

THAT WORD.

I DO NOT THINK IT MEANS WHAT YOU THINK IT MEANS.

I wrote a piece titled "[Inconceivable](#)" 3 ½ years ago in which the title was part of a memorable line from the 1987 movie, "The Princess Bride." As I wrote there, after hearing Vizzini say "Inconceivable" numerous times about Westley surmounting his challenges which he thought were impossible, Inigo Montoya, Vizzini's sidekick, says, "That word, I do not think it means what you think it means." For the sake of this piece, let's substitute a few different words for Inconceivable. Maybe we start with Risk.

It is amazing that when certain cycles run for a long time, it becomes normal to think the current scenario will always last. Sadly, history frequently says there is a "norm" and just because a certain cycle has gone on a long time doesn't mean it will stay that way. By this I mean when this U.S. and global economic expansion turns negative (I would guess my "sooner" is "later" to many) we will see how amenable people are to risks that have been with us for a while that everyone have seemingly forgotten about.

"Even though 99% of the industry is dead certain about certain things, 99% of the industry is often wrong."

Mark Papa,
CEO of Centennial Resource Development
and ex-CEO of EOG

"Nothing is more obstinate than a fashionable consensus."

Margaret Thatcher,
former Prime Minister of the United Kingdom

It is no surprise to anyone, in hindsight, that the biggest excesses always happen when people have a hard time seeing much risk. But when the risk becomes clear they panic, which is strange given that the risk was there the whole time. Think the Warren Buffett quote "Only when the tide goes out do you discover who's been swimming naked."

Here are some current facts:

- We are in the second longest economic expansion in history.
- Corporate profit margins are near all-time highs.
- Corporate debt is at all-time highs vs equity and earnings.
- The hottest investment product, private equity, is massively driven by 30+ years of declining interest rates and rising asset prices. With higher rates, less deductibility of interest in the new Trump tax plan and at some point, a lower market, how will that work out? You know my guess.
- The massive fiscal expansion via Quantitative Easing (QE) is not only over in the U.S. but has been reversed and is picking up the intensity via Quantitative Tightening (QT).
- When credit growth is weak, the United States falls into recession. Between 1952 and 2008, there were only nine years when total credit (adjusted for inflation) grew by less than 2%. Each time, there was a recession. In 2017, total credit grew by just 1.9%.
- Interest rates are up from 1.35% in mid-2016 to 2.95% today. This is a biggie.
 - While it should be obvious to everyone, this is a big deal as financing on everything just got at least 150bp more expensive.
 - Adding 1% on a mortgage rate to a \$500,000 mortgage adds \$3,000/yr to the payment.
 - Companies have increased their net debt dramatically with the low rates, using the money to fund more stock buybacks and dividends. When they roll this debt, they will find their expense has gone up a lot, which will drive down profit.



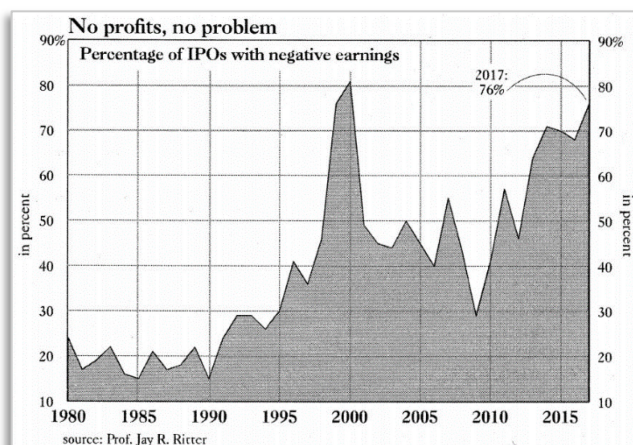
- Similar to the government example above, if a company goes from 2x debt/ebitda to 3x, and interest rates fall by 100bp, that is roughly the same interest expense overall so no big deal. But then if interest rates rise by 200bp (they are already up 150bp) net income goes down well over 15% for the average company. Are people expecting this?
- If nothing else is crystal clear what should be is that debt has been driving the worldwide economies for decades. The problem is, as the famed Austrian economist, Ludwig von Mises, warned “The boom can last only as long as the credit expansion progresses at an ever-accelerated pace. The boom comes to an end as soon as soon as additional quantities of fiduciary media are no longer thrown up on the loan market.”
 - Global debt is now \$237 trillion. The amount of debt grew by \$21 trillion globally over the last 12 months. That’s roughly 10%. The problem is that worldwide GDP only grew in the mid 2% range in 2017 and decelerating. This is simply math, logic and common sense. The system is unsustainable. More debt at higher interest rates = big trouble at some point.
- We are going to leave aside the bigger, longer-term risk that for the first time in over 10 years the interest expense on the federal debt is going to go up and substantially. During that time the lower interest rate has roughly offset the higher debt, so interest expense has stayed the same or gone down. Now it will go up (a lot) while the federal debt is going up and right after we shortened the average duration of the U.S. Government debt outstanding. This is certainly a ticking time bomb for the U.S. Dollar since the only viable way out of the debt, which doesn’t officially even count all the entitlement problems like Social Security, Medicare/Medical, etc., is to devalue the dollar. This is all about when, not if.

When QE started there were many people saying that increasing the money supply must cause inflation and it would end badly. That said, CPI since QE started has been very mild. (avg of 1.5% for the past 10 years). So, is economic theory, at least as espoused by the Austrians/monetarists, wrong? Or is it more accurately described by the Cantillon Effect, named after the late 1600s/early 1700s Irish/French Economist, Richard Cantillon? This says that monetary inflation does not affect all prices equally or at the same time but in sequences that depend on the spending behavior of money holders all along the channels of monetary flows. Said another way, we have seen massive inflation from QE, just not in CPI. Since QE started in November 2008, the S&P is up 230%, the Nasdaq 415%, the MSCI All Country World Index (ACWI) 160%. U.S. 10 yrs. yields fell 65% at the bottom and are now still down 25%. German 10 yr bond yields are down 85% since QE was announced. According to Zillow the average U.S. house is up 50% from the bottom in 2011. That said, the pockets of wealthy homes/suburbs in every big city have done far better, and in many cases, have more than doubled. I don’t have a great source, but certainly art, collectible cars, etc., are up big since then as well. So, one of the few things that hasn’t screamed higher is the CPI, but even there we can make all kinds of arguments that the calculation of the CPI isn’t quite right and there are obvious political reasons to keep tinkering with how it is calculated to keep the number lower, but we will save that for another day.

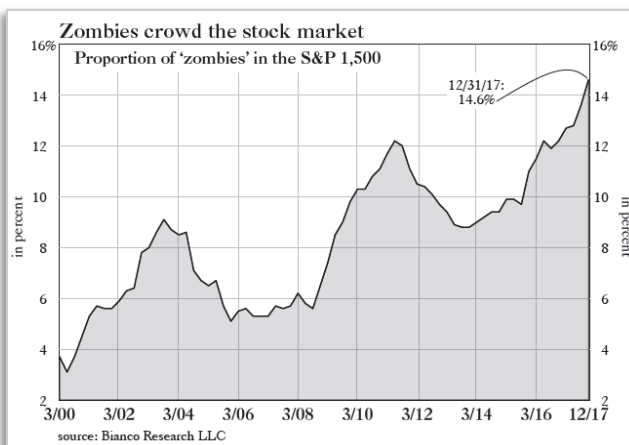
It is always hard to prove causality vs correlation, but it seems clear that if the narrative is true that QE was deflationary for commodities and inflationary for financial assets, especially stocks, bonds & real estate, art, classic cars, etc., then Quantitative Tightening must imply the opposite. Yet, the common narrative is that the Fed/ECB/BOJ/etc. has it under control. It can’t be true. There is a reason the Fed uses short term interest rates as their historic lever to try to influence the economy. Lower rates = more and cheaper credit = good for the economy. Higher rates = less credit = higher interest expense, leading to a slowing economy. Why is now different?

Let’s consider some further examples of the excesses of the current cycle. The chart on the top-left of p.3 speaks for itself in that when a huge percentage of the IPOs are losing money, the environment is such that investors want to believe. When the market is down, or even normal, people want good businesses that make money. You can see we are almost back to 80% of all IPOs losing money, which is just off the uber tech bubble in 2000 and waaaaay above any long-term average. This should be a HUGE red flag to investors. (Side note, it was just announced that the Hong Kong Stock Exchange approved having companies that lose money listed on their exchange. It used to be a rule that you had to make money. A sign of the top?)

The related chart to the right, courtesy of Bianco Research, shows companies, Zombies as they call them, whose interest expense is greater than their 3-year average EBIT (earnings before interest and taxes). ie, post interest expense these companies lose money. Currently, we face the greatest percentage of Zombies in at least 20 years in the S&P500. People just want to believe. Oh, and by the way, these companies’ interest expense is going way up when they try to roll their debt given what rates have done in the past couple of years.



Source: Prof Jay R. Ritter

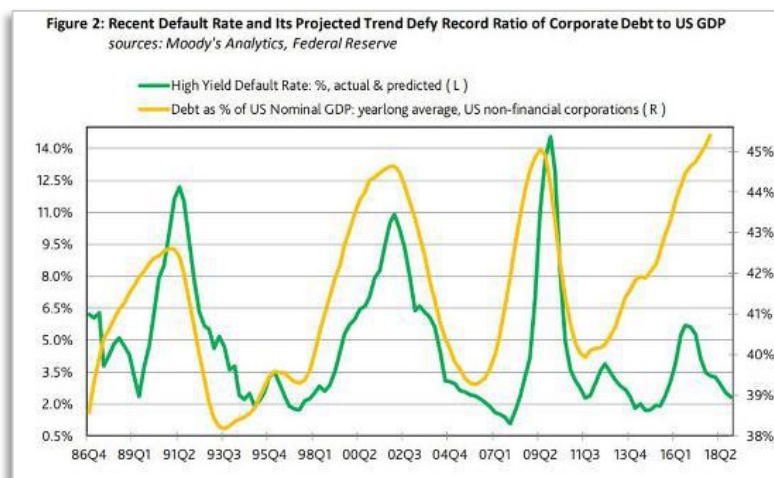


Source: Bianco Research LLC

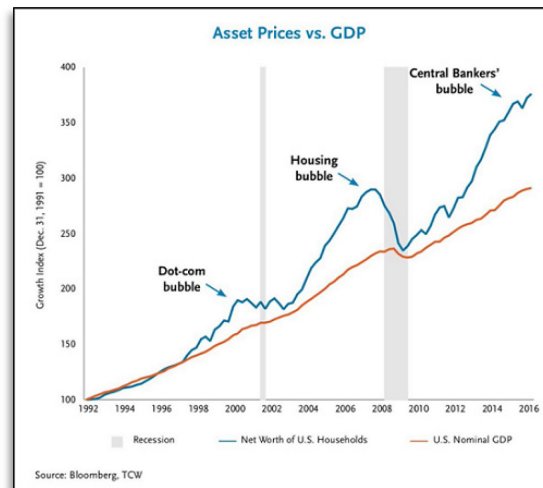
To quote the American economist, Hyman Minsky, "In particular... if an economy with a sizeable body of speculative financial units is in an inflationary state, and the authorities attempt to exorcise inflation by monetary constraint, then speculative units will become Ponzi units (think companies that need constant new capital because their business model doesn't show self-sustaining profits any time soon = Tesla) and the net worth of previously Ponzi units will quickly evaporate. Consequently, units with cash flow shortfalls will be forced to try to sell out of that position. This is likely to lead to a collapse of asset values."

The first half of the Minsky quote above is describing the investment environment for the past few years. You can decide if his thought of how these situations end will come true, but with interest rates dramatically off the bottom and the Fed turning its attention from creating a wealth effect in order to assist the economy by lifting asset prices to reining in inflation/slowing the economy via QT, then everything Minsky says seems logical.

Here are a few other interesting charts in a speed round; all show stress/risk to the system, and hopefully are self-explanatory .



Source: Moody's Analytics, Federal Reserve

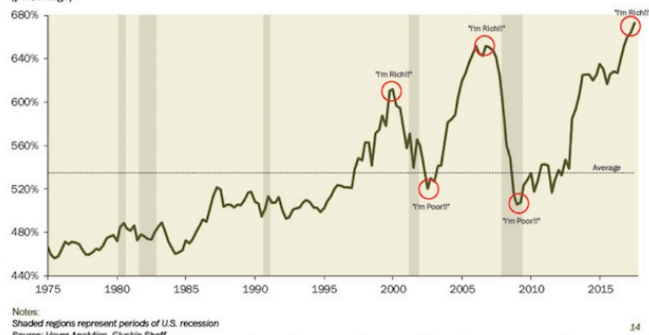


Source: Bloomberg, TCW



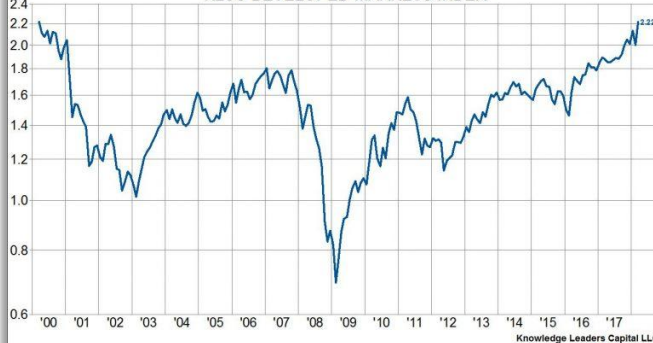
WHAT'S EVERY PEAK TYPICALLY FOLLOWED BY?

United States: Household Net Worth Share of Personal Disposable Income (percentage)



Source: Haver Analytics, Gluskin Sheff

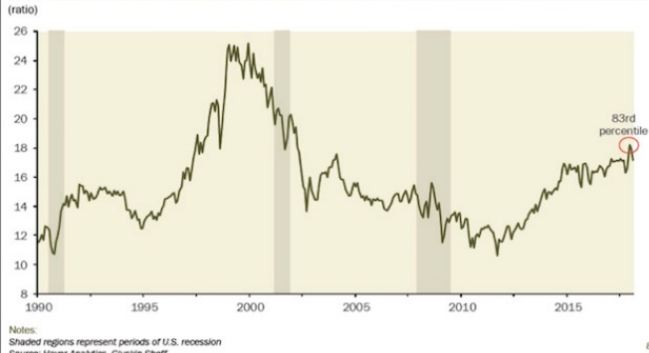
Median Price to Sales Ratio KLSU DEVELOPED MARKETS INDEX



Source: Knowledge Leaders Capital, LLC

VALUATIONS ELEVATED NO MATTER THE METRIC

United States: S&P 500 Forward Price to Earnings Ratio (ratio)



Source: Haver Analytics, Gluskin Sheff

PAYING MORE FOR SLOWER GROWTH!

United States: Historical Bull Markets

(annualized percent change)

Trough Date	Peak Date	S&P 500	Nominal GDP	Real GDP	Months
13-Jun-49	15-Jul-57	17.3	7.3	4.6	97
22-Oct-57	3-Jan-62	15.4	5.4	3.8	51
26-Jun-62	29-Nov-68	12.0	7.7	5.0	77
26-May-70	11-Jan-73	23.3	10.0	5.1	32
3-Oct-74	28-Nov-80	14.1	10.8	3.2	73
12-Aug-82	16-Jul-90	17.5	7.6	4.2	95
11-Oct-90	24-Mar-00	19.0	5.6	3.5	113
9-Oct-02	9-Oct-07	15.0	5.8	2.9	60
9-Mar-09	16-Jan-18	17.3	3.6	2.1	106
Average		16.8	7.1	3.8	78.2
Median		17.3	7.3	3.8	77.0

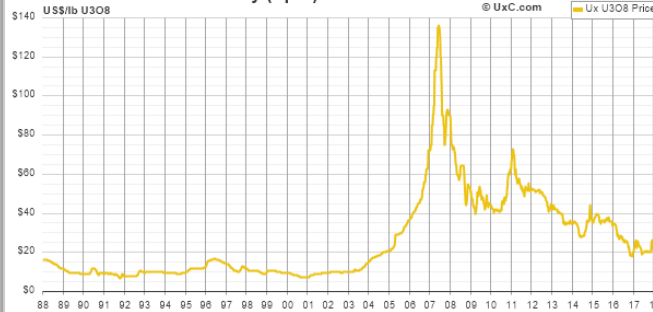
Notes:
Source: Haver Analytics, Gluskin Sheff

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Above, you can see the S&P500 non-GAAP P/E ratio (which is a higher % than ever vs GAAP) is at an all-time high excluding the 2000 bubble while U.S. GDP growth is at its lowest ever in terms of sustainable growth (which of course it is not in the short run). So, if growth is lower than historic averages is it fair to compare it to the historic average P/E ratio, let alone GAAP vs non-GAAP?



Ux U308 Price® - Full History (Spot)





These last charts, above, are the Bloomberg Commodity Index (made up of gold, natural gas, oil, copper, corn, soybean, etc.) and the spot Uranium price. While we are occasionally viewed as being commodity bugs, I would rather describe it as we like companies with stocks that are down big, which implies they are out of favor, where we are allowed to buy hard asset businesses at VERY cyclical lows. To the points above about risk, what is riskier? The commodities in these charts which are already down big and at the lows of the last 25 years or FANG stocks, which are at their all-time highs?

As one of the icons of the venture capital business and founder of Kleiner Perkins Caulfield & Byers, Eugene Kleiner, said “Even turkeys can fly in a high wind. In times of strong economies, even bad businesses can look good.”

“That word. I do not think it means what you think it means.” Let’s now change the ‘word’ to Earnings.

In the previous commentary, [“It’s Like Deja Vu All Over Again,”](#) I talked about the growing disparity of GAAP to non-GAAP earnings. Let’s first define what earnings should be. If I asked somebody to invest in company X, they should rightfully want to understand the business and the financials. To make the example easy, let’s assume the company has a guaranteed government contract so its future is set, but it isn’t growing and never will. That makes it more like a bond, but again, let’s go with it. If that company makes \$1mm in total after-tax net income, how would you value the business? I presume you would want a certain percentage return. Let’s assume you want 10% per year in which case you would value the business at \$10mm. Easy. However, during your due diligence, you realize that of the \$1mm in net income, \$300k was added back to the actual \$700k in GAAP net income. The \$300k was comprised of \$100k of “one-time” charges and \$200k of “non-cash” expenses. Upon further inspection you see that the company has “one-time” expenses every quarter for something and its “non-cash” expenses (let’s assume only stock compensation) are causing the share count to increase by 5% every year, diluting your stake or claim on the net income. Would you rightfully say these adjustments are accurate and the net income is \$1mm or would you say these expenses are real and deduct them, making the true net income is only \$700k?

I have a hard time believing that anybody considering buying the above company privately would say that \$1mm was the real net income. If that is true, why do investors in public companies look the other way for these adjustments?

Here is a quick and recent example from one of the biggest “new” earnings manipulators (compared to past manipulators like GE, AIG, etc.) Note, I am not saying it’s fraud since what they are doing is legal. I am questioning why Wall Street and investors buy into it quarter after quarter when it is clearly misleading at best.

In IBM’s just reported Q1 2018 numbers Non-GAAP EPS were \$2.45 (up 4% y/y) while buried way down on the release were their GAAP EPS of \$1.81 (down 2% y/y). Years ago, IBM was big enough that they decided to stop adding back the stock compensation charges (which is somewhat shocking but good for them), so that is actually already deducted from their non-GAAP earnings. The 35% higher non-GAAP net income was driven by adding back:

- Acquisition-related charges; They do acquisitions and divestitures every quarter so that is clearly not non-recurring.
- Non-Operating Retirement-Related Items; (They have retirement charges every quarter so that is clearly not non-recurring.)
- Tax Reform Charges - One-time. We will leave aside whether this specific tax item is one time and focus on the fact that their non-GAAP tax rate has gone from 28% in 2007 to being closer to 7% recently. Lots of big companies have tax staff in the hundreds to drive their tax rate lower, but this is something special and clearly misleading, or said another way, not sustainable.

A sign of any “great” company today is that they pay a big dividend and buy back lots of stock. In IBM’s case for the quarter they reported \$1.3bb in Free Cash Flow (as IBM defines it) while paying out \$1.4bb in dividends and buying back \$800mm in shares. That certainly isn’t sustainable.

In my last commentary I touched on the ridiculous business model of WeWork, the “global network of workspaces where companies and people grow together.” Even though they have raised billions in equity and are valued at \$20bb total, they recently decided they needed some publicly traded debt so now we get some actual financials. In 2017 they had revenue of \$866mm but a net loss of \$933mm. (Of course.) More importantly, they have created a new accounting term – “Community adjusted EBITDA” as a measure of their profitability. This new accounting “standard” is earnings before interest, taxes, depreciation, amortization, and most basic expenses like marketing, general and administrative expenses, and development and design costs. So now we can say our gross margin, which is essentially what



this is, is our actual profitability? Their 2017 Community EBITDA was \$233mm. As the legendary real estate investor, Sam Zell, recently said “We have yet to find out what happens to WeWork when the office market softens, which is probably not too long from now.”

If you haven't seen it, the 2016 comedy “Why Him?” it is a funny movie about a father, Ned (Brian Cranston), who is questioning why his college daughter wants to be with and ultimately marry her outrageously immature, tech-wealthy boyfriend, Laird, played by James Franco. In one memorable scene Laird tells Ned that he wants to ask his daughter to marry him. Of course, the father says no (says me, the father of 2 daughters) but it leads to Laird telling Gustav, his friend, assistant, trainer and estate-manager that he doesn't understand Ned.

Laird: “I don't know how to talk to the guy. It's like we speak two different languages or something.”

Gustav: “You do... He speaks English, and you speak English with resounding amounts of “f*ck.”

When people talk about public companies with lots of non-GAAP adjustments it sounds to me like they are speaking Accounting with resounding amounts of f*ck.

“That word. I do not think it means what you think it means.” Let's now change the ‘word’ to Privacy. Or Tech Monopoly.

Also in [It's Like Déjà Vu All Over Again](#), I talked about how tech has turned from a productivity yielding engine of growth to an advertising driven platform, which adds little to the country other than pain to the traditional base of that advertising. Let's discuss for a second the insidious side effects of this by focusing on the Facebook/Cambridge Analytics situation.

Here is the background if you don't know it.

In 2015 a Cambridge psychology professor named Aleksandr Kogan built an app called “thisisyourdigitallife.” The app was a personality quiz that asked FB users for info about themselves. Kogan's company, Global Science Research, had a deal to share info from the app with a company named Cambridge Analytica. Roughly 270,000 FB users signed up and took personality tests and by doing so agreed to share/give their data away. But the app also collected the info of each survey taker's FB friends and friends of friends, who couldn't possibly have provided consent.

Cambridge Analytica then took all that user data (profiles in excess of the 270k were clearly scraped from Facebook without consent) and started analyzing how best to slice and dice the data to yield super targeted groups to then sell that data to advertisers; in this case, political advertisers like the Trump campaign. Cambridge admitted to having access to the personal data of 50 million Facebook profiles, but now it is believed to be more like 87 million. The Trump campaign would then buy ads to sway votes, both pro-Trump and anti-Clinton, via Facebook.

Christopher Wylie, the insider whistleblower of Cambridge Analytica said, “this data was used to create profiling algorithms that would allow us to explore mental vulnerabilities of people and then map out ways to inject information into different streams or channels of content online. What Cambridge Analytica does is it works on creating a web of disinformation online so that people start going down the rabbit hole of clicking on blogs, websites, etc. that make them think that certain things are happening that may not be.”

So, while everybody should be upset that Cambridge Analytica was able to scrape the profile data of all the friends and friends of friends of their willing participants from Facebook, people seem to be more upset that some group of Russians were able to buy a small number of ads on Facebook to promote the Trump campaign. Can't a group of Russians or a Russian company, or anybody, buy ads to sell any product or service on Facebook or Google already? How is this different? So, using personal information to target ads for Crest or Tide is okay but to use it to target political ads is wrong?

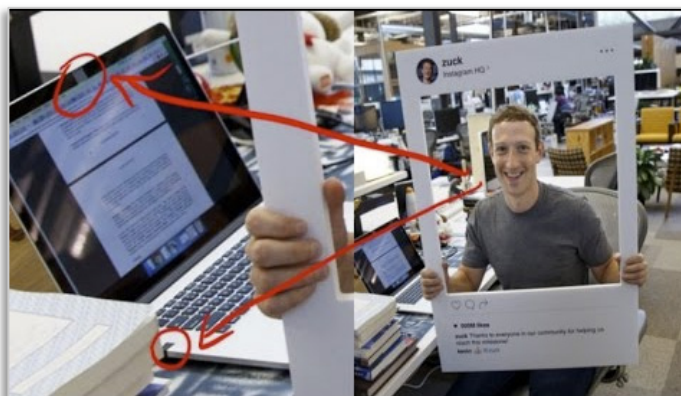
Outside of the PR mess, it seems to me like Facebook should be envious of Cambridge Analytica for being able to do a better job at ad targeting than they had done given that is the entire business model of Facebook. Further, as Scott Galloway, NYU Clinical Professor of Marketing, vocal critic of the big tech companies (search YouTube) and author of the interesting book “The Four: The Hidden DNA of Amazon, Apple, Facebook, and Google” said, “Everything Cambridge Analytica does, Facebook will do and continue to do. “

When asked at the recent congressional hearings what Facebook does, Mark Zuckerberg succinctly said “We sell ads, sir.” While true, there is clearly more to the story.



Diving much deeper on the topic of ad targeting, recently an Irish blogger, Dylan Curran, had a twitter rant about all the data that he found that Google stores on you. Here is a quick recap if you didn't see it or aren't familiar:

- Assuming you have downloaded Google for search on an iPhone, or you use an Android (Google) phone, Google tracks and records your location at all times while your smartphone is powered on.
- Google stores your search history across **all** your devices. Even if you delete all your search history on any device Google STILL stores everything until you go in and delete everything on every device that has ever searched for anything on Google.
- Google stores information on every app and extension you use, how often you use them, where you use them, and who you use them to interact with (who you talk to on Facebook, what countries you are speaking with, what time you go to sleep).
 - If you download Tinder, for example, Google knows and records that you were single between X and Y period and when you delete Tinder it knows you are now probably in a relationship.
- Google stores ALL of your YouTube history (they own YouTube), so they know whether you're going to be a parent soon, if you're a conservative, if you're a progressive, if you're Jewish, Christian, or Muslim, if you're feeling depressed or suicidal, if you're anorexic...
- Google stores your calendar items, your Google hangout sessions, your location history, the music you listen to, the Google books you've purchased, the Google groups you're in, the websites you've created, the phones you've owned, the pages you've shared, how many steps you walk in a day...
- Google records all your contacts, your e-mails, your calendar, your call history, the messages you send and receive...
- It is a little less clear, but most tech experts think they can also VERY easily access your computer's webcam and microphone at any time. Corroborating this is this picture of Mark Zuckerberg with his laptop with the camera and microphone taped over.
- The files you download, the games you play, your photos and videos (including the metadata on your digital pictures of when and where you took the pictures), your music, your search history, your browsing history, even what RADIO stations you listen to.
- Lastly, don't think the "incognito" feature on your browser protects you from Google knowing what you are visiting. It just means it won't store cookies of what page you visited and auto fill the address for the next time.



Not included on the Irish blogger's rant is the frequent rant that topics discussed around a passive smartphone are "heard" by Google and Facebook then "magically" become targeted ads on those platforms. Did you give them this right? I'm sure you would say no, but you evidently did by checking the box on the user agreement.

At this point everyone knows what the home speaker and intelligent bot, Alexa, is and does for Amazon. Amazon is quick to tell people it only records things you ask Alexa. But if all they record is you asking to turn on certain lights, or play certain songs, why on February 17, 2017 did the Bentonville, AR Police Department get a search warrant relating to the Amazon recordings of a suspect for an investigation into the November 2015 murder of an Arkansas resident? Further, if Amazon doesn't record everything you say around it, why did they file a counter motion to negate the warrant? Again, Amazon says it doesn't record everything, and only records requests after you say "Alexa", but I will go with logic and say it does.



When you search on Google I'm sure everyone implicitly knows that whatever you search for is tracked by Google and used to serve you customized ads. When you use Facebook everyone implicitly knows that topics you "like" or not are used to create a profile of you to serve you customized ads. When searching for an item on Amazon you would understand if Amazon used that search information to create customized ads for you, just like Google, which they are just starting to do. That is the explicit trade-off for using those services, and in the case of Google and Facebook, why they are free. But the above invasions into our privacy go much further and I would bet most people don't understand the depths of data those tech companies have on everybody.

Peter Orszag, the former Office of Management and Budget Director in the Obama administration and current Lazard Vice Chairman told an audience in Australia, Facebook and Google are "...monopolies that are using our personal information without paying us and extracting a monopoly rent by selling ads on that personal information."

Warren Buffett has said he regrets not investing in Google since "its search ad business is a natural monopoly, meaning that the costs of building a company with a similar market share are large enough to fend off any serious takers" (i.e., big moat). The rub is that natural monopolies are generally heavily regulated or run by the government.

While there is some short-term noise about the Facebook thing most analysts still go on and on about how great these businesses are, and seemingly nothing will stop that. They are great, but I can't help but think that the risk is much higher than perceived.

The engine behind Cambridge Analytica was from a private company named Palantir. This is a very secretive start-up founded by Peter Thiel and a couple of other ex-Paypal alumni. It was valued at \$20bb in 2015. The entire point of the company is to read lots of data (i.e., "big data") and create potential predictive outcomes from that data. What started as a program capable of predicting things for the military moved to other government departments (trying to find fraud at Medicare), and then expanded to the private sector. Yet, for all the outrage about Cambridge Analytica, nobody is outraged that a company, Palantir, does this for anybody willing to pay it, including the U.S. Government.

Coming at this from a different angle: if the government said we have installed secret video cameras with facial recognition and microphones EVERYWHERE and put location trackers on everyone, so it always knew exactly where you were, what you were doing and what you said, people would be outraged. Yet, to a big extent, here we are thanks to the big tech companies.

Oh, by the way, the cameras everywhere using facial recognition scenario is happening right now in some cities in China. Further, there are parts of China that issue driving tickets for running a red light, etc. purely based on facial recognition on their public cameras. No police required for these tasks. Maybe that is what you get when you have a non-democratic government and they do what they want, but that would never happen in a full democracy, right? London is known to have tons of cameras everywhere, so while they haven't overtly said they use facial recognition to track everything, you know they do.

Going further, based on what has been described above, would it shock anyone if I suggested that the government (NSA/FBI) used Palantir software or something similar to scrape all the GPS data from the big 4 cell networks, which is roughly 100% of the U.S. population, and knew exactly where every U.S. citizen was at all times, based on where their phone was? Based on the above, wouldn't you be shocked if they didn't? If there were a crime anywhere in the U.S., wouldn't it be easy enough for the government to then run a search on the cell networks GPS data and say which phones were at location xx at time yy and get a really tight list of suspects? What privacy do any of us have anymore?

So, while we have not gotten as far as predicting likely future crimes and arresting people like in the 2002 Tom Cruise movie, *Minority Report*, we aren't far behind. In the 1998 Will Smith movie, *Enemy of the State*, about illegal government abuse of data collection on the U.S. population, when hearing of the government plans to use data to track the population, Will Smith's wife asks the question "who's going to monitor the monitors?" Indeed.

One last random example. At a Hollywood entertainment conference, a couple of months ago, Mitch Lowe, the CEO of potentially the most ridiculous business model company ever, MoviePass, said at one point, "We get an enormous amount of information" using your phone's GPS data and "we watch how you drive from home to the movies. We watch where you go afterwards... We know all about you." He later backtracked and said that isn't what he meant. Sure. Do you actually think they could sustain themselves by charging \$9.99/mo for you to go to unlimited amounts of movies that they have to pay full price for?



Is any of the above illegal? Probably not. The tech companies say you signed the user agreement agreeing to everything when you downloaded the app or used their software, so they are off the hook. They similarly say they aren't media companies by serving you news items that somebody else wrote so they are not liable. If YouTube plays an illegal video it isn't their fault. Somehow that brought down Napster but not these newer platforms (yet?) They are taking advantage of rules and laws that were made before the government realized what these platforms can capture and do with the data. Going to the beginning of this piece on risk, should it be a shock to anyone if the government at some point stepped up and did something to regulate them? What would happen to their digital ad duopoly if the government told them they couldn't use any data to target ads, other than the basic what you searched for and what you liked? What if the government held them liable for news items on their sites, whether they created the news or not? What if the government made them have an overt button to click for users telling you what data you are letting the tech giants have when you use their services, rather than burying it in the fine print of a user guide that nobody reads? You can decide, but we think about these things when we assign a certain of value risk score to the companies we evaluate.

"That word. I do not think it means what you think it means." Let's now change the 'word' to Blockchain.

Lastly, since I discussed the craziness of the rush to change your name and/or business model to include Blockchain in [It's Like Déjà Vu All Over Again](#), there has been some pressure, to say the least, on those stocks I highlighted so I thought a quick update would be interesting. Unfortunately, at the time, the high cost to borrow the shares made it prohibitive to short.

Name	All Time High	High Price	Price now	% Change	
Litecoin	12/22/2017	\$234.00	\$136.81	-41.50%	
Nova LifeStyle	12/21/2017	\$2.87	\$1.71	-40.40%	
Rich Cigars	1/30/2018	\$0.72	\$0.18	-75.00%	
Net Element	12/20/2017	\$19.39	\$8.69	-55.20%	
Longfin Financial	12/18/2017	\$72.38	\$28.20	-61.00%	halted since March
Hive Blockchain	11/2/2017	\$5.37	\$1.35	-74.90%	
MGT Capital	12/19/2017	\$7.10	\$1.38	-80.60%	
Glance Technologies	11/27/2017	\$3.24	\$0.47	-85.60%	
Riot Blockchain	12/19/2017	\$38.60	\$6.96	-82.00%	
Long Island Iced Tea - now LI Blockchain	12/21/2017	\$6.91	\$0.55	-92.00%	
Future Fintech Group	12/26/2017	\$6.24	\$2.30	-63.10%	
				-71.00%	

"That word. I do not think it means what you think it means." Let's now change the 'word' to Reality.

In the 1993 movie "Jurassic Park," actor Jeff Goldblum's character learns that the dinosaurs made in the lab were all females, so they couldn't reproduce, yet they clearly were reproducing, and he then uttered the memorable line, "Life will find a way." In my view, the same goes for value investing. At the top of cycles, the market wants to believe. Be it story stocks that will grow forever (of course they won't), stocks with no earnings that will start making real money very soon (nope), or a potential new technology that people are so enamored of that companies literally change what they do to pursue that fad (Blockchain). They will all end badly, as they always do. I don't know when and I don't know what will cause it, but I have the utmost faith that logic will always prevail in the long run. In the current market's case, it seems more than fair to cast a cynical eye on many things going on and keep the focus on what matters; finding and investing in companies that are trading below their risk adjusted intrinsic value. Further, when you have a chance to invest in companies that fulfill basic human needs like food, electricity and minerals, to name a few, at big discounts that seems like a wonderful environment to us.

Thanks again for your support.

Mark McKinney

Co-Portfolio Manager – Kopernik International Fund/Analyst

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