



WHEN DOVES CRY

Introductory Thoughts to Ponder

"Information is the part of a message, data set picture, or group of sounds that is not predictable." – Claude Shannon

If a tree falls in the forest, and no one is around to hear it, has there been a sound?

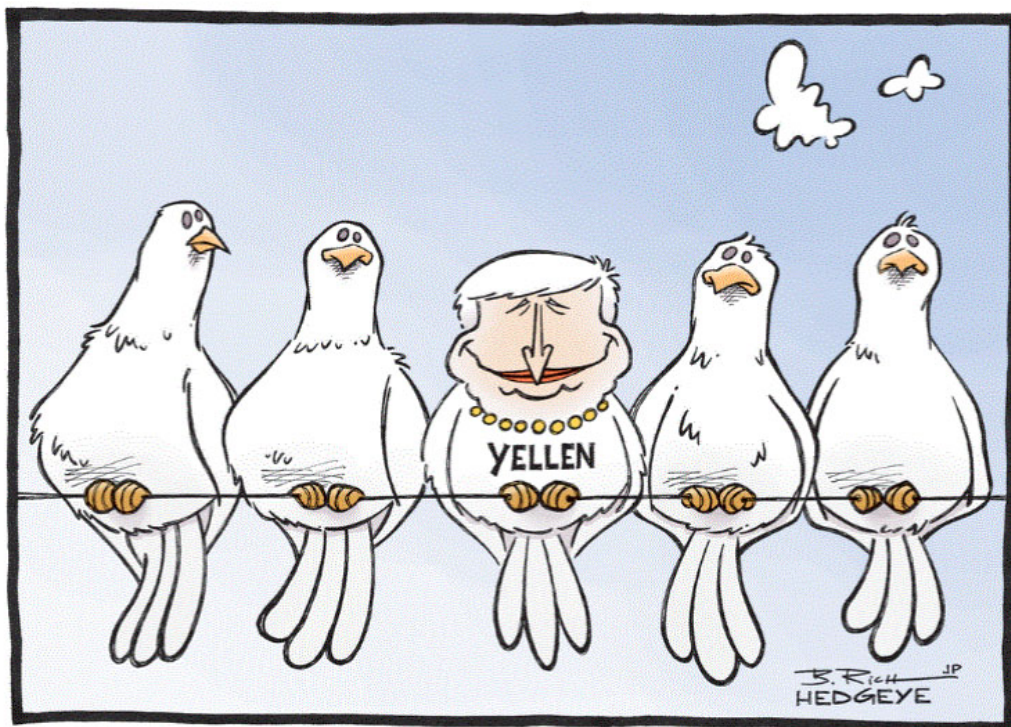
If the quantity of money quintuples, and the CPI fails to "hear" it, has there been inflation?

"The study of money, above all other fields in economics, is one in which complexity is used to disguise truth or to evade truth, not to reveal it. The process by which banks create money is so simple the mind is repelled. With something so important, a deeper mystery seems only decent." – John Kenneth Galbraith writing in 'Money: Whence it came, where it went' (1975)

"Safety" is a tricky and paradoxical concept. The safe assets are often the ones that people regard as hopelessly risky." -Jim Grant

Do the doves view the rest of us as pigeons?

After a quarter-century of increasingly profligate policies at the Federal Reserve, and with prominent dove Janet Yellen now ascendant to the throne at the already ultra-dovish FOMC, we will hear, with increased amplification and clarity, *"what it sounds like when doves cry"*.





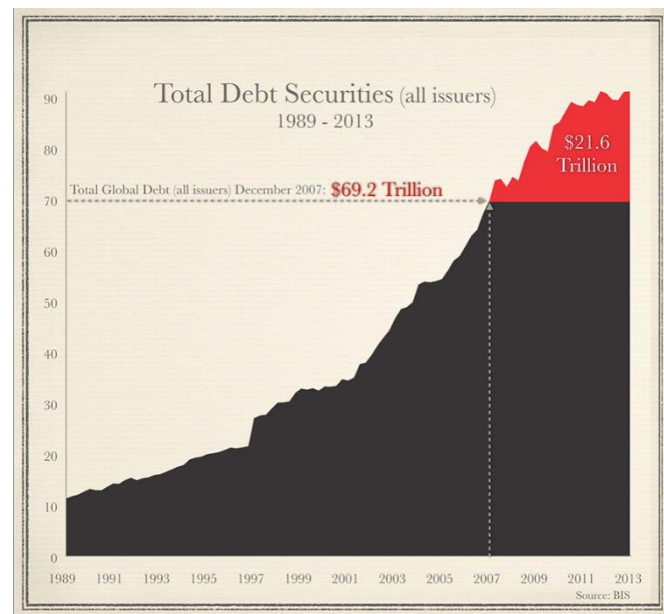
Investment Management is a great field. We're always learning interesting things, interacting with fascinating people, searching for diamonds in the rough, and given the opportunity to enhance the livelihood of people, foundations, endowments, retirement plans and others. We are blessed! Value-oriented investing is often easy, like being the house in a casino game. While the players always seem to be having all the fun, the house lets the laws of mathematics work their magic. So it is with investing. The "players" seem to be having all the fun, while the value investors patiently wait for the laws of mathematics and economics to accrue to their benefit. They always do.

At the casinos, occasionally someone gets "hot" with the dice. They continue to "roll the numbers", pressing all the way. Everyone at the table hoots and hollers while raking in the dough. The party can go on and on, while the house takes quite a beating. But, eventually the high roller "sevens-out", instantly losing back a good portion of their winnings. From there, the house meticulously makes back some more, and some more, and ultimately ends up well in the black.

So it is with value-focused investing. Though it is so easy most of the time, **it can be intolerably painful during those episodes where the momentum players get a "hot hand."** "Investors" begin to feel lucky. After a period of time they feel confidently lucky. Eventually they become arrogant. Participants willingly suspend disbelief. The laws of mathematics and economics are brushed aside as people see increasing "evidence" that the stocks of the cherished companies only go up, while the stocks of unpopular companies don't. Often they go down because in order to buy more of the hot stock, sector or ETF, funds are raised by dumping everything else. The expensive get more expensive while the bargains get cheaper still. Toward the end, when it seems that irrationality has maxed out, it actually accelerates, becoming parabolic. **Never is it more important, than at these moments, for investors to not lose their conviction in fundamental investing.** To jump on the popular stocks just before the "players" "seven-out" is tragic. To sell the underperforming stocks before all the money comes pouring back toward value propositions is unfortunate, to say the least.

Japan had a colossal financial bubble in 1989. During my lifetime, the U.S. has had three: the Nifty-Fifty in 1972; the Technology, Media & Telecommunications ("TMT") mania of 1999; and now. 2007, in my opinion, was merely a precursor to our current predicament. "Too big to fail" institutions became bigger still. Asset prices are generally all higher than their lofty levels at the top of the last peak. Debt levels are way higher now. Because we believe the bond market is undoubtedly the most overvalued market in the history of mankind (many \$Trillions) and because it has been spilling over into stocks, housing, art, collectibles, healthcare and others, now is an important time to talk about financial manias. Even though Prince likely wasn't thinking of the stock market back in 1984, when he penned the lyrics about the collapse of 2000 and the preceding party of 1999, his songs still serve as a good source of inspiration and analogy.

Back in the 1980s, when I walked out of the movie Purple Rain because I disliked it, I never would have anticipated using it as an allegory to describe the 2014 investment environment. But I guess I wouldn't have expected the world to evolve into one where the eccentrics are the sane ones.



<http://www.mauldineconomics.com>



Kopernik

Global Investors, LLC



Non Sequitur by Wiley Miller
www.qocomics.com

While I've never been a huge Prince fan, I do admire inventiveness and willingness to be different and think outside of the box. While he (the Artist Formerly Known as the Artist Formerly Known as Prince) manages to come across as arrogant and strange even by music industry standards, I must admit that he is very talented. Much of his music is original, great to listen to, even catchy. Apparently his movie even won an Academy Award for Best Original Song Score (a few Razzies as well). At any rate, "When Doves Cry" is a really good song, and it comes to mind as we get inundated with incessant cooing about how the Fed's doves have taken all the risk out of the marketplace, and may have even abolished all troubles previously faced by mankind. The song hit number one and was considered to be revolutionary.

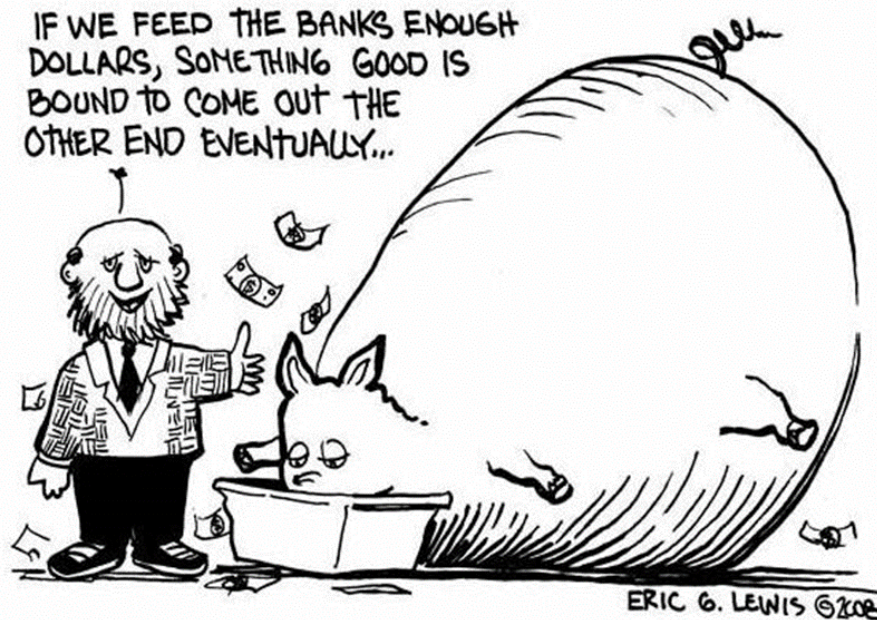
Per Schmoop.com:

"When Doves Cry" is a weird song, there's no doubt about it. Starting with its shredding, messy, opening guitar solo, you know that this song doesn't really follow the normal rules of pop convention. It's as if the song begins with a guitar solo just because—in fact the guitar solo isn't even in the same key as the rest of the song, and it isn't particularly noteworthy from a technical standpoint. It just sounds cool. Despite being a master songsmith and guitar player, Prince is more interested in where he can go creatively than doing what everybody else is doing; why else would he write "When Doves Cry" as a dance song without a bass line?"

It was quite unique for Prince to remove the bass line from the song. In recent years, an equally strange and arrogant group at **the world's central banks have removed the bass from the world's base money**. (Technically Nixon did, Arthur Burns moved it forward, Greenspan pushed it to the limits, and Bernanke took the concept past the point of no return). And who is more aptly qualified as a vehicle for our discussion of central bank policy than the man behind, "When Dove's Cry", "Kiss", "Purple Rain", and "Let's Go Crazy?" His approach, per Schmoop.com above, doesn't sound terribly different from how I imagine Fed meetings. As a preview, it won't surprise you that this "hawkish" commentary will make the case that current central bank policy is **adding** tremendous risk to the marketplace and, far from abating mankind's troubles, easy money is accentuating them, and in some cases even causing them. **Financial bubbles are caused by monetary policy miscues!** After exploring these ideas, Prince's apocalyptic anthem 1999 will be used as a medium to lay out a quite **bullish** case for certain stocks and for active management.



DR. BERNANKE EXPLAINS QUANTITATIVE EASING



Cartoon by Eric G. Lewis

*"I never meant to cause you any sorrow
I never meant to cause you any pain
I only wanted to one time see you laughing
I only wanted to see you laughing in the purple rain"*

-The Fed Prince, Purple Rain

Almost a half-dozen years ago, in the wake of the launch of quantitative easing, I penned "When the Levee Breaks," suggesting that printing money is inflationary, but like *rain* falling behind a dam, is latent energy, hard to observe from downstream. But, it is energy all the same. Most would make the case that that call was way too early, with still no signs of inflation all these years later. A closer inspection of the data supports an entirely different conclusion. The beginning of 2009 turned out to be a beautiful time to unload dollar bills in exchange for almost anything else: art, collectables, high-end real estate, gold, stocks, bonds, and if possible, pre-payment of tuition, healthcare, insurance, transportation and most other goods and services. It now requires many more dollars to purchase these items than it did a mere five years ago. And sadly, most of the **ominous symptoms of this inflation** undoubtedly still remain latently dammed up on the balance sheets of the banks.



	2000	2014	Change in %
Chairman of the Federal Reserve	Greenspan	Yellen	
Money Supply in millions ^{1,6}	\$601.0	\$3,989.0	564%
CPI Index ¹	174.6	235.1	35%
4 Year avg. College Tuition ²	\$14,000.0	\$23,700.0	69%
Avg. Student Debt. post College ³	\$14,000.0	\$34,000.0	143%
Avg. Health Care per individual ⁴	\$4,672.0	\$9,400.0	101%
LA Median Housing Price ⁵	\$200,000.0	\$560,000.0	180%
Six pack of Beer before taxes	\$3.0	\$6.3	108%
Oil ¹	\$33.0	\$98.0	197%
Spot Gold ¹	\$272.0	\$1,282.0	371%
Copper ¹	\$84.0	\$322.9	284%
Corn per bushel ¹	\$1.9	\$3.9	105%
Beef per pound ⁵	\$2.6	\$5.5	112%
Avg. Price of Cable TV	\$20.0	\$65.0	225%
MSCI ACWI ex U.S. ¹	\$193.5	\$288.6	46%
Total Gov't Expenditures in Billions ³	\$3,087.0	\$5,800.0	88%
Current Account Balance in Billions	-\$450.0	-\$703.0	56%
Median Household Income ³	\$42,000.0	\$51,000.0	21%

¹ Bloomberg, ² National Center for Education Services, ³ St. Louis Fed, ⁴ cms.gov, ⁵ Trulia, ⁶ Monetary Base per Bloomberg

One can't help but notice the two items on the table that haven't risen significantly thus far in this nascent century: The amount of the price increases to which our government is willing to confess (CPI); and the ability of the average person to pay for these rising costs (median household income).

In addition to making the cost of living accelerate beyond the means of many people, it has made investing a higher risk/lower potential return proposition. As Seth Klarman pointed out in his recent letter, *"The Bank for International Settlements recently cautioned that financial markets are euphoric and in the grip of an aggressive search for yield. The S&P has gone over 1,000 days without a 10% decline, according to Birinyi Associates. Dutch and French 10-year government bond yields are at 500 and 250 year lows, respectively; Spain, 225 years. Spanish debt yields were recently inside of U.S. levels."*

*"Maybe I'm just too demanding
Maybe I'm just like my father too bold
Maybe you're just like my mother
She's never satisfied (She's never satisfied)
Why do we scream at each other?
This is what it sounds like
When doves cry"*

-Prince, When Doves Cry



Now, the members of the Federal Reserve's Open Market Committee may be great people. They are certainly well-educated people. They may even mean well; we have no way of knowing. But we are proponents of the free market. We do not believe that quasi-governmental bureaucrats (or anyone else) can override the market mechanism with positive effect. We worry that they are "too bold." It doesn't matter how low interest rates or the quoted job rate fall, they are "never satisfied." And is there correlation between easy money and the tendency of citizens of the world to "scream at each other?" We believe that ZIRP (zero interest rate policy) will work as well in the U.S. as it has in Japan over the past quarter-century. Low rates of return discourage the investment that is necessary to create quality jobs. People learn not to save, as interest on savings is far from adequate to offset the constant erosion of purchasing power that is corroding the value of their savings. With pro-debt, anti-savings policies in place it is not surprising that debt is growing and savings and investment dwindling. The government's publishing of low CPI numbers can obscure but not hide the symptoms of the Fed's hyper-inflationary policies. Those of us who are fortunate enough to own assets are enjoying the ascent of those valuations while those who don't are grappling with the rising cost of food, healthcare, tuition, insurance, rents, and entertainment while lamenting the inconvenient fact that wages aren't keeping pace.

Jeff Parker
floridatoday.com



*"War is all around us
My mind says prepare to fight"*

-Prince, 1999

Students of history will note that easy monetary policy has been highly correlated with worldwide discontent. The current global problems should be expected in an environment of global competitive currency devaluations. Markets temporarily hitting all-time highs at a time when riots and skirmishes are prevalent and Thomas Piketty's book, "Capital in the Twenty-First Century," is on the best seller list seems odd, but isn't. Is this much different than 1972, when the "Nifty-Fifty" dragged the markets to all-time highs even as the Vietnam War, Watergate, class warfare, and a struggling economy were ever-present? While we have neither the time nor inclination to delve further into the correlation between easy monetary policy and geopolitical skirmishes, Grant Williams, Marc Faber, G. Edward Griffin and others have published interesting works on the topic. The following graph of the Gini coefficient suggest that wealth inequality could increasingly present problems.

Gini Coefficient - U.S.

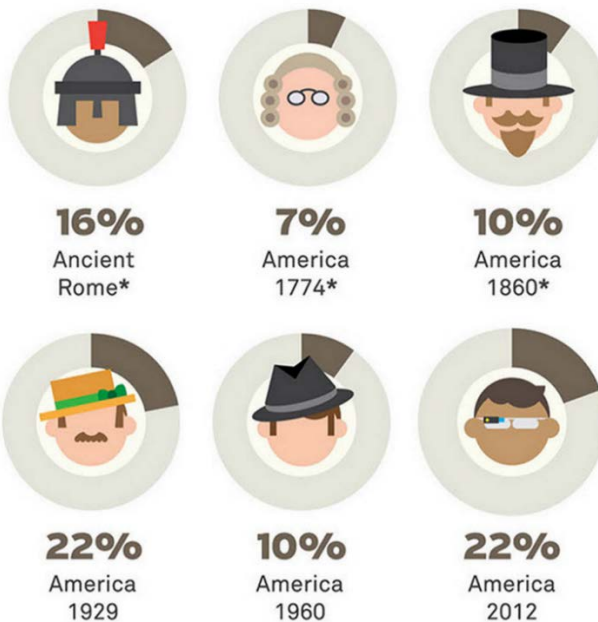


The Gini Coefficient is the most common measure of income inequality. Zero denotes perfect equality while one is complete inequality, one person has all. Notice the trend since Nixon defaulted on America's obligation to back the dollar with gold. Just as economics would predict.



BACK TO THE FUTURE

Amount of total income controlled by the top 1 percent in...



*Includes slaves

<http://www.mauldineconomics.com>

*"You don't have to be rich to be my girl
You don't have to be cool to rule my world"
-Prince, Kiss*

The lyrics above are the antithesis of Fed policy. Mr. Greenspan appears to have valued being "cool" and when his accurate "irrational exuberance" quote briefly bruised his popularity, he made haste distancing himself from it. He and his two successors have followed a strict policy of, figuratively, 'you **do** have to be rich to be my girl.' The stated policy has been to create a wealth effect by making the assets owned by the rich go up in price, while everyone else is left to fend for themselves.

Prices of assets going up is, in many ways, a good thing. Prices outstripping their fundamental underpinnings is problematic. Before we get to the silver lining of the numerous opportunities to invest in assets whose prices are still low relative to their fundamental underpinnings, let's spend a little more time on past manias, their root causes, and the current situation.

*"Yeah, they say two thousand zero zero
Party over, oops out of time
So tonight I'm gonna party like it's 1999
Yeah, yeah*

*Lemme tell ya somethin'
If you didn't come to party
Don't bother knockin' on my door"*

-The Fed Prince, 1999



The greatest stock market party in the history of mankind seemed to have been anticipated back in 1984, by Prince's song entitled, "1999." And how ironic it is that seven years after that bubble burst, an even bigger party was famously concluded with another guy named "Prince" losing a game of "musical chairs."

*"As long as the music is playing, you've got to get up and dance."
-Chuck Prince, then CEO of Citigroup 2007*

*"Everybody's got a bomb
We could all die here today, uhh
But before I'll let that happen
I'll dance my life away"*

-Prince, 1999

Now, in 2014, which remarkably enough turns out, again, to be a seven year interval, we've brought back Prince to emcee the biggest party yet in the financial markets! The current festivities were an exclusive, bonds only affair early on. But, in recent years, it has welcomed many newcomers, including many stock markets, the art market, collectibles, high-end real estate, and luxury goods. Cycles seem to come faster and be more extreme nowadays. Bernanke/Yellen couldn't be further removed from the days when the Fed's job was to "take away the punch bowl just when the party gets going", as Chairman William McChesney Martin famously stated. The important point is that this current party, in many ways, is not similar to 2007's game of musical chairs, but is very reminiscent of 1999's popularity contest. The price of tech, media, telecom, and other in vogue stocks became increasingly "high." Prices stayed low for the many stocks that were not admitted to the party. This fact worked out well for "true" investors who were buying these shunned entities. Many of these stocks did tremendously well in the early years of subsequent decade, even as the revelers nursed their nasty hangovers.

At the height of the madness, many of us who were missing out on the festivities consoled ourselves by doing comparisons. In general, these were designed to illuminate the absurdity of the party we were missing. There were charts comparing the market caps of decades-old, global market-leaders of industry, such as Boeing, Alcoa, BHP, Union Pacific, Lockheed, Raytheon, Archer Daniels, Tyson, Sigma Aldrich, and more, with the larger market cap stocks of money-losing technology companies that had managed to go public.

Pets.com was a fun story. Like many companies at the time, they decided that selling things at below their cost was a great model as long as the internet was involved. They got backing from Amazon, went public, brought in sales of more than double what they had expected well into the future, saw their stock soar to \$325 million, and went bankrupt, all in a year's time. Their sock-puppet mascot became quite popular and ended up being worth more than the entire company.



Pets.com peaked at \$325mm.

In 1999, 7 of the top 10 largest market caps in the world were tech or telecom companies!

Very much like 1999, and differing from 2007, the mania of 2014 is bifurcated. Certain segments of the market are ultra-popular, relentlessly ascending skyward. The funds required for their purchase come from the wholesale dumping of less de rigueur stocks.

The current group of manic stocks generally reside in several categories. One is Biotech, Healthcare, Technology, and leading Consumer companies that, granted, do tend to have strong fundamentals. They deserve to sell at a full valuation. Currently they sell at obscene valuations. Many stocks of companies that aren't members of these esteemed sectors are much less pricey. Some are downright cheap.



Regarding the second category, the U.S. market has become overly esteemed. Following 5 years of moving persistently upward and 3 years of leaving the rest of the world in the dust, U.S. stocks have continued charging further, even as international stocks have given way to gravitational pull. Thus far in 2014 the S&P 500 is up 6% while European stocks are down over 8%, Japanese down 7%, much of Asia and Latin America down some, and Russia and Ukraine are down 23%. Eight of the top ten market caps are now U.S. based companies. At the height of the TMT nonsense, I heard a great speech at a Grant's conference. The presenter was comparing one tech company to an entire country of over a billion people. "Intel vs India" he put forth. "Both are five letter words starting with the letter "I." Both are supported by an industrious Indian workforce, and both are capitalized at \$440 billion." It, of course was a wonderful time to sell Intel and buy Indian stocks. Now that similar levels of irrationality seem to have returned, we put forth the following table. It speaks for itself.



Market Capitalization	\$540 billion	\$609 billion
Price-to-Sales	70%	350%
Price-to-Book	0.65	5.04
Size of Workforce	77,000,000	83,000

Resources		
Land	6.6 million sq. miles (4.2 billion acres)	2.9 sq. miles(1,866 acres) ³
Rivers	100,000 ¹	-
Lakes	2,000,000 ¹	-
Freshwater Reserves	1/4 of the World	-
Crude Oil	80,000 (m b)	-
Natural Gas	48,676 (billion standard cu m)	-
Gold - in the vault	35.5 million ounces (1,104 tons) ²	31.1 million ounces (970 tons) ⁴
Gold - in the ground	125 million ounces (3,906 tons) ⁵	-

Rapidly Obsolescing Products	No	Yes
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¹The largest of Russia's bodies of fresh water, Lake Baikal, is the oldest, deepest and purest fresh water lake in the world. Baikal alone contains over one-fifth of the world's fresh surface water. Of the country's 100,000 rivers, the Volga at 2,294 miles is the longest river in Europe.

²Over a period of six months, Russia has purchased 54 tons of gold and has now overtaken China as the fifth largest country in total gold reserves.

³Apple Inc., Form 10-K for the FY ended Sept 28, 2013. Approximately 15% is leased property, 85% is owned.

⁴Cash and Short Term Investments of \$37.8 billion as of June 28, 2014 converted to ounces of gold (\$1,215/ounce as of Sep 14, 2014).

⁵Kopernik estimate was obtained by summing the gold resources available for multiple Russian gold miners.

SOURCES: The World Bank, Britanica, OPEC, Bloomberg



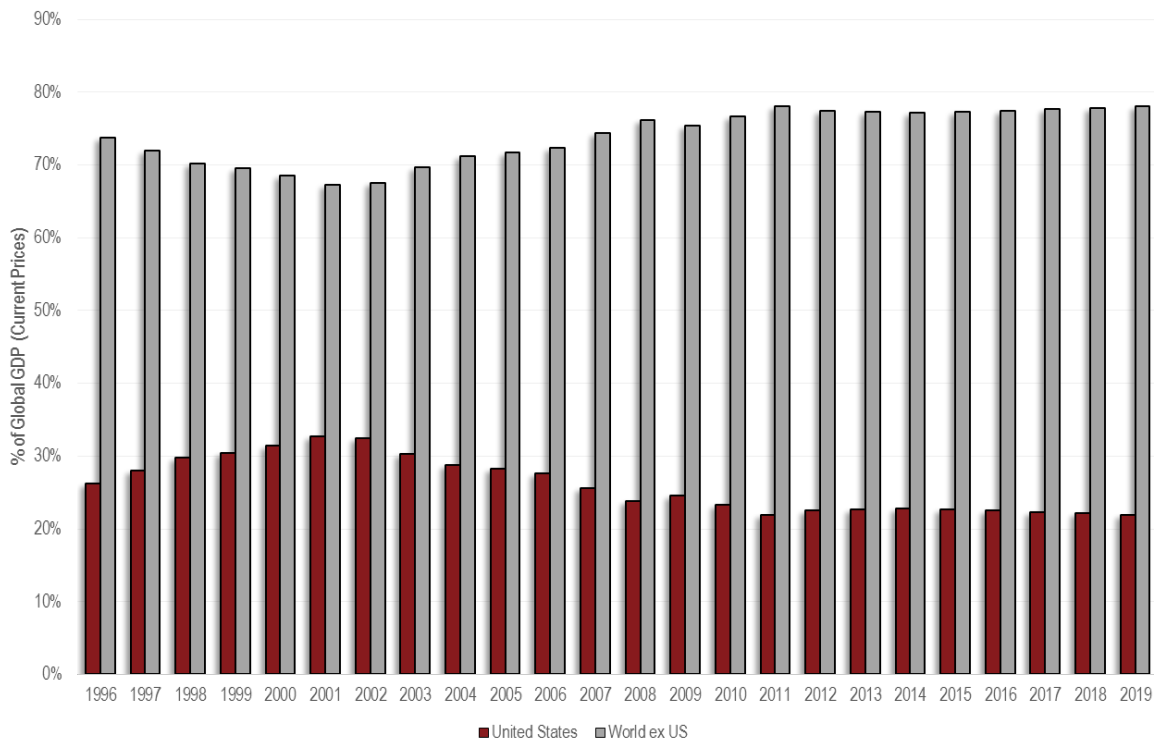
The market's extremely bifurcated nature is turbo-charged by the current ETF craze (exchange traded funds, allowing people to "play" their favorite industry, sector, country, etc. via a pooled security, while foregoing the pesky task of having to research and analyze businesses, to ascertain which ones are most suitable to be owned in an investment portfolio). With no specific stock research being done, tenets of the efficient market hypothesis are nowhere to be seen, and during the manic phase, members of an ETF outperform similar stocks that are not held by the ETF. Passive investing was popular in the late 90s (using index funds rather than ETFs), contributing to the mania. Eventually the valuation of index members became so expensive relative to non-members that the subsequent underperformance of index funds was inevitable. Again today, passive investing is the fad. Every week, funds are pouring out of actively managed funds and into passively managed ETFs. Partially as a result, the Russell 2000 small cap index is down 6%, even as large U.S. stocks are up over 8%. Sooner or later, **it seems inevitable that ETF prices will come back to earth as money flees these overpriced funds for funds that are managed by professionals who actually perform research before investing, and who insist on paying economic prices.**



American Exceptionalism

As we near the end of 2014, a recent "Top Story" on the Bloomberg included an article about "American Exceptionalism." Per Wikipedia: *"Exceptionalism is the perception that a country, society, institution, movement, or time period is "exceptional" (i.e., unusual or extraordinary) in some way and thus does not need to conform to normal rules or general principles."* We must confess that the increase in nationalism in much of the world, including the U.S., is a bit concerning. It often is heightened in eras of money printing and usually leads to unpleasant geopolitical outcomes. But that isn't our main point, which is that while we agree that the U.S. is arguably the greatest country ever, **when it comes to risk, price is the most important variable.** In 1929, the U.S. was a great country that had at least 85 good years in its future. "We will not have any more crashes in our time" was John Maynard Keynes' prediction in 1927. Irving Fisher, a renowned economist, famously proclaimed in 1929, "Stock prices have reached what looks like a permanently high plateau. I do not feel there will be soon if ever a 50 or 60 point break from present levels". The market promptly plunged 90%. The U.S. was a great country in 1933 too, although people temporarily didn't feel that way. That turned out to have been a wonderful time to invest. In 1972, the U.S. was a great country with at least 42 wonderful years in its immediate future. The future was so bright that on January 1, 1973, Barron's published its famous Roundtable interviews with big-name professional investors. The title was "Not a Bear Among Them" (Source: newworldeconomics.com). Presumably they were all wearing shades. At any rate, the market peaked that month and fell 50% over two years. The AMEX, the NASDAQ of the sixties, was already in the midst of a 90% collapse. In December of 1974, people were in no way sanguine regarding the U.S., but what a remarkable time to invest.

Japan's omnipotence was beyond refute in 1989. Investors decreed their superior education, savings rate, work ethic, long-term vision, government/private partnership, and methods. U.S. companies raced to emulate them, as their stocks ran to unparalleled heights, collectively valuing them almost on par with all the world indexes' non-Japanese companies. Unsurprisingly, it was a horrendous time to invest in Japan and wasn't a bad time to invest in the U.S. The U.S. continued to be a great country in 1999 (when Alan Greenspan referred to the U.S. as an "oasis of prosperity") and 2007, but investing in those stock markets turned out to be painful endeavors. The years 2002 and 2009 were nice times to invest. Proponents of American Exceptionalism are missing the point. **"Is the U.S. exceptional?" Is the wrong question to be asking. "What is the correct valuation?" Is much more apropos.** The bad news is that we're at valuations that have always proven to be dangerous in the past. The U.S. bond market is yielding next to nothing, adjusted for inflation using CPI. Adjusting for money growth, yields are quite negative. The U.S. stock market is the priciest ever on a CAPE (cyclically adjusted price to earnings) basis (at 25 times), with the lone exception of 1999. That year was the only year where the market has been more overpriced on a market capitalization to GDP basis as well. Sovereign debt is another 100% of GDP. Total debt is 350% of GDP. Inclusion of unfunded liabilities swell the number to a frightening 1000% of GDP (all numbers are per U.S.debtclock.org).



Source: International Monetary Fund

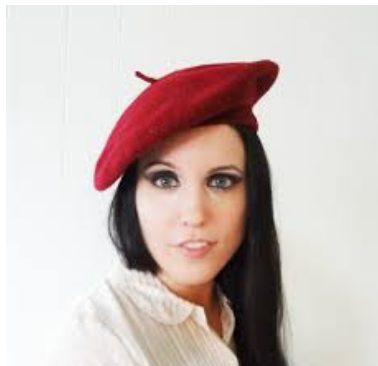
The U.S. now represents roughly half of the MSCI-All Country World Index (a la Japan in 1989) even though, as the above chart illustrates, it represents one-fifth of the world's GDP. The U.S. is a wonderful place. Its markets are many things, but "safe" is not one of them. **The good news is that, in sharp contrast to 2007, there are pockets of value in certain sectors and countries.**



Investment Strategy

"She walked in through the outdoor,
She wore a raspberry beret
The kind you find in a second hand store"

-Prince, Raspberry Beret



In this bifurcated market, in which investors are succumbing to lemming-like instincts to dive into ETFs, previous portfolio holdings are instantly relegated to the secondhand store. Contrarian-minded investors, choosing not to follow the herd, will be intrigued by Prince's story of finding what he was looking for coming in through the out door. We are not looking for antiques, and certainly not for worn-out goods. Au contraire, it is amazing how many of the marquee names that were prominent in many portfolios three or four years ago, are now being unceremoniously peddled at the "secondhand store."

Energy was top-of-mind a few years back. After all, China was growing fast, the population of the world had doubled in the past 40 years, and six billion people lived in the developing parts of the world, those that historically have consumed energy and resources at a voracious rate. Investors loved coal, oil, natural gas, and especially non-polluting, non-CO2 spewing solar, wind, hydro and nuclear. While oil is off its highs, the rest of this list has been relegated to the bargain bin. Of particular interest are coal companies selling for less than \$1/ton, hydroelectric dams selling at 1/5 of replacement cost in emerging markets, uranium miners pricing the commodity at less than 1/2 of its incentive cost of production, providers of key components for nuclear reactors with strong backlog, and a major gas producer in Russia selling at 5% of the value placed on the cost per reserve of many of the major worldwide producers.

Cartoon by Lee Lorenz



"And then I thought, What better hedge than a uranium centrifuge?"

Agriculture is another area that investors were fawning over in the recent past, cognizant of the fact that the quantity of arable land wasn't coming close to keeping up with the proliferation of people and of currency. This has created many opportunities for us in the past. One of the most interesting is the present apparent mispricing of profitable, growing companies in countries rich in topsoil, such as Ukraine, Argentina, Brazil, and parts of Asia. We are paying a small fraction of like-properties in the States.



Infrastructure is often the type of business that investors gravitate toward, with its natural barriers to competition, ability to meet sustainable needs of the people, and access to long-term financing. Right now we're thrilled to be paying bargain basement prices for growing regional airlines in the U.S., passenger railroads in Japan and China, mobile phone service providers in China and Korea, and phone companies in Italy and Russia. Japanese water purification companies are "priced to sell" as well.

Niche technology companies are available at thrift store prices in Japan and emerging markets. Our portfolio owns niche finance worldwide including two extremely dominant Russian financial companies held at compelling valuations.

In light of the aforementioned central banks' promiscuity, gold may be more important now than ever. Unbelievably, as the fundamental worth of gold has arguably skyrocketed in recent years, the market price has dropped by a third. Remarkable! Even more remarkably, the price of publicly traded companies, that own massive quantities of gold, have plunged 67% as measured by the GDX (Market Vectors Gold Miners ETF). The GDXJ, representing the smaller companies in the industry, is down a breathtaking 80%! This is one of the compelling opportunities of our time, in our humble opinion. They are so inexpensive that our models show them to be undervalued, even if gold stays at current distressed levels. The very valuable optionality comes for free.

www.merkinvestments.com



To conclude, we love this market. Just like in late 1999, the future is bright but current resolve is the key to success. We believe that valuation is the key determinant of risk (permanent loss of purchasing power) and that short-term price fluctuations are not risk, but are an annoying, often painful, creator of opportunity. For those who disagree with this premise, U.S. markets may seem tempting, while bonds look compelling and our portfolio appears risky. For those whose values and views are in alignment with ours, U.S. stock valuations are dangerous, bonds appear to be an accident waiting to happen, and our portfolio of leading companies selling at 2/3rds of book value and 11 times earnings is a compelling investment! We vow to remain steadfast in our value discipline.

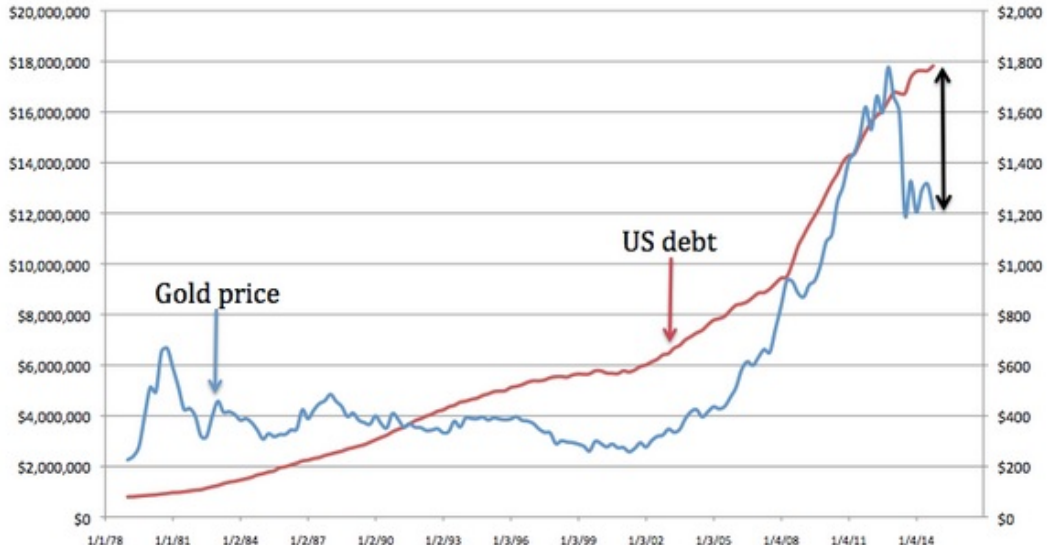
Thank you for your continued support.

Cheers,

David B. Iben
Chief Investment Officer
Kopernik Global Investors, LLC
October 2014



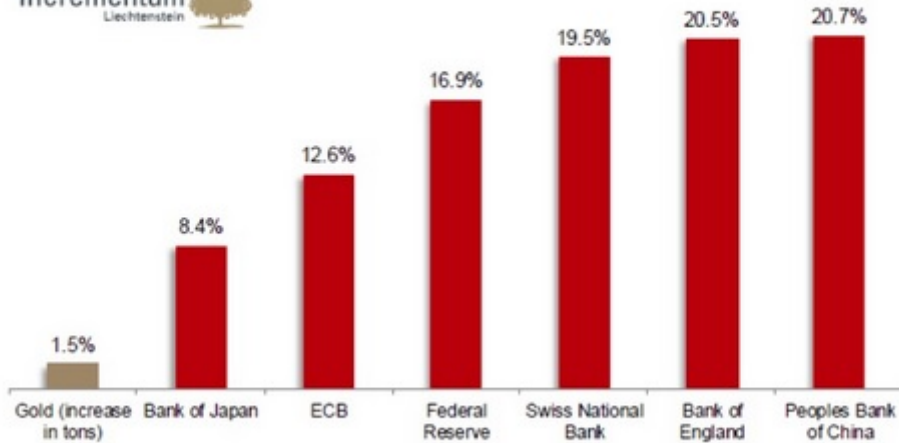
Price of Gold in USD vs. US Total Debt (millions)



Sources: World Gold Council (gold price), US Federal Reserve (Total US government debt)

www.SovereignMan.com

Annualized rate of change of central bank balance sheets vs. annual growth in gold supply (2002-2014)



Source: Datastream, Bloomberg, Incrementum AG

This letter does not constitute a recommendation, an offer to sell, or a solicitation of an offer to purchase any security or investment product.