

## THE GRANT WILLIAMS PODCAST

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#### **The Super Terrific Happy Hour, Episode 19**

How Do You Solve A Problem Like Inflation?

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Blending history, humour and keen financial insight, Grant dissects the financial landscape with thought-provoking commentary—taking readers in unexpected directions and opening up investment avenues away from the beaten path which stimulate the kind of original thinking so lacking in today's financial media.

Drawing on Grant's extraordinary network of experts around the world, *Things That Make You Go Hmmm...* weaves together a tapestry of insight and information, folding in a series of under-the-radar stories and perspectives, to give subscribers an important edge in a fast-changing world.

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**Grant Williams:**

Here's the bit where I remind you that nothing we discuss during the Super Terrific Happy Hour should be considered as investment advice. This conversation is for informational and hopefully entertainment purposes only. So while we hope you find it both informative and entertaining, to say nothing of super and terrific, of course, please do your own research or speak to a financial advisor before putting a dime of your money into these crazy markets. And now, on with the show.

**Jerry Seinfeld:**

People always tell me, you should have your money working for you. Because you send your money out there working for you, a lot of times he gets fired. You go back there, "What happened? I had my money. It was here. It was working for me." "Yeah, I remember your money. We had to let him go."

**Grant Williams:**

Welcome everybody to another edition of the Super Terrific Happy Hour. Joining me, as always, whenever the world is super terrific, it normally means that Steph Pomboy was around, because that makes me happy. So Steph, how are you?

**Stephanie Pomboy:**

Well, it's super terrific to be with you. Thank you for arranging this. This is great. I'm looking forward to our conversation today.

**Grant Williams:**

Well, I think, as always that's a little deflective because you arranged most of it.

**Stephanie Pomboy:**

Well...

**Grant Williams:**

You did most of the arranging, I did a little bit here and there. But most of it was you.

**Stephanie Pomboy:**

You did the heavy lifting. You handled all of the technology aspect of this. And that's good because if I were in charge of that, no one would be hearing this recording right now.

**Grant Williams:**

This is why I don't explain to you just how easy that is because then you'll drop me like a bad habit.

**Stephanie Pomboy:**

I'm just so impressed.

**Grant Williams:**

When you talked about arranging, we should probably let people know exactly what it is we've arranged, because we have an inflation panel, I guess. Should we call it a panel sniff or is that a bit too highfalutin? What do you reckon?



**Stephanie Pomboy:**

No, I think panel is a good word.

**Grant Williams:**

Inflation panel

**Stephanie Pomboy:**

It's politically correct, isn't it?

**Grant Williams:**

Yeah, I think so.

**Stephanie Pomboy:**

We're not offending anyone with panel.

**Grant Williams:**

I don't think we're appropriating the wood industry in any way, shape or form. So I think we're okay. But we have joining us three fantastic guests, Dave Iben of Kopernik Global, Adam Rozenchwajg of Goehring & Rozenchwajg and James Davolos of Horizon Kinetics, and we are going to discuss the subject of inflation with all three of them. They've all done some phenomenal work, Steph, on the subject, whether it be inflation as an idea, but more importantly for this conversation in particular, what to do about it and what stocks to look at and how the commodities complex plays into that.

**Stephanie Pomboy:**

I'm really looking forward to it, especially given what's going on in the markets right now. I have a feeling that what we're going to hear here is going to be very different from what you're hearing on CNBC-

**Grant Williams:**

Yes.

**Stephanie Pomboy:**

... in this moment.

**Grant Williams:**

Of that I have no doubt. Well, why don't we find out and bring the guys in.

**Stephanie Pomboy:**

Let's do that.

**Grant Williams:**

Well, welcome guys. Thank you so much for joining us. We're extremely grateful that the three of you could find time on your schedules to kick around this whole idea of inflation. James, Adam, Dave, Steph and I have explained at the top of the show what we're going to try and do. So I think that the easiest thing to do is just to jump straight into conversation. I think James, I think you are going to lead us off, is that correct?



**James Davolos:**

Yeah, that sounds great.

**Grant Williams:**

All right, my friend. The floor is yours.

**James Davolos:**

So I think when looking at our macro outlook, it behooves us to also look at where we've been wrong and we were part of the crowd that thought something was going to break well before over 5% on fed funds. We thought maybe around a 3% range. We were wrong, that they did get to as high as they've gotten to, something did break. So Silicon Valley and First Republic and the others went under when fed funds was around 4.5%.

But the resilience of the economy has been remarkable and I think astonishing to almost all of the observers and taking a step back and looking at where the assumptions were, I think the biggest thing that keeps coming back to us, forget the fact that there's a lag in interest rates and forget the fact that there's all these nuances to monetary policy. It's the fiscal dominance and how that has really put a lot of resilience into the economy. So by the end of this year, we'll have about \$6 trillion of cumulative deficits, which has funded a lot of growth into the economy both directly and indirectly.

But the problem is the Congressional Budget Office believes that that's going to result in over a trillion dollars of annual interest expense by 2028. And these very sanguine assumptions also assume zero recession and continue deficits between about \$800 billion and a little over a trillion for the next decade. So we continue to believe that the only way out of this current mess is going to be nominal growth in excess of the cost of debt service for the federal government, because otherwise the problem just gets bigger and bigger and the potential breaking point gets bigger and bigger. The only two ways to theoretically fix this would be austerity or a default. Let's take those off the table for a variety of reasons, not the least of which the cure would kill the patient. And we've just gone too far here.

So we think that the end game here is going to be either an implicit more likely or an explicit, probably not under the current chair of the Fed, target of inflation above two, probably above 3%. The outcome is going to be structural volatile inflation, higher but volatile interest rates. And the investment conclusion, which we're going to get into later, is going to be you really want to own a variety of real assets.

**Stephanie Pomboy:**

I guess. Adam, you're next at the tee box.

**Adam Rozencwajg:**

Well thank you and it's wonderful to be here and talking with you all today and thank you for arranging all this. We are natural resource investors so we look at things clearly through our own lens and through our own outlooks and views. And what we see from a macro perspective going forward is a real inflection point and a period of much higher commodity prices. And the reason for that is as simple as it is complex. It's that we're going through a massive commodity cycle.

And if you look back over the last 120 years and that's how long we have pretty good data for, you see that



commodities move in these big cyclical waves. And typically what ends up happening is you'll have a period of time where commodity prices are high, companies generate really good supernormal profits, it attracts investor capital, everyone is just about as bullish as can be. And you don't need a super long memory to go back to the middle part of the early 2000s when everyone was talking about the latest and greatest Canadian oil sands project or the latest and greatest shale deposit or even gold and copper mines around the world and certainly we remember some major busts and blowups through that sector as well.

Money pours in, it chases new supply and eventually all that supply comes online. It overwhelms the market, prices collapse. Investors who have underwritten projects at higher prices pour their money back out. Everyone talks about how an industry is dead and uninvestable ideally even maybe Time Magazine or Business Week or somebody or Forbes, writes a cover story about it. That's how you know the bottom's close. And you reset the new cycle. And this cycle that we've been in now basically topped out in 2010 and has been in a grinding grueling bear market ever since. It's seen capital spending across the board cut 70, 80%. It's seen huge diversions of energy and capital into what I would call really unproductive assets, which to me the most unproductive are probably intermittent wind and solar, things of that nature. Cheap energy and cheap capital has allowed the huge proliferation of those technologies. And slowly but surely we've been ratcheting this whole market tighter and tighter. And I think now we're finally at this point where supply is beginning to really slow down.

Certainly growth has slowed down across most industries. Demand remains extremely robust for all the talk of traditional energy, demand, it has never been more robust frankly than it is right now. And we're in the process of moving from a period of surplus into a period of deficit. And what does that mean? It means that commodity prices are going to move a lot higher. That's going to be true across the board. It's probably going to be the most true where you've seen the most starvation of capital, and that's in your traditional energy, your oil and your gas as well.

But it's going to be true in copper. It's going to be true in uranium mining where you saw a 90% peak to trough fall in the price of uranium. So I think you're seeing it across the board. Energy has gone from being about 15% of the S&P down to a low of 2% a couple of years ago. It hasn't been able to break 5%. Energy has been the best performing sector now for going on three years in the market. And you've seen persistent selling by all the generalists, out of the XLE, out of the XOP. It doesn't matter.

So I think that this bear market has run its course. I think you're in a sustainable market move now. But asset allocators still haven't woken up. And what that means is that the snapbacks going to be more pronounced and last longer. And unfortunately for people having to deal with inflation, I think you're going to have a tough time with higher raw material prices for the better part of the decade.

**Grant Williams:**

Dave, why don't we flip it over to you and give us your quick macro view.

**Dave Iben:**

Okay. Thank you. And thanks to Grant and Stephanie for putting this on. I think it's very timely. As Adam said, I think we have three firms here that all look through our own unique lens, come up with similar conclusions yet unique solutions. So I think it's a good time for this. We're 100% bottom up, but I'm happy to share the macro views because usually as a bottom up investor, what we like flies in the face of the top



down macro story or here's one of these fortuitous time where they line up together. The cheap stocks are also the beneficiaries of a lot of top-down trends that we're talking about. So a very bifurcated market, even more so than in 1999. They pay up for things they love and they're giving away things that are very cheap. A lot of the things that are cheap are beneficiaries from any inflationary trends.

And it's interesting to see people give up on the concept of inflation. We think Milton Friedman had it right, that it's always a monetary phenomena. So people will say, no, it's about demographics or it's about the strength of the economy. You look around at economies around the world that have floundering, Argentina, Venezuela, Zimbabwe, they do not have low inflation. So we think people have that wrong. If it is a monetary phenomena, the money supplies up tenfold since 2008 tenfold and that's after the trillion dollar drawback they've just had.

So as we'll talk later when we get to the investments that \$10 trillion is already migrating through the system. But maybe that'll stop, as you've already heard before, it's highly unlikely it's going to stop. Democracies don't have a tendency for supporting austerity. And I'm not aware of any major politician in any country on the world now that is actually arguing for austerity. So I think that's something that's highly unlikely to happen. History and logic suggests that we're going to see a continuation of what we've seen. If there's even a chance I'm right, people ought to have at least some part of their portfolio allocated to real assets and inflation beneficiaries. And from where they're priced, we think the upside to their downside is very compelling.

**Grant Williams:**

There's definitely a whole bunch of common threads there which is going to make the various ways you guys are going to tackle this incredibly fun to discuss about. So James, why don't we bring it back to you and talk about how you guys at Horizon are looking to navigate this and your ideas around how investors should think about it.

**James Davolos:**

Sure. So I started off with more of a top down view, but we're also almost exclusively bottom up. But I think that unfortunately in the current environment you need to have a top down view, otherwise you're flying blind here. But fundamentally looking at the supply side, we continue to believe that natural resources are one of the most compelling investment opportunities. And a lot of it just comes down to the fact that not only has capital been starved from these industries for in some cases decades, but there's very little incentive and there's a lot of political pushback to actually do the right things to balance the market longer term.

But then that's also coupled with the fact that we have fairly resilient demand. And I think what a lot of the heuristic approach, especially with regards to energy consumption looks at is efficiencies and electric vehicles in the OECD world. But the real delta here is the non OECD world where, okay, China has its problems today, but then you've got a couple billion people in India, Indonesia, Africa, Central South America, where that's the real growth is going to be. And the other big problem is that we've basically spent 30 years importing disinflation in the form of cheap abundant resources and cheap abundant labor. A lot of that has been exhausted and now we're competing with those same countries in order to access the same labor and materials.





So we think the most pronounced area is going to be in energy because we think that demand is going to continue to grow for much longer than most of the international agencies and experts think, and then also plateau for a very long time after that. So in that scenario, the current capital expenditures just simply don't get you to where you need to be under any variety of scenarios.

But one of the problems with investing in energy companies is the capital intensity. So yes, there are one-off examples of very capital efficient companies, especially major integrated companies that have a lot of integration with downstream and midstream and different types of value added activities. But your pure play drillers, it's a tough business. You have high lifting costs, you have high cost of capital, you have rising reinvestment costs and reinvestment risks because the grades of resource are declining.

So our preferred modality to express a long-term structural view in energy is royalties. And that's one of the pillars of our real asset fund, the inflation beneficiaries, which at the end of the day it's really a real asset fund with our unique take on capital light inflation, beneficiary, real asset companies. In theory, all real assets do benefit to some extent from inflation, but those that benefit the most are those that can control the cost line. So it's fairly easy for all real assets to benefit on the top line, but if you can't control the cost line, you and your investors might not be all that much better off from that environment.

So at a very high level, again, royalties are basically instead of doing the exploration, the drilling, the transportation, the refining, you're simply taking a revenue interest off of the driller's activities. So again, ultra simplistic, if Chevron or Occidental is going to spend billions of dollars developing your land, you have an interest on gross revenue. So they could be producing at, let's say it's \$100 barrel oil, but their break even is 90, it's not, but I'm just giving you a hypothetical example. You benefit from the nominal price appreciation regardless of their net benefits.

So what that creates is an extremely high operating margin, even at the bottom or middle of the cycle, 70% plus. And then almost all of that gets converted down into after tax free cash flow. You would think that these businesses would be extremely richly valued, and in fact, in the private market you're seeing very high multiples being paid for smaller digestible size royalty packages. So things in the range of let's say, well very low, so millions of dollars all the way up to maybe 100 to 200 million. But there's really no scale to buy the really large packages. And this is evidenced by one of our top picks in the US, Viper Energy Partners.

So Viper is a subsidiary of sorts of Diamondback Energy. They have some of the best royalty acreage in the United States focused in Tier 1 acreage in the Permian Basin. They just did a deal where they bought about a billion dollar package in the Permian at a 15% unlevered free cash flow yield, which you're only paying for producing wells, drilled but uncompleted wells and permits.

So that 15% is at strip and strip prices are backwardated. Then you have all of that upside from exploration at a 15% steady state yield at strip. The reason why that exists is there's only one or two players out there that could even bid for a billion dollar package. Viper got the deal because they were able to actually go in with about a quarter cash. So again, looking a look through into Viper at the parent level at \$90 oil, you're buying this company again at a steady state, 15% distributable cashflow yield. They pay out about 75%. So you're getting at about 11% yield with 25% retained to reinvest and grow. And you're not paying for any of that optionality on the tail. So this is why we really love royalties, is if they have 30 plus years of produc-



tion, which they do, there's a tail there, which if you were to do a Black-Scholes model on 30 years of oil and gas revenue with effectively zero cost, that would break the Black-Scholes machine. It would be many multiples of the entire aggregate market value of royalties in the marketplace.

Another interesting item with Viper, because of unfortunately the market structure that we're in, they were a partnership where they could basically pass through taxes, but when we reduced the corporate tax rate to 21%, they elected in a check the box election to basically convert into a taxable partnership. In the eyes of Standard & Poor's and MSCI in their infinite wisdom, that is not eligible for index inclusion, even though it's effectively taxed as a corporation. They're converting to a corporation for precisely that purpose and we will be eligible for index inclusion once that's completed. Again, adding this robo bid because they basically have zero representation today because of the limited partnership structure.

One other name and energy royalties if you don't want to have exposure to US Shales is PrairieSky in Canada. So PrairieSky has almost 20 million acres mostly in the Western Canadian sedimentary basin. And a lot of people think about Canada, I think of this thick, viscous, heavy oil sand. They do have some exposure to that, but if you drill down into the Canadian energy market today, their conventional production, which is basically the equivalent of our horizontal fracking, is growing with incredibly low breakevens and incredibly value middle grade crudes.

So again, you have this really long tail option for PrairieSky where a fraction of a fraction of their 20 million acres are developed, but forget production growth, which I think there is embedded very strong growth with zero expense paid by you as a shareholder, right now, they're earning incredibly low realizations on their oil, which is basically Edmonton Light, that's not as bad as Western Canadian Select, but you can't get this really valuable mid-grade crude out of the country due to pipeline and export restrictions.

There's also AECO gas, which trades at a huge discount to Henry Hub and certainly LNG contracts internationally in Rotterdam and Asia, to the extent that there's any type of environment where they can access international prices. And we are seeing more LNG export and some pragmatism on that standpoint. You have an embedded uplift to the extent that they can realize better differentials over the fullness of time.

But we like the company solely based off of the fact that you have this really long tail could be over a century of inventory based on that very low developed 20 million acres. And again, I think the market just doesn't appreciate the nuance of the royalty business model. People want nothing to do with Canada, so many reasons why this is under owned and unloved in addition to Viper. But energy in general just comes out as very cheap with a lot of drivers that would correlate to this new world that it seems like we're all in agreement, we're entering a new economic paradigm where what worked for the past 30 years probably or almost can't work going forward, yet people have little to no exposure to the things that you actually do want to own.

**Grant Williams:**

Phenomenal. That's great, James, thank you very much. We'll keep sticking to this topic. I've got a bunch of questions on that too. We could be here all night. Adam, let's flip it over to you.

**Adam Rozencwajg:**

Sure, no thanks. One thing, I know we're trying to keep to this schedule and now you want to hear some of





how we position ourselves, but I'm going to tell you something else before I get into that because-

**Grant Williams:**

You can go wherever you like. The schedule's, the schedule, but Steph and I don't really care. We just wanted to talk to you.

**Adam Rozencwajg:**

Right. It's not quite live TV, but basically I have the mic, so let me go. One of the things that we found that was really interesting, and I think it ties together what Dave was talking about before as well. When we're talking about some of the larger macro problems here in terms of fiscal dominance that James was talking about in terms of servicing the debt and all this money that's been printed in this Friedmanite approach to monetary systems. One of the really keen observations we made, looking back again over about 150 years, when commodities and real assets as measured just by a simple commodity index relative to the Dow. So you have commodity prices, you have stock prices, just divide one by the other. When they get really cheap like they did in the late 20s, the late 60s, the late 90s and then again, right now, when you're coming out the bottom of a period where you hit the record low, every one of those times for whatever reason, and I think can talk about the reasons we think it might be, you saw a shift in the global monetary system.

Throughout the 1920s, Britain tried desperately to go back on the gold standard the pre-World War I classical gold standard. They finally gave up in '29 when Benjamin Strong died in the Fed. In 1968, everyone thinks it was 1971 that Nixon took us off gold in the US. It was actually 1968, and Johnson is the one who removed the gold backing of the dollar. Of course, the day you remove the gold backing, it doesn't mean you have no gold left. It just means that that's the day that effectively the gold standard, the Bretton Woods Standard ended, and by '71 we could no longer redeem those exchanges so we closed the window. And that marked the bottom of resources there too.

And '99 is one that goes talked about less. But Russell Napier talks often about how you have this no name system where basically all the Asian currencies pegged themselves to the dollar through the 1990s hoping that if there was a crisis, the IMF in the US would come and bail them out. That didn't happen, obviously with the Asian currency crisis and then all of a sudden they said, "Well, to hell with this, we're just going to peg it at an undervalued rate and trillions of dollars...

... we're just going to peg it at an undervalued rate, and trillions of dollars wound up flowing over to China and other Asian countries. I think that this idea of fiscal dominance and debt servicing problems, and just monetary disequilibrium at the highest level, actually is very commonly associated with these periods of real asset dislocations. And so that doesn't surprise me. And I think while I never want to bet against the US and the US reserve currency status, and stuff like that, to me you're primed for something like a bit of a disruption or a bit of a shock. And so it remains to be seen, but I would follow all this BRICS currency block stuff very, very closely because we're in the right moment in history for a bit of a shift in the global monetary system. So with that, how do you play it?

One of our highest conviction themes and ideas is US natural gas. And right now, just to give everybody a bit of a perspective, our core themes are US gas, oil, and uranium. Those are our three biggest thematic longs. And then we have halfway positions in copper, gold, and then small positions in fertilizer companies, and a little bit of coal as well. We're long only, so nothing on the short side. But I'll focus today on US



natural gas. And what I think is so interesting about US natural gas is that it is far and away the cheapest molecule of energy on planet Earth, bar none. And so if you look, the rule of thumb from an energy equivalent basis is six to one gas to oil. So right now oil's trading up through 90 bucks, it's having a weak day today, but basically it looks like it's on its way through 100 again for the first time this year.

And US natural gas still has a two handle on it. It's below \$3, \$2.85. Multiply that by six, you're talking about 16, \$17 oil equivalent. So you have not seen any of the move in US natural gas. And that dislocation has persisted now for almost a decade. This is not like it's a trade that has to go away, we've persisted at this for a long time. And the reason, of course, is the US shales. We've brought on so much gas in the US that if you're a producer up in the Marcellus, or even in Canada for that matter, it's all one big gas island here. You can't reach the export market, you can't reach the global seaborne price of 10 to 15 bucks today, as high as \$100 last year when Russia was really getting going in the Ukraine.

Why can't you access that price? We have more gas domestically than we can run through the LNG export infrastructure, and that has kept a lid on US prices. And we were talking to a family office in Saudi a couple of weeks ago, and we said to them, "How much does it cost when you fill up your car at the gas station?" Said, "It cost us 15 bucks." "Are you aware that you're getting subsidized gasoline?" Said, "Of course, we have this huge domestic supply, we get really subsidized gasoline." Ask 100 Americans, how many people realize that they have the cheapest natural gas, the cheapest energy in the world by 80%? None of them have any idea. And we consume, if you look at on an energy equivalent basis, our gas demand, natural gas demand, and are crude oil demand in the United States, it's about 60% oil, 40% natural gas.

It's a big, big, big hunk. This is not a small niche input that we use. We use this every day in all facets of life, and we think that dislocation after 10 or 15 years is about to end. And why do we think that? Well, we're bringing on a huge slug of new LNG export to try to be able to access that global market. Six BCF a day within the next 18 months. And the question is, are we going to be able to grow gas supply to meet it? And I think the answer would really surprise you if we said, how much has dry gas supply grown in the US in the last 12 months? We need, on a base of 92, 93 BCF or maybe a little higher now BCFA day, we need six incremental B's. So 6% call it, 7%. How much have we grown in the last 12 months?

The answer is zero. We hit 100 B's, or 100 and change B's on a dry gas basis about 14 months ago, and we are at that same level today. Now some people say it's because of pipeline takeaway capacity issues in the Marcellus, and that as soon as you can get a pipe in place, growth will just surge again. I'm not so sure. If you look at each well that they're drilling in the Marcellus, they're slightly less productive than the one that came before it. And so to me, that's not the sign of a basin that is under infrastructure bottlenecks. To me, that's the sign of a basin that's going through a little bit of a midlife crisis, and going through a plateau phase. And so I think that if you think of any commodity or any market in the world right now, in the real asset world, the ability for it to move up five or sixfold in the next couple of years, I think you're probably really only looking at natural gas. Maybe uranium.

I don't think oil can go from 90 to \$400 a barrel. I think you're really going to put a massive, massive air break on the world economy. But could US natural gas go from 2.80 up to 10 or 12 bucks? That would just put it in line with the rest of the world, there'd be no competitive disadvantage or anything like that. You might get export restrictions by the administration, and that's something else to discuss and think about. But I think that you could see a significantly higher price. Meanwhile, our preferred way to play that is a



company like Range Resources, and Range is a company that has what we think is the best remaining asset base in the Marcellus. I think we've become fixated on looking at asset quality and remaining inventory, because it used to be, just a couple years ago, that production growth was enough to get a bid under these stocks.

That's obviously long gone. Dollars per acre, probably from a decade ago, no one remembers that. Now I think you're developing a scarcity issue with these companies, and I think investors are going to be forced to realize that some companies have high quality remaining acreage and others don't. And James was talking about high multiples that are being paid in the private royalty markets. And what's super interesting, we have a portfolio of some private royalties at our firm as well. And so we see that market, and we see where it's transacting. And I think in some ways that, maybe not always but certainly now, has become the smart money. These are insiders that are operating in West Texas or where have you, and they understand the trends they're developing in the industry. And in the last six months we have seen a huge scarcity bid put under assets that have remaining undrilled locations, like in some cases approaching almost unreasonable.

And I think it's because people are beginning to realize that a nice acreage parcel that has 10, 15 years of tier one drilling inventory is almost an impossibility now to find. It is becoming harder and harder and harder. And one of the few exceptions, obviously I'm talking my book, but we wouldn't have the investment if we didn't think so. One of the exceptions would be a company like Range, they have about 450,000 net acres in the core of the Marcellus, the liquids rich part of the Marcellus in the Southwest. They have some of the lowest operating costs, the lowest finding and development costs. They were a perennial hedge fund short favorite. And part of the reason for that was that they made a really ill-advised acquisition back in 2016. They bought a company called Memorial Resources to try to diversify out of the Marcellus for some asinine reason.

I think they had the hedge funds chirping in their ears all the time that they always had these infrastructure basis differentials coming out of the Marcellus. They said, "Well, why don't you buy something in the Permian?" They made this really expensive acquisition, did not pan out. Luckily we didn't own it through some of those worst days, but at a certain point in 2018, they were up to four turns of leverage after they had debt financed the thing. That's all been worked off. The management team is largely new, they're not the same guys that did that. Which is a shame, because the old management team is a capable team as well, but they made a really bad call there, and so out they went. But now they're less than a turn of leverage on them. They're trading it 3, 4, 5 times free cashflow, depending on what gas price.

I'm not talking about using my 12, \$15 gas price long-term assumptions. Even at the strip you're talking about less than four times cashflow. The stock is run, it made a low of \$2 back in 2020, it's 10 bucks today. But very easily, even at the strip, you're talking about a \$35 price target. And if you get a good strong bull move in natural gas, the stock could be 100 bucks easily. I think that there's strong, strong, strong upside potential available in the name, and it's something that's rarer and rarer. It's a company with good undeveloped tier one assets in a commodity market that could rerate four or fivefold.

**Grant Williams:**

Perfect. Thanks, Adam. All right, Dave, last man up.



**Dave Iben:**

All right, sounds good. Probably not surprisingly we agree with about everything that's been said so far, but we do have some thoughts that can hopefully augment it. What we've been doing for the last few years is boring our clients with story about a guy from 300 years ago named Richard Cantillon who he was working with John Laudner in the whole Mississippi scheme. You saw what money printing could do back then, but he came up with something known as the Cantillon effect. Essentially saying money is non-neu-tral. We talk about Friedman saying if you print money, it causes inflation. Cantillon saying, yeah, it causes inflation, but it's not that simple. He has this analogy that if you double the amount of water, let's say in the Mississippi up in Minnesota, people in New Orleans would have no idea what's happened. As the money came surging down, it would go over the banks on one side but not on the other.

It would do it in waves and fits and starts, and it would get to St. Louis one time and get down to another city later, and get down to New Orleans much later. And so we think that's instructive. History shows when you print a boatload of money, it tends to go into the bond market. Especially when they're directly buying the bonds, as they so often do. The way we calculate inflation that's not in the CPI, people say no inflation. And then the lower bonds entices people to go into the stock market and into real estate, and into other things, and then they run up. That's also not inflation, that's a bull market. Over time, if the price of houses are up a lot, people start building more houses, and so then the price of lumber and copper goes up. And when they go up, eventually the wages of carpenters goes up, and it starts to migrate through the system and it does it unevenly.

And so I think when people believe inflation is over, what they're really seeing is the inflation is migrating through the system. So different points. One is that volatility is not risk, it's our friend. And as water comes zipping up and down, we've seen in recent years how the price of oil can go up and then down, and then up and then down. Recently with the uranium, it had that big surge then it fell last year, and now it's heading back up to highs, although nowhere near the highs of 15 years back. But these have created opportunities to buy and sell. Looking at a lot of things you've heard about the supply and the demand. As this money transitions through the system, we don't know for sure where it's going to go, but with fairly good likelihood we can assume that things that are valuable and things that are needed and things that are scarce will likely be the things that go up.

People seem to like electricity and energy, and metals for their EVs and windmills, and things like that. We believe that, as you've heard, the case for uranium and natural gas and copper and other things, it's pretty compelling case. We agree with all that. We also agree with Range, one of our big holdings for a long time. And we actually thank both of our colleagues here back in 2003 when we were maxing out on energy and trying to do little videos and things to keep our clients calm while we were buying energy when everybody knew it was going away. We drew on the research of both these firms, and it was very helpful. Thank you. We also agree with the idea of asset light royalties being a good way to go. We own a good degree of royalty firms, and also have some private royalty, so we have no problem with that.

We would suggest that royalties have done fine, we agree there's a lot of upside. Left in the dust is the higher cost, higher optionality things. If this inflation is going to migrate through the system and lead to higher prices of copper and uranium and gold, maybe people should consider putting part of their money in some of these asset heavy things. Certainly will agree that a lot of the costs are going to come through and hurt us, but a lot of the costs are fixed, you already own the resources in the ground. And so we've liked





owning the higher optionality ones, like Range, that had longer reserves, and some of the smaller uranium companies have done very well. We still like them. The smaller gold companies have been left in the dust, and that we think is an opportunity. Nobody likes them. Off on a tangent, in 1999 everybody kept telling me, "Well, we're worried your portfolio is so risky."

And I said, "Well, why is it risky?? And they said, "Well, because they're small caps." And I said, "Well, big companies, small caps, they're small caps because the stocks have gone down so much." And now we're telling the same thing. We own some of the biggest reserves, some of the biggest undeveloped reserves in the world that have small caps. We think that's not risky, we think that is opportunity. And so, let's use gold, because we think that's the cheapest. But most of what I say will apply to almost all commodities right now. They have not kept up with the amount of money printing, so possibly that money migrates in as Cantillon suggested, and eventually gets into that. We've heard also that the supply/demand story bodes well for these commodities even without the money. So got fundamentals leading the commodities higher, you got money supply leading the commodities higher. We're happy to own these commodities.

However, if the price of gold has gone nowhere, while the money supply has doubled, and the gold stocks have fallen in half over the last 10 years. Some of that's deserved, but is all that deserved? Maybe there's a good opportunity there. But as they say, when people have a different opinion than you, you want to understand why. Why are these things so cheap? Why are gold stocks cheaper than gold? And why are the small large resource things even cheaper than the larger ones? That's interesting. We go to the BMO conference in South Florida every year, it's interesting to see all these gold companies and say, "What price are you using for gold?" They say 1,400. Now granted, gold's just fallen from 2,000 to 1,800 like it seems to do all the time, but it's been a long time since it's been 1,400.

Barry was using 1,200, I think they raised to 1,300. We've heard already about shortages of supply. Well, if you're using 1,400 gold, no one's going to build a gold mine. And you'll notice nobody has, not counting some small ones. So no supply coming on, we think that's pretty interesting. But in addition to this, this is the key. We think people are completely misapplying DCF models. When you talk to miners you say, what do you want? Any resource company you want, as you've already heard, big long life reserves. If people aren't finding reserves anymore, you want to already own them. So that's what you want to own. If you're talking drugs and clothes and consumer goods, and anything. You ask analysts, what are you assuming? Oh, we're assuming prices go up 5% a year, plus or minus. Great, every industry. What about commodities? Well, we're assuming the price drops 5% a year.

And, why is that? Oh, we're using the DCF. So if gold's worth 1,400 today, if you pull it out of the mine a year from now, you got to multiply that by 0.95. So the price of gold is falling versus dollars. But the whole point of DCF is dollars fall against goods and services, so they've got the model flipped upside down. Which is the beautiful thing, because the longer life the reserve, the better. The longer life the reserve, the less it is worth on the models people are using. And so they're basically saying, if you're not going to pull it out of the ground for the next five years, it is not worth pulling out of the ground. They don't DCF the cost of pulling it out of the ground. And so we like all the other stocks you've heard about, but we think some of these uranium, gas, silver, gold companies that have lots and lots of resources, but they don't have a mine, they think they're worth nothing.

We've heard earlier about Black-Scholes. If instead of using a DCF and saying gold's going to lose 5% a year,





you say, what's the chance gold goes above 2,000? The chance that it does that this week are nil. This year, maybe not. This five years, probably. 10 years from now, it's almost inconceivable it doesn't. So DCF model says it's worth less every year, a Black-Scholes model says it's worth a lot more every year. On a 20-year basis we're finding the difference between you lose 73% of your money versus it goes up seven times with the length of the option. So we like high optionality. And so, we like the ranges of the world on the gas side. We like the little fissions and things like that in the uranium side. And in gold we like things like Seabridge or things that don't have a mine.

People that really like risk, Northern Dynasty in Alaska, the Biden administration is trying to make for sure it doesn't get built, so maybe it won't. But we're talking about \$100 billion dollars worth of metal that's selling for 100 million, lots and lots of upsides. If we can have a diversified portfolio of that kind of upside, that's what we find really exciting. And last thought, I'm one of the few here that's old enough to remember the 70s. But the 70s was the last time you had an environment like this, guns and money policy and a loose Fed, and worldwide turmoil and things like that. And owning optionality on oil and gold and agriculture and those things, exactly what you wanted to do then. We think we're there again.

**Stephanie Pomboy:**

That was awesome. Blake you referenced, Dave. Here we've got gold down to 1,830. The last week has been absolutely brutal. And in the meantime, every day you see headlines about other central banks buying more gold. And then there was a story in the New York Post this week about Costco has one ounce gold bars, but they can't keep them in stock because they're going so quickly. So there's this divergence, which we are all very acquainted with, between the paper market and the physical market. And to me, this is just a never ending source of frustration, but also confusion. Because you'd figure at some point people would recognize that the physical demand is clearly strong and growing, so why do these traders want to position against gold? Wouldn't they eventually figure out there's more money to be made joining the trend than fighting the trend? Or am I missing what's happening here entirely? Help me, Dave. Help me.

**Dave Iben:**

The first quarter of 2000 I actually went into a meeting with my biggest client and said, "You guys have a decision to make. Because either the market's insane or I'm insane." And there was nervous laughter around the room, but I said, "I'm curious here." And thank God in that turn it turned out to be the market was insane, and it all ended well. But the last 10 years of zero interest rate policy, I didn't think that was possible. So here we are again, either the market's insane or I'm insane. Maybe all of us in this room are insane. But if we're not insane, the fundamentals will always win out over the short term market moves. Now, 10 years is something I didn't expect the market to stay irrational that long, but that's exactly what you want to say. You can't buy gold, you can't buy platinum, you can't buy these things, but the price goes down every day. That has to end well, doesn't it?

**Stephanie Pomboy:**

I would've thought it would've ended better by now. But it's been, like you said, it's been very long and painful.

**Dave Iben:**

And considering the risk reward, I don't see how anybody can not have some commodities in their portfolio, especially gold at this point.



**Adam Rozenchwajg:**

Let me just jump in if I can. It's Adam, since I don't think we have a video going on this. If you talk about an area that is really, really hated and unloved, gold certainly meets that criteria. And that's why we had our gold exposure basically down at near zero back in 2020. We allocated as much to energy as we could, but we've been adding and we've been adding and we've been adding. Because in 2020 when I was telling people why you should be bullish of energy, no one wanted to hear it. And everyone was gagging and their stomach was turning. And now I get invited onto the conference circuit to talk about oil and energy and uranium. And I've lost that visceral reaction on people. And then they say, "Well, what do you like to buy now?" I say, "Gold stocks." And I say, "Oh, there it is." They start to lose their lunch all over again.

That's where you definitely want to be. If you want to look forward in the next five, six years, gold stocks are the most unloved, they're the most depressed. You talk about why they haven't performed better. And I think obviously if you look at just the sheer amount of money that's been printed, gold has a strong bullish story. The last time we got to these levels was back in late 1990s, and my partner Lee had a big article in Forbes where he put a \$2,500 price target on gold. Remember, gold had fallen from 800 bucks to 275 over 20 years. It was a bold call. But it was based on how much money was outstanding versus the value of gold. And that's where if it related to the old historical highs, it should go.

If you do that today are at eight or \$10,000 an ounce. The people that like gold, that's the type of analysis that they're doing. And then people say, well, why hasn't it acted better in the last 12, 24 months? And I think the big reason there is we went through a really aggressive rate height cycle, and we have real rates now that are not conducive to gold. And so I think the more interesting question is why gold has held in as well as it has. And the answer there is the central banks. The central banks have bought more gold in the last 12 months than at any time since gold was money. It is more monetized by central banks now than it was since the 1960s. It's incredible.

You have China, you have Singapore, you have Brazil, India, so something is happening. The central banks have really stepped in, and I think that's helped to absorb this real rate cycle that we've been in the last 12 months. The question is where you go from here. The Western speculators are just dumping gold. If you look at the shares of the GLD, they come into the market every day and they sell gold and the central banks are buying it. And the question is, if you turn that Western speculator and they run up against the central bank buying, that's when you start to get hundreds of dollars, and now it's on gold, in a short period of time. You're not there yet. What changes the mind of the Western speculator? If I did that, I wouldn't be on these podcasts talking about fundamentals.

**Stephanie Pomboy:**

The irony though, Adam, with that, I totally agree with that analysis, and I like you share my sense of being impressed about how well gold did in the face of what I never imagined the Fed would do in terms of rate hikes last year. But what I don't understand now is that there's a universal conviction that the Fed's going to pivot and the question is just when, and they're building in, what is it? Four rate cuts next year. And if they actually believe that, why isn't gold now moving up? It withstood the pressure of the higher rates. You'd think if those rates are now going to reverse, gold should be taking off and instead it's sold off enormously in the last couple of weeks. So that's my struggle.



**Adam Rozencajg:**

I agree. I think that there's a fairly universal belief and people disagree with me, but I think this has been true throughout. There's been a universal belief so far this cycle that the Fed has this all in hand that they're going to thread the needle. And even when you had the Wall Street Journal with inflation headlines, everyone basically believed that Powell was going to figure it out. You never lost the anchoring on the long end of the curve. You never really lost the tips market. You never had this inflationary psychology. So I think that that's part of it too. People are now pricing and rate cuts next year, but that's in the view of moderate inflation. No one thinks that inflation's coming back, and I think the biggest surprise is strong inflation in the back half of this decade.

**Stephanie Pomboy:**

That's manifest in the dollar strength, that conviction in the Fed and that they're going to stick the landing for the first time in the history of the Federal Reserve. Anyway, Grant, I'm going to shut my mouth right now, actually.

**Grant Williams:**

James, I want to come back to you if I can, the backdrop to this whole conversation. It's been fascinating to listen to all three of you and I've got a ton of questions, but I want to go back to a macro one if I can. First, James, the macro backdrop that you laid out, I think it's almost impossible to disagree with any of that, but my question is that setup has been the case for quite some time. We've all looked down the road for probably 15 odd years now, and we've seen us heading towards this point. It certainly feels every day like we're getting closer and closer to a moment where all of this stuff matters. All the stuff that anyone that's looked at commodities, looked at money supply, looked at all these things we've discussed from a macro standpoint where we find ourselves today has been inevitable.

There was no other way as you say that, that the options available to them just don't match up. So I'm just curious as to what is it that finally triggers this. What is it that now, because I have a gut feeling that we are at a place where all of the things we've been talking about is finally going to matter, and the world we've described at the top of the show is going to manifest, but I'm curious if you have a sense of what it might be that will finally make that matter to enough people that it becomes a self-fulfilling prophecy.

**James Davolos:**

I think the cat is out of the bag where inflation was here. It was almost double digits in the U.S. It broke double digits in the UK. And one thing people really need to understand is that inflation and all of these dynamics are very psychological. Now that people have seen these huge upswings in inflation where we've been told for maybe for years and years, we won inflation, we can't get it.

Now that we've seen that it can come back and then when people see that within the context of what's going on with deficits, what's going on with unconventional monetary policy with easing and non-conventional bailout like we saw in the UK with LDI, we saw it in the U.S. both with the repo market again with original banks, we're in this era of no more moral hazard for risk assets. I think that now psychologically, people understand that there are consequences, where for much of the era from call it 2009 to 2019, there was this suspended belief that, okay, we can run basically 0% rates, we'll grow 2% real, we'll have 0% vol, and the S&P will grow earning 7% a year and it's just a happy, lovely ecosystem to invest in.



That psychology I think is broken. I think there's a lot of reasons why you're seeing the market move the way it has this year. A lot of it is technicals. A lot of it is market structure, but I think the last straw or shoe to a drop here is what happens to what are pretty aggressive earnings assumptions, especially within the mega tech complex. Once that psychology breaks, then I think the focus comes back to where everybody on this call of is and then that's where I see, I think you do get a big move. And then when it moves, the big institutions, you can't put hundreds of billions of dollars to work here. So the incumbents that are sitting here, to Steph's point, getting bludgeoned on certain days like today. We're the ones sitting here owning this stuff and unless we're forced sellers, we're not going to be sellers and someone's going to bid this up.

**Grant Williams:**

This inflection point that we've all talked about and looked for, to your point about inflation, the fact that it got so high and the fact that it's slowed down but it's still rising seems to be something that people misinterpret. They all think inflation's gone away. It's here. It's just slightly slower. The equity market, if you look at the charts of bond market and the equity market, there's a great chart of the 10 year in the S&P 500 going around today and another chart of stocks versus commodities and the disconnects are so glaring now. Truly, truly extraordinary even through some of the things that we've all sat and witnessed, what do you think it takes for the equity market to crack?

I'm happy for anybody to answer that if they have a strong opinion on it, because I keep looking at it and I understand your point about the tech complex, James, and we thought that maybe six months ago in March when Silicon Valley fell over, we might see some of the tech complex start to wobble when it did for a little while, but damned if they're not back again. What do you think it takes for equity investors to look at the bond market, look at the macro backdrop, and understand that to your point earlier, Adam, the valuations are just way too high?

**James Davolos:**

I'll start and be very quick as where I don't think... I think that the moral hazard component is just so pervasive now that I don't think we're going to have a free fall the way that we've seen in prior types of dislocations. I think that there's discontinued belief in a safety net from policy support whether conventional or unconventional. So I think the more likely scenario is a re-rating of the companies that just don't make money, and you've seen that with a lot of profitless tech hope turns afloat eternal with AI and mega cap tech. But I think a more likely scenario is a re-rating in the low quality businesses which could be severe, but then a grind lower to nowhere in the large area. Because again, I think that the preconditions for a free fall might not exist the way that they have in prior cycles, but would love to hear Dave and Adam's view on that as well.

**Dave Iben:**

Sure. I can bite then agreeing with all that, but to add a little more on the slow grind of the large stocks, once again remembering the '70s and why it is that Warren Buffett was able to buy a Coca-Cola for two and a half bucks or whatever is because in the '70s with very different world than what we've seen in the last 40 years, if you can push prices 5, 6% a year and your cost of goods are going nowhere, your margins go up. But in the 1970s if you were Coke or Kellogg's or people like that, you raise your price 5% a year and you watch the price of sugar and aluminum and cardboard and those things go up 10% a year, your margins went down. People hated these quality moat companies back when I came into the business in the early '80s because it was a different environment.





If we are going back to where costs are going up that might accentuate the slow fall of some of these big companies, people don't expect their margins to start going down again. And it should be interesting, maybe it will be like the '70s if the profitless tech companies, of course, are in trouble. NVIDIA, we'll see if trees can grow too high, but if the big companies are going to have profit margins and the money's going to roll in. By the end of the '70s, the largest market cap on earth was Schlumberger. I believe it was an entirely different world. Maybe it won't be so much the market getting routed is just to being very volatile and maybe this is just a dream. The money goes out of the expensive stuff into the stocks that we're all talking about today.

**Stephanie Pomboy:**

I share that dream. Just to underscore your point though, Dave, the forecast, the consensus estimate for earnings next year is 12.6% growth and the consumer discretionary expectations are higher than that. So where that margin expansion's going to come from escapes me because it's pretty clear consumers are spent up and lent up and you guys, all three of you, have outlined very compelling cases for higher input costs, substantially higher input costs that are going to stay higher for a long time so that those input cost pressures are not going to go away at a time when they don't have much ability to pass them on as near as I can tell. Adam, do you have any thoughts on this conversation about the inflation phenomenon and why these valuations are so stretched in the equity market?

**Adam Rozencajg:**

Yeah, I do actually. So I think there's two interesting things. One from a straight valuation perspective and then one from how inflationary expectations are actually impairing company's abilities to operate and things like that. And neither of them are properly understood or maybe the first is a little bit better, but obviously you have these companies with high valuation still. You have, like you said, NVIDIA growing to the sky and things of that nature. And typically when we get these periods of easy money and these periods of ample credit creation, you see this huge bull market in these abstractions and several of the books going back, looking at financial history, do wonderful jobs of talking just about how bizarre and abstract things get. You have time and time again through these massive, massive bubbles in bull markets in history. You'll have basically the equivalent of SPACs.

You'll have the idea that things 20, 30, 50 years in the future are just as valuable as something today, and that's really as much as anything else. What happens when you reset inflationary expectations? You bring multiples down in this high growth, high multiple stocks, and you make something worth much more today than something 20 and 30 years out. And in that pendulum swing, that's when it seems as though the widget maker does well and the tech companies do poorly. But really what you're doing is you're pulling the value of some of those cash flows closer to today and away from the future. So what is it that ultimately triggers that flow of capital back into value, back into real assets? It's tough to say, but we all know looking at this Minsky moments and looking at these periods of bubbles pricking and moving back, it's going to be in that department.

But the other thing that I think is really important and is really misunderstood is just what an unbelievable impact 10 years of cheap energy and cheap capital has brought to the economy, and it has led to huge distortions of capital, huge malinvestment, and there was a great back... Following the Mississippi bubble, there was a company that was floated and listed that was looking to ship ice skates to Brazil and that was always the poster child of dumb business ideas because, of course, there were no ice rinks in Brazil. And





I wonder if solar panels in Germany where there's no sunshine will be our version of ice skates to Brazil and it is been entirely a function of free capital and really cheap energy. So things that have been energy intensive and things that have been capital intensive have been allowed to proliferate and we're seeing the severity at which that is now becoming undone.

And you look at Ørsted over the last few weeks and they're impairing project after project and they're going to walk away from several offshore U.S. wind facilities notably, but this is just the start. There's been all kinds of business models that have been built on cheap energy and cheap money. And so I think you'll get it from valuations, in which case you'll have the virtuous circle working against you in reverse, but it'll also work against you and fundamentals in the sense is your business model set up dependent on cheap money and cheap energy because those have been at the cheapest levels. We've seen Six Sigma, whatever, in human history in the last decade together and that's now in the process of unwinding. So what does that mean to the underlying business models, I think, is less well understood.

**Stephanie Pomboy:**

Isn't that describe crypto?

**Adam Rozencajg:**

I think it does. I think it really, really does.

**Stephanie Pomboy:**

Just saying.

**Adam Rozencajg:**

James might not agree.

**Grant Williams:**

Dave, let me ask you, and Adam, I'm curious to get your input on this as well. From a practical standpoint, there are people who are buying into the commodity narrative. They look at all the things we've talked about, and they can see that there's a really strong case to own commodities now, but trading and trying to own commodities at the right point in the cycle is an incredibly difficult thing to do if you are not a commodity specialist because the cycles are so painful to go through and everything we've discussed speaks to that point and they're not doing what they should do and they don't tend to do that for a long, long time before they really take off. So from a practical standpoint, help people understand the right way to go about positioning and position sizing and mentally handling, investing at the early stages of a commodity bull market, because it's really easy to get thrown off the horse. Dave, I can come to you first and Adam, maybe you could chip in as well. That'd be great.

**Dave Iben:**

There's maybe lots of right ways. We don't pretend to have the right way, but approach that works for us. Commodities may be boring, but boring can be good in this world of AI and disintermediation and great businesses becoming obsolete overnight. A lot of commodities aren't in that camp, but it'll take a lot of change to make it to where people don't need copper. Maybe someday we're off hydrocarbons, but not in my lifetime. If things are useful and needed and scarce, that's a good start. Then things like lithium are tougher because the bull argument's good, but the bear argument's there too, and so it's up to each, but



to us, copper and nickel and gold is money and gas and oil are all things that make sense to us. Then the second thing we do is look at what we call the incentive price, equilibrium price.

So if the current price is allowing people to make a lot of money and they're plowing that back into new supply, then one can worry about whether the price is too high and whether the cycle is going to end. But if prices are below that incentive price, if people, they might make money on existing mines, but can they make money on an incremental mine or well? If they cannot, that makes us feel a little better. So we'll talk to people about what they see the prices is. More importantly, we will look at their actions. If people are bringing on, if they're drilling lots of oil wells or they're building tons of nickel mines, then we can worry. But if you're not seeing that, we feel pretty comfortable. So buy a commodity that's cheap selling below its cost of production, no supply coming on, and buy the stock for cheaper than the metals worth, that allows us to sit tight when things temporarily look bad because eventually, if I'm right about those fundamentals, the price must go higher.

**Adam Rozencajg:**

Yeah, I think that's all very well said, and in fact, we like to look at a lot of the similar features like a long-term equilibrium price and things of that nature. But one thing that I think has to be really well understood in the commodities and natural resource markets is that they're volatile markets. I think that a lot of people try desperately to try to make them something they're not and to try to reduce that volatility. Either they can do that by staying out of the resource markets altogether that tends to be what people do at the bottom, they can try to time it, which some people are really good market timers and other people are not. We're not particularly good market timers. And then the third is to try to hedge it and they either hedge it through equity long-short strategies of which we actually managed one for 10 years and know all the pros and cons to that, or private equity where you just spread the marks out over the years and say, look, it's not so volatile at all.

Our approach is a little bit different. I think you just have to appreciate it's a volatile space and it's volatile because your top line is extremely volatile. The commodity markets from \$130 oil down to minus 47, you were talking about a surplus to a deficit of plus or minus less than a million barrels a day on 101 million barrel a day market. So everything on the margin has these huge amplified effects in the commodity and it's a volatile space.

So instead of that, I think what people need to do to get their arms around it is realize it's volatile, understand that it's also not really correlated to other parts of the market, and so there's a benefit to it. Now, you can take in my mind one of two approaches. One is to set it and forget it and realize that you have natural resources which are less than correlated to equities, and you plug them in at 5% and you just leave them there and I promise you, over any full cycle, you'll be happy that you did so because they'll work when other things don't, or you try to be a little bit more tactical.

And if you want to be more tactical, what you should look for is periods where you have under invested in supply, and that to us is the most predictive indicator for a really strong resource commodity and resource stock bull market. In 1929, you hit a period of time where commodities were so cheap relative to the broad market that if you bought a basket of commodity stocks right at the market high before the depression, what are perceived to be these very economically sensitive oil and copper stocks, 10 years on that portfolio had doubled. The broad market was still down 50% and the price level was off still about 35%. So they



were volatile during that period for sure. There's no two ways about it, and if you were weak hands, I'm sure you got shaken out. But if you bought and held when commodities were super cheap relative to the broad market, when the weightings were very, very low against their historical levels, it helped to protect you over almost anything that happened in the next 10 or 15 years.

That was true during the inflationary 1970s, during the huge deflationary 1930s, and during the just very turbulent but ultimately sideways market of '99 to 2010. You had three recessions, you had the Y2K, the 9/11, and the GFC and major market pullbacks and the whole bit and the best place to be, again, these economically sensitive commodity stocks. So that bodes well for where we are today. So my two preferred ways to explain the space to people is to just say, look, I think it really should be a permanent asset allocation, don't try to time it. That's my own bias talking because I'm not a great market timer. And if you do want to get tactical, look for periods of time where it's super cheap relative to the broad market, and that happens to be right now.

**Grant Williams:**

Fantastic. That's really helpful. Dave, can I come back to you? Somebody else you said there that I'm curious to get a little bit more color on, and that's this idea of flipping the DCF model, which I haven't heard people talk about, and it's got my head spinning. So perhaps you could just give us a sense of what happens in the commodity space when you do flip that model to help people understand what a difference that makes.

**Dave Iben:**

Yeah, it is really interesting to me because I've been talking to people about this for a couple of years and not a single person has told me I'm wrong, but nobody's changing what they're doing. It's interesting to go these, I'm talking buy side, sell side, the companies themselves. You go to these conference and say, "Why do you like the dollar?" "No, I hate the dollar. I like gold." "Well, what gold companies you buying?" "Well, we're buying the ones that turn gold back into dollars as fast as possible." They're like, "No, you've got it backwards." And so I don't know. I'm waiting for somebody to tell me where I'm wrong on this process, but until they do, I think we're onto something. I think that the market is putting the lowest price on the things that are the most valuable.

**Stephanie Pomboy:**

They seem to do that for long stretches of time frequently.

**James Davolos:**

Even when you speak to management teams and investment banks that are promoting these management teams, they're still using that same backwards framework. So it's almost like, because people have used it incorrectly for as long as they have, people just accept it as the right way to do it, industry-wide. And so any deviation to just using a PV10 at strip with these really high discount rates and backwardated assumptions is just heresy when there's no pragmatism in thinking about how to value anything within these subindustries that we're talking about today. So I think that what Dave's really getting at is that there's an enormous opportunity for a valuation reversion in the space under static pricing, whereas the rest of the market has these really ambitious multiples where I would argue there's very little potential for any type of multiple expansion, whereas even under the status quo of energy of gold, of uranium, of copper, a simple reversion to a reasonable multiple of these companies will generate a more than satisfactory



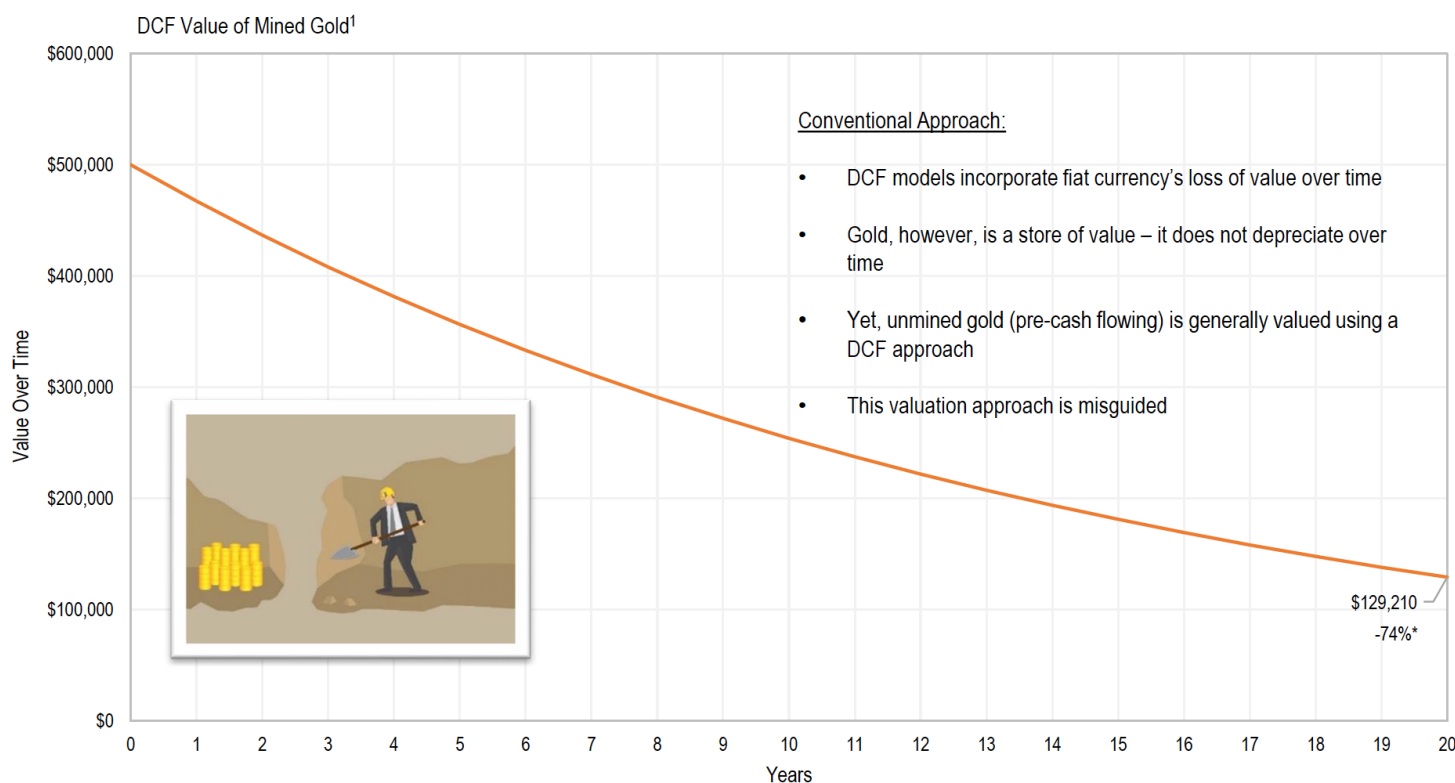
real rate of return.

**Dave Iben:**

Regarding the second part of your question, I think I didn't answer that. I got this chart I can send you. I love it. Nobody else around here likes it, but it basically shows over 20 years. If you say, all right, I've got a gold coin, what's it worth? I bury it in the ground, and one year, two years, up to 20 years, what's the value of that over 20 years? The DCF, I think it loses over 70% of its value at 5% discount rate. A Black-Scholes with, I can't remember, 10% volatility or whatever. The value increases seven fold. So 700% up versus 70% loss is the difference between those two models. We can argue which model's better, the truth may be somewhere in between, but you can drive a truck through that.

## DIFFERING OBJECTIVES AND PERSPECTIVES

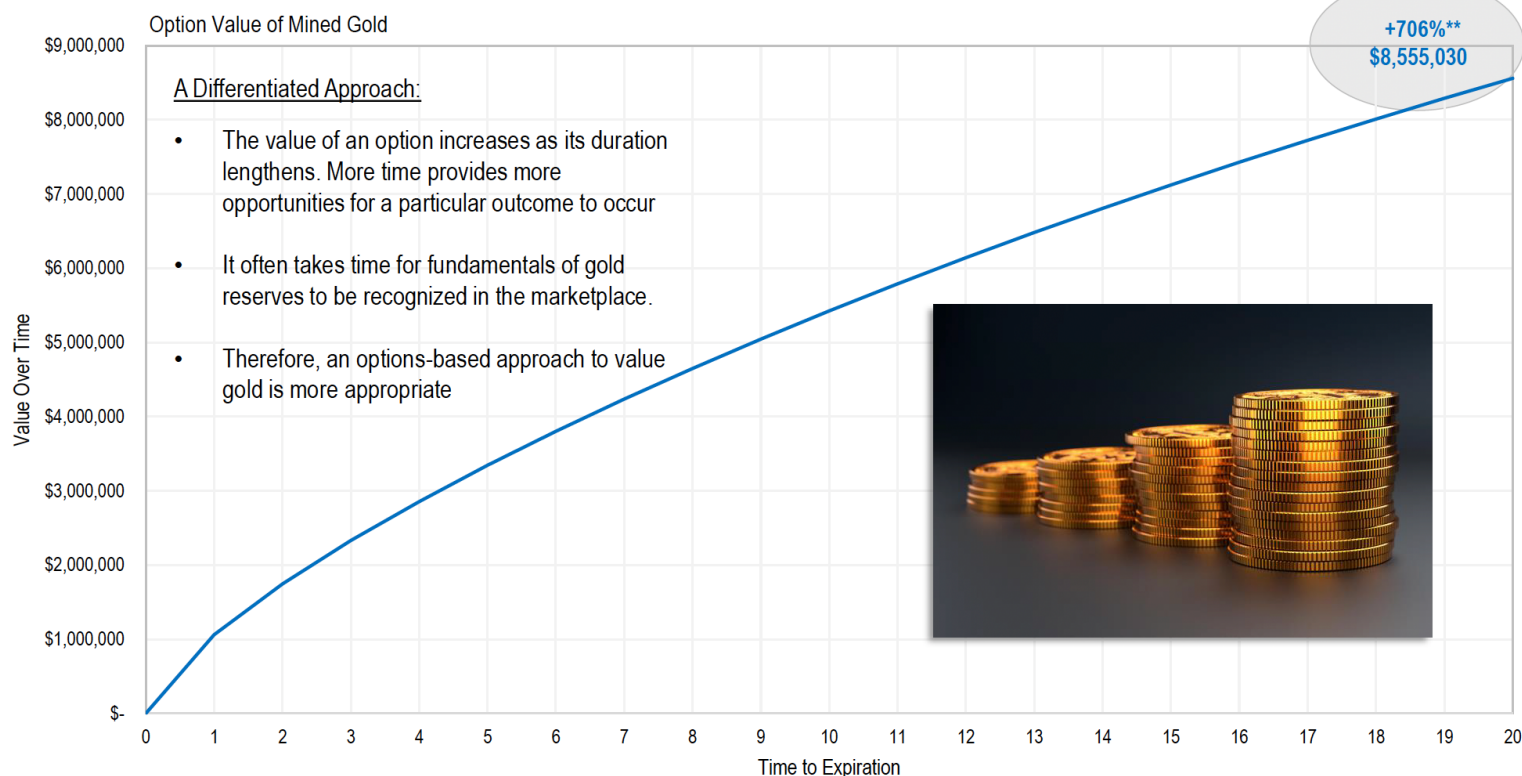
Is gold worth less when received in the future?





## DIFFERING OBJECTIVES AND PERSPECTIVES CREATE RETURN POTENTIAL

Does the likelihood of substantial price appreciation increase with time?



**Kopernik**  
Global Investors, LLC

\*\*Option premium value on Day 1 using Black-Scholes model  
Assumes Gold price of \$1,750 | Assumes strike price of \$1,800 | Assumes interest rate of 3% | Assumes volatility of 15%  
Source: Kopernik Global Investors

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### Stephanie Pomboy:

The mirror image of this, which I think is fascinating, is our deficit accounting math, which James, as you said at the top, assumes no recession and no real runaway inflation or anything like that. And also the pension math, which in the inverse of what you're talking about here, Dave, assumes 8% returns infinitely into the future when an 8% return doesn't even exist today. So, it's the exact flip side of that. But anyway, we should probably try to tie this up a little bit. We've been going for a while here. Should we see if there's one more question?

### Grant Williams:

I'm going to hog one more question if I can, and then perhaps we'll let you guys either sum up or ask a question of one of the others if that'd be okay. But Adam, just coming back to something you threw in casually and it's a subject that's drawn so much debate in the last few months and that's BRICS. You mentioned the BRICS and how important it's to watch what the BRICS are doing.

And firstly I couldn't agree more, but there's just an entrenched position on both sides of this. People are either saying that BRICS are completely irrelevant or they're going to come up with a new gold backed currency that's going to end the dollar tomorrow. It's one of the two and there's nothing in the middle. So





from your more pragmatic view about talking about watching what they're doing, what's your assessment of what's happening vis-a-vis the BRICS and either a currency or less reliance on the dollar?

**Adam Rozencwajg:**

It is a very polarizing question and I think if everyone admitted to themselves what they know and don't know, everyone would say, "We have no idea." But one thing that is changing right now is the way people are beginning to settle bilateral commodity trades. And the reason that that is so important is that if you go back, and there's been no shortage of people that have been talking about the demise of the US dollar as a reserve currency. And they've been saying that for, I don't know, probably longer, but certainly at least 20 years that I've been reading them. They probably, I presume there must've been a huge number that when the US dollar went off gold in 1968, '71 must have been calling for the end of the US dollar as a reserve currency then too. But in any event, since certainly the early 2000s, the argument has been large and widening deficits.

The argument has been political gridlock and in recent years, a retrenchment from projecting power on a global geopolitical basis, it was probably culminating with the withdrawal from Afghanistan earlier in 2022. So, you could make the case at any point in the last 20 years that the conditions for the reserve currency status of the US dollar are becoming less and less and less. The problem was you weren't seeing any evidence of that anywhere. And the classic example that people use is that when Australia sold coal to China, they did it in US dollars. Obviously they didn't have to, they could have done it in renminbi or Aussie dollars or any other currency, but it was done in US dollars. Why? Because that was a hundred percent of global international commodity. Trade was settled in US dollars.

Several things have happened in the last 12 months, not necessarily changes to all those preconditions for why the US dollar could lose its reserve currency throne, but rather examples of how it is currently happening now. You have Brazil settling both iron ore and soybean trades or proposed to in renminbi. You have even what I think is one of the most fascinating ones is Total has agreed to sell LNG to China, settled in renminbi. So that's not Brazil, it's not India, it's not as stated, it's a private company, French to boot. So you're starting to see now the beginnings of a change in how we operate on a global basis and part of that is deficits. Part of that is what we saw to the treasury markets a couple of years ago because remember you would recycle all those excess dollars back into treasuries, the volatility there. Part of it is weaponizing the US dollar system, which we've seen several times.

So all of these contribute, but the why's almost aren't important. What's important is that we're seeing examples of that changing now. So, then you have to say to yourself, okay, fine. If there's going to be a pendulum swinging towards more commodity trade settlement outside of the US dollar, how does that work? Because there's not a clear replacement to the dollar as a reserve currency. That's the other thing we hear all the time. It's the best house on a bad block. What are you going to own as a reserve currency if not the dollar? And it looks as though it's trying to be renminbi. And the renminbi is a terrible reserve currency, mostly because it's a closed capital system. And so you can't repatriate those renminbi back in the international monetary exchange system.

So what do you do? And it seems as though our best guess, and we read all the same people that I'm sure you all do. We read Zoltan, we read Louis and Charles Gave, we read Forest for the Trees, all these different things. What it seems as though the most likely system may or may not be, would be one where you



trade... Take Brazil for example. Brazil sells a whole bunch of iron ore and soybeans to China. They get a ton of renminbi back. They can't use their renminbi to buy a townhouse in Belgravia. So, what they do is they try to buy as many cheap Chinese goods as they can and with the imbalance that remains, they settle that via the Shanghai Gold Exchange in gold. And so people say, "Well, is that a gold standard?" Not really. In fact, it's quite the opposite. A gold standard has gold as the center of value and fiat currencies as these proxies and slips of paper that you switch back and forth. This has a fiat currency, in fact a highly managed fiat currency at the center, holding value.

And then gold is used to transact on the margin and settle imbalances. So, it does represent a world where gold is more monetized or monetized or it has a monetary role more than it does today. But by no means is a gold standard or anything like that. Is this going to happen? We have absolutely no idea, but we are seeing more and more commodity settlement that is being done now outside of the dollar. And as I pointed out at the top of this interview, every time real assets in the past have gotten so out of whack with financial assets, it has tended to coincide with some shift, sometimes big, sometimes small, in how we conduct the global monetary plumbing system of the world. Is that a necessary condition? No. Is it scientific proof? No, but we operate in the dismal sciences and things like that, and so it's something that we have noticed over and over again. And I think it could be beginning to happen right now, so we'll have to wait and see.

All of these BRICS countries have been buying a ton of gold, tons, I suppose literally of gold, more than any time in the last 30 years. But on the flip side, not to talk out of both sides of my mouth here, everyone was waiting for this BRICS meeting earlier this year to be this huge announcement and clearly that did not take place. And so maybe things will happen more slowly or more quietly or maybe not at all. It's just, I think, a tail risk that people should be more aware of than they have been in the past. How's that for tempered?

**Grant Williams:**

Perfect. That's exactly what I was looking for. Thank you. A balanced opinion. Finally. Well look, why don't we wrap this up and let me start again with you, James, and either sum up your thoughts on the conversation or if you have any questions that you'd like to ask any other folks on the call, then feel free to choose one of those paths or a path completely independent of those two.

**James Davolos:**

I think I'm going to do 50/50. I think to summarize my thoughts is it seems almost obvious to us the benefits of owning real assets, whatever modality. All three of us I think have great modalities for expressing this view and exactly what you want to own for this new world that we all envision. What I struggle with is that investors all seem to appreciate the nuance and what we're talking about and why. I just struggle with, when does the mainstream adopt to the fact that what's fairly obvious is you can't continue to own and bet on the same things that have existed for 30 years.

And so the question which could segue into their concluding remarks is what do you think it will take, not so much for the broader market to give back or normalize... But when I started in this business in the early 2000s, people loved BRICS, people loved natural resources, people loved real estate, infrastructure, and we've gone so far on the other side. Maybe Dave, who has had way more experience with market cycles than me. What is it going to take to actually see people care about what we've all been yapping to each other about for what seems like forever?



**Dave Iben:**

Yeah, I was wondering if we're in the same order or whether I pipe in now, so I'll pipe in now. And my question back to Horizon has done such great work on the indexes and the fallacies, the inverse of your question to me on gold and why is that going up? When is this indexation craze going to end? But to answer the question, my final summary, I think most of the commodity stocks right now are so cheap that if everything you've heard for the last hour and a half is wrong, I think you still make money. If there's any truth to what we're saying on the fundamentals, you can make a lot of money, probably in the commodities even more so in the stocks as I've suggested, even more so on the highly optionality ones, BRICS were thrown into it. If commodities aren't liked in emerging markets, so I really hate it.

We've done pretty well say, owning Ivanhoe in the Congo or Kazakhstan and Kazatomprom. We don't own YPF, which we did up seven times in the last year and a half, so maybe money's starting to migrate back into commodities and emerging markets. As far as the question to me on timing, I've been around too long to think I have a clue, but as I mentioned earlier, the math is pretty good. Eight or nine years ago, everybody said, "What's your favorite idea?" I said, "Uranium," and looked like an idiot for six years.

And then in one year we had two stocks went up tenfold in a year from the bottom of the top. I think on average we're probably up five x and we show people these IRR charts and say, "All right, we don't own D, C, F, let's flip it upside down." If we're going to make 2, 3, 4 times our money, what's our return if it takes two years, four years, six, eight? And the math is pretty good even if you have to wait. And I think commodities are that undervalued. I think the math works even if you have to wait. If we're right on the fundamentals, you won't have to wait.

**Adam Rozencajg:**

Yeah, I think that's exactly right. And we get a lot of questions in this again, commodities to financial assets. There's a period from basically 1955 when commodities first get cheap to 1969. They just trough and trend lower and people said, "Aha, I got you. What if we're in that period and we have to sit and wait 15 years?" But of course that's relative to the broad market and in fact you did pretty well in both. And I think we're in that world again now where these things are so cheap that even if they move quote unquote "sideways" relative to financial assets, they'll still go up. And in fact, I think they're going to re-rate much, much higher. I think one thing though that is really unique, United States is different, so I use a synonym for different, this time is unique, would be that the contortions and the back flips that people have gotten themselves tied into with this ESG stuff.

And I think on Wall Street it was the closest thing we'd ever had to a free lunch because for the last six or seven years you could sign the UN pledge and you could talk about how you were going to be really mindful of ESG and you got 200 basis points of tailwind by not having owned any oil stocks and it wasn't an investment allocation decision anymore. It was you're pledged to not destroy the whole planet. So it worked until it doesn't. But now these guys find themselves in this unbelievable tough spot, including Mr. Fink who's had to say recently that he feels that the words ESG have become somewhat weaponized. You say, yeah, you think you had whole industries that were liquidated because of your rhetoric. So now you have these asset allocators that are taking longer. They have to untie some of those Gordian knots that they find themselves in before they can even really look at the space.

And that's preventing, I think, the fundamentals from having the response in the market. Typically three



years into a bull market like this with inventories falling across the board and sector leadership, you should have started to see some money come back in and you're not this time. And the only thing that I can really point to and when I talk to asset allocators, they back it up, is that they really can't. And soon that'll change. It'll change either because you'll have an emergency meeting and it'll be the only way that your pension fund is able to meet its target. It was by having an oil stock. So you'll change the rules or you'll fire the old guys or they'll all retire, whatever the case may be. The result is that I think for the first time in a while, these shortages are just going to have to hit us over the head.

I don't think we have the wherewithal to look through this and understand what needs to be done and get the capital into the right place. You'd still have a bull market, but you'd avert a bit of a crisis and a catastrophe. It strikes me more now like we're going to have to actually run up into that. And all you have to do is look at what happened in Germany last year. Russia invaded the Ukraine, 20 years of well-laid plans for greening and renewables went out the window almost immediately. They burned more coal than ever. Turns out they had a mild winter and now everyone is just so complacent again.

So, it's like in 16 months you threw out the entire old energy policy, thank goodness, you then did 180 degree turn on that, and now you just are treading water, not knowing what to do. So, we haven't allowed ourselves the intellectual honesty to really assess this problem. And I think a big part of that is because of this ESG debate. And so the problems we'll have to come and hit us over the head, and that's going to be very uncomfortable, but ultimately probably good for these stocks.

**James Davolos:**

Sorry, Grant, this is too tempting here.

**Grant Williams:**

Yeah, go ahead. Go ahead.

**James Davolos:**

This is too tempting to wrap up between Dave's point where he tossed it back to me on indexation and then Adam bringing up the fallacies of ESG. So ESG arose right at the point when vanilla indexation was moderating and stopping to grow and everybody cut fees as close to zero as they possibly could. What did ESG represent? It represented a way to basically own the same passive index and charge a boatload more fees to then index to ESG. Maybe I'm answering my own question about when this thing all turns is that it seems as though the indexation game in the US has played itself out. There's no more margin, there's almost no more market share to be had. They tried it with this ESG scheme. That's unwinding before our eyes. So, maybe this is the perfect setup to finally actually see all the pieces line up to actually get allocations here again.

**Grant Williams:**

Yeah, that's a great point. That's a great point. We've gone for an hour and a half and taken a big chunk out of your afternoon, so I'm immensely grateful to all three for taking the time to join us to have this conversation. Because I think it's an important conversation to have and I suspect everything we've talked about will play out in the fullness of time. There are periods in this commodity cycle where the fullness of time seems like an age, but I suspect we are much closer to an inflection point than we have been at any point in the last 10 years. So again, thank you for doing that. If I can just get you quickly to let people listening





know where they can find out more about writing and websites and stuff. I'll go around the table again. James, starting with you if I may.

**James Davolos:**

Sure. And again, thanks to everyone else here, Adam, Dave, Steph, Grant, this has been really fun and really informative. [HorizonKinetics.com](https://horizonkinetics.com). We're fairly prolific in our writing. We're very generous with our commentaries, our white papers. Also on our [Horizon Kinetics Twitter](https://twitter.com/horizonkinetics), we have some musings, which I think are very consistent and factual in alignment with a lot of the things discussed today. And always you can just reach out to me or anyone at Horizon. We love to speak to like-minded investors, clients, and all the above.

**Stephanie Pomboy:**

Fantastic. Adam.

**Adam Rozencwajg:**

For better or worse, we publish everything that we write as well and we leave up all our old calls and just like the folks at Horizon do, and you can see where we got things right and where we got things wrong. And so please check out our website. We're at [gorozen.com](https://gorozen.com). The firm of course is Goehring and Rozencwajg. That's where gorozen comes from. And luckily if you get it half right on Google, it'll point you in the right direction.

**Stephanie Pomboy:**

Yeah, that's a spelling test if ever there were one.

**Grant Williams:**

That's right. And Dave.

**Dave Iben:**

Okay. No, I agree. Thanks to all four of you. This has been a lot of fun, very interesting and informative. We also write a fair amount and have videos and other things. In these interesting times, communication's important. Our website, [kopernikglobal.com](https://kopernikglobal.com).

**Grant Williams:**

Fantastic. Well, again, thanks to all of you for giving up your time. The last word as always, will go to Steph once you've all resumed your days, but thanks for joining us. I really appreciate it.

**Stephanie Pomboy:**

Yeah, thank you guys. This was great. Thanks.

**Adam Rozencwajg:**

Thank you all. Thank you.

**Dave Iben:**

Take care, everyone.





**Grant Williams:**

Well, Steph, thank you for coming up with this idea and doing most of the heavy lifting to put it all together. That was hugely, hugely interesting. I loved every second of that.

**Stephanie Pomboy:**

It really was. And honestly, I could have gone on longer and longer listening to them talk about... the ideas were really interesting, not necessarily what I expected, but also the macro backdrop. There's just so much there and it's so contrarian, I think, right now.

**Grant Williams:**

No, I'm frankly amazed that it still counts as contrarian, frankly. You would think... It makes so much sense, and I'm going to try and get that chart from Dave to put in the transcript, because I really want to see that.

**Stephanie Pomboy:**

Yes. I loved his line. "Even if I'm totally wrong, you're still going to do well."

**Grant Williams:**

Exactly right. Exactly right. Well look, it was so much fun. We should probably try and do it again in several months time and see how things are going.

**Stephanie Pomboy:**

Well, let's see. Now we're not anywhere in the same time zone, but at least the time zone differences... It's a little better.

**Grant Williams:**

It's manageable. I'll be back in your timezone pretty soon, so it'll make life much easier. But listen, thank you. Before we go, just a quick reminder on those websites. Dave Iben, Kopernik Global is [kopernikglobal.com](http://kopernikglobal.com). That's Ks instead of Cs, wherever you hear K because sound, [gorozen](http://gorozen.com) for Adam Rozencajg and Leigh Goehring is G-O-R-O-Z-E-N. See how I default it to Zs instead S there.

**Stephanie Pomboy:**

It's G-O-R-O-S like Samson.

**Grant Williams:**

I think you're wrong. Hang on. I think you're wrong.

**Stephanie Pomboy:**

We're going to double check. I just looked.

**Grant Williams:**

All right. Let's have a little friendly wager here. A dollar, what do you reckon?

**Stephanie Pomboy:**

Oh, I typed in gorozen with an S and it picked it up, but it does. You're right. I'm sorry. All right. See, this is why you have to do the heavy lifting.



**Grant Williams:**

You owe me a dollar. You owe me a dollar. So that's gorozen, G-O-R-O-Z-E-N, and James Davolos, of course, [horizonkinetics.com](http://horizonkinetics.com). As all gentlemen said, they put a lot of their writing up there and it's really, really helpful and it's fascinating stuff. So, I would encourage you all, if you don't already dig into the writings of all three gentlemen, you will find a treasure trove of stuff and three new people to follow as this whole commodities bull market unfolds. The other person, obviously we have to talk about finding on the internet is one Stephanie Pomboy at [macromavens.com](http://macromavens.com).

**Stephanie Pomboy:**

Oh my gosh. Well.

**Grant Williams:**

And on Twitter. Are you still on Twitter? Or X? What do they call it now?

**Stephanie Pomboy:**

X, exactly. [@SPomboy](https://twitter.com/SPomboy).

**Grant Williams:**

[@SPomboy](https://twitter.com/SPomboy).

**Stephanie Pomboy:**

And you, Mr. Grant David Vincent Williams?

**Grant Williams:**

And I remain for the time being [@TTMYGH](https://twitter.com/TTMYGH). I'm not sure how much of X I can stand to be honest with you, but we'll keep going for the time being. It's getting more and more painful by the day. Steph, it's been far too long since I've seen that beautiful smile of yours. I'm so happy to see it again. And hopefully we can do another one of these sooner rather than later. What do you think?

**Stephanie Pomboy:**

Yeah, I look forward to that. That would be really fun to do.

**Grant Williams:**

All right. Well look after yourself, but just stay away from all the snakes infesting south Florida.

**Stephanie Pomboy:**

Yeah, I'm going to try to avoid the pythons.

**Grant Williams:**

Yeah, stay away from the pythons.

**Stephanie Pomboy:**

Only at Saks.

**Grant Williams:**



Okay. I'll talk to you soon. Take care.

**Stephanie Pomboy:**

Take care. Pip pip and cheerio.

**Grant Williams:**

Nothing we discussed during this super terrific happy hour should be considered as investment advice. This conversation is for informational and hopefully entertainment purposes only. So, while we hope you find it both informative and entertaining, to say nothing of super and terrific, of course, please do your own research or speak to a financial advisor before putting a dime of your money into these crazy markets.



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