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listeningin

Provocative, Patient, Contrary

Kopernik Global Investors' Co-CIOs Scour Map For Disdained Values


Alissa Corcoran and David Iben

That's Dave Iben and Alissa Corcoran, CIO and Deputy CIO, at Kopernik Global, checking out the Impala platinum smelter at Ngezi, Zimbabwe, on a pre-Covid research jaunt.

Dave, one of the top-value managers extant, is no stranger to long-time WOWS readers. His interviews have alternately provoked and enthralled them over the years. Alissa first worked with Dave more than a decade ago, at Vinik Asset Management, and gamely switched to Kopernik when Dave founded it, in 2013. Her ascent from analyst has been steady ever since.

Let me be clear, neither Dave nor Alissa had a thing to do with the very late publication of this issue of WOWS, originally planned for Feb. 17 — and now arriving a week after the date on these pages. That was all about a nasty and persistent bout with Covid, plus a Plaxovid rebound. Sorry, believe me!

But I truly expect you'll find this Feb. 6 interview with Alissa and Dave as insightful and pertinent now as it would have been several weeks ago. Downbeat as they currently are about most of the U.S. investment landscape — finding still-high valuations, inflation and a $31 trillion federal deficit likely a formidable drag on the S&P's prospects — the two are enthusiastic about under-appreciated domestic natural gas stocks as well as hard assets ranging from uranium and gold to farmland. Listen in. — *KMW*

In Memoriam
Steven Leuthold
1938 - 2023
Founder, The Leuthold Group, LLC, creative, contrarian investment strategist, portfolio manager, intrepid researcher, idiosyncratic technican, writer, charming raconteur, conservator of forests, WOWS Interviewee. A terrific friend.

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Welcome back, Dave. And welcome, Alissa. I'm always thrilled to see young women succeeding in this business. It's nice to meet you, even on the phone.
Dave: How's everything been?

Won't complain — no one listens. And the markets continue to provide challenges aplenty. The January bounce and February retreat definitely have been entertaining —
Dave: Yes, but I'm getting encouraged that the comeback to value is going to be for real, the last month or so notwithstanding.

Spoken like a true believer. I know Kopernik just celebrated surviving and actually thriving in its first decade, no small achievement for a value shop — even if you, all by yourself, did bring some 30 years of value investing experience into Kopernik. It's been a very long time now since value investing led the performance derby. So what really defines your performance at Kopernik? Patience or sheer stubbornness?
Dave: I suppose that's a matter of perception, at least to some extent, but we think it is patience. We've got some nice examples now. For instance, we were telling everybody — 10 years ago, nine years ago, eight years ago — that the best thing out there was uranium. We argued back then that there was a good case the price could stay at 20. But — maybe it would go to 60 or more. At that point many people preferred holding bonds that paid 2% or 3% a year — for the certainty of that return. But our attitude is, if we can triple our money, it's worth the wait. Well, for the next four or five, even six years, we looked pretty stupid for making that call. Then, boom, these stocks went up five, 10 times in one year. We said, "Well, look at the math now." And there have been two or three other investments in which we've seen gains of around that magnitude — gold stocks among them.

What's more, I imagine our investments in some broader value plays in emerging markets and other out-of-favor sectors will work out the same way. The math shows a pretty good return on patience — even if you have to live with delayed gratification for quite a while.

"I had thought '99 was the ultimate bubble — I thought I was going insane, maybe. I thought nothing could be that crazy. But now it seems almost tame in retrospect."

Alas, there's not a lot of evidence of patience being practiced by the majority of investors these days. I imagine that shrinks the size of your potential investor pool.
Dave: That's the problem, although I have always loved Jean-Marie Eveillard's quote, "I would rather lose half of my clients than half of my clients' money."

It is a true classic. Like Jean-Marie.
Dave: We've also been fortunate that in every year but one, the fund has enjoyed net inflows — despite many value strategies not working very well — so we feel pretty fortunate.

Well, with every year that the bull market aged, it made more and more sense to hedge your bets that the market was heading into the stratosphere.
Dave: Yep.

Alissa: With each year that goes by, you're one year closer to the cycle's turn.

Exactly. Which does look like it's in motion now, despite the January head fake. But before we go on, how about explaining the shifting of titles at Kopernik that has Alissa sharing the CIO role?
Dave: Sure.

My impression is that Alissa has been at Kopernik from day one, hasn't she? I know she was at Jeff Vinik's firm during your brief sojourn there. *Everyone's* brief sojourn there —
Dave: Yes, Alissa has been here from the beginning. We've been fortunate with our team. We've had very little turnover. So what's taken place is more of an evolution of roles and titles than any big change here. Alissa has taken on more and more responsibility every year since she's gotten here. Four or five years back, we put her in charge of the

research process, which worked out really well. More recently, she has been working with me every day on the portfolios and on managing the investment part of the business. Last year, we thought it was about time that we gave her the title and recognized what has been the status quo.

Gee, that probably means that she has four or five more years to push you into retirement —

Dave: Never say never, except that I'm one of these guys who lives and breathes my job, so that, God willing, I will just die at my desk someday 40 years or so from now. But we'll see.

My old partner in crime at *Barron's*, Alan Abelson, shared that goal, and practically achieved it.

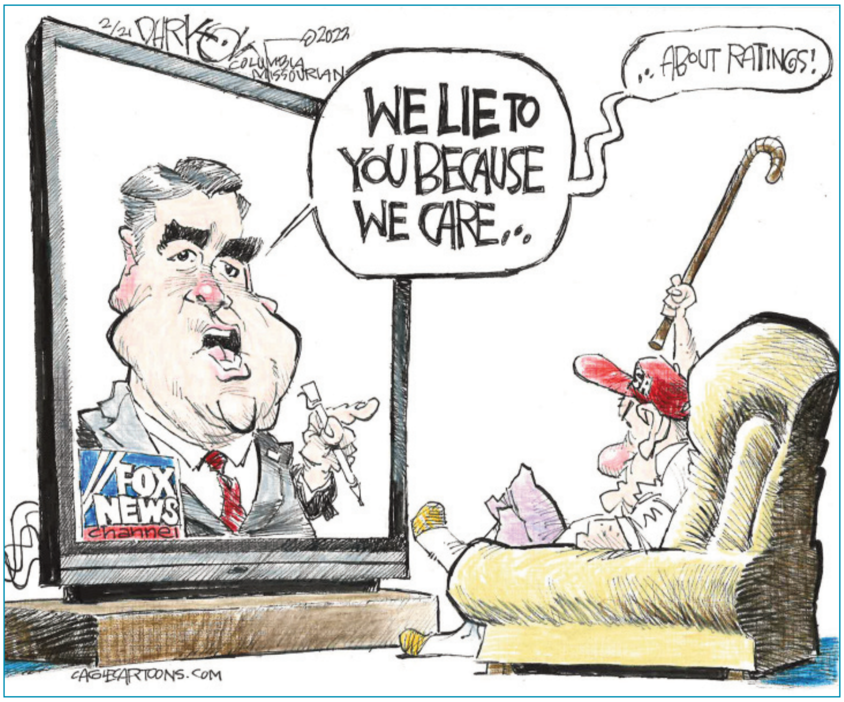
Dave: It's the greatest business in the world even when there are frustrating decades. You actually get paid to talk to interesting people and learn about interesting companies — and make money doing it.

What's not to like? Even with its "daily performance reviews," the market is a heck of a lot more engaging than many alternatives. Did I see somewhere that you entered college aiming at vet school? A cynic might suggest that explains your predilection for the market's cats and dogs —

Dave: I think not! It is true that I intended to become a vet, and luckily, I loved the science. But I also discovered the stock market in '75/'76 when it was bouncing off of those generational lows. I began by creating and tracking paper portfolios because I had no money. Friends in business school noticed what I was doing and suggested that I take some statistics and economics classes — which I found as engaging as the pure science. And when I discovered I could pursue a career in finance, I was sold.

Your timing was better than mine. I started working for Dow Jones just as the markets fell into the sink hole of 1974. "The bottom" felt like a very abstract concept at that juncture.

Dave: Yes. But then, as the bottom formed, valuations just started looking *so cheap*. That's when I discovered the stock market. And then I also lucked into the business with great timing — starting work on the first business day of 1982. Which meant that I got to experience working during the six and a half months at the end of that long 16-year bear market. But also that I was there when the cycle turned — and the markets have gone virtually straight up for the 40 years since then.



Fox News Lies, by John Darkow, Columbia Missourian

Until last year. If you don't count some short intervening bears, or the Great Recession —

Dave: Yes, but I somehow got the long secular bull market timing perfect.

Lady Luck couldn't have hit it much better. If you had to deal with the kind of frustrations that have beset value investors for the past decade when you were right out of school, you might have reconsidered veterinary medicine.

Dave: Yes, I don't know what I would've done.

Alissa: That's the experience I had, though.

Like me. Do tell —

Dave: We threw Alissa right into the fire.

So typical! In my experience, Alissa, when you start working in the markets during a nasty bear, you tend to perennially look at investing as a glass half-empty.

Alissa: So I've heard. And I try not be overly influenced.

Anyway, Kopernik's steadfast clients can look back at very respectable investment performance over the last decade, even though it was largely hostile to value investors. Maybe it was not as thrilling as meme stocks, but you generated better returns over the long haul.

Dave: Yes, we're pretty boring here. And it is true, if somebody had told me, 10 years ago, that over the next decade, emerging markets are going to do poorly and value strategies are going to do terribly and non-U.S. investments are going to do really poorly and hard assets, real assets, are going to do poorly and gold stocks will GO NOWHERE, I would have thought, wow, we're going to lose 90% of people's money. Instead, we doubled their money, so it could have been worse.

Could have been a lot worse, considering how much capital was ultimately vaporized across the market. But who have thought that the kind of insane bubble markets that we saw in '99-2000 could return so soon and basically persist over much of a future decade?
Dave: I had thought '99 was the ultimate bubble — I thought I was going insane, maybe. I thought nothing could be that crazy. But now it seems almost tame in retrospect.

It does. I have to remind myself that even the 1987 Crash is barely a blip on most historical stock charts.
Dave: Yes, back in '99, the bubble was pretty much just tech, media, and telecom equities going crazy, although the madness also carried the tech-heavy indices up with it. But in the last two or three years, it hasn't been just the tech-heavy broad stock indexes, but bonds and real estate and art and you name it — all going nuts together — and all financed by massive amounts of debt. Which you didn't have in '99. This latest bubble is a million times bigger than '99. Which didn't seem possible until we saw it.

No, it didn't. It has defied many predictions of its imminent demise. To the point that many bulls are confidently proclaiming the January bounce either the old bull's resurrection or the start of a brand new one. What makes you think otherwise?
Dave: I have a lot of reasons we can discuss. One is that — as you know — the governments and the central banks have done everything they can to elongate the cycle. But fundamental, structural economic cycles cannot be eliminated. And when they make them longer and deeper, that is just going to make the inevitable process of the cycle going back the other way carry longer and deeper. Everyone remembers how wild the tech stocks got in '99, but they tend to forget that even the indexers were having a field day back then because the indexes were so heavily weighted in tech. That's why we value investors were on the endangered species list during the 1999 - 2000 bubble, too.

True that. Value styles were widely dismissed as hopelessly out of tune with the times. Relics.
Dave: Yet when that market cycle finally turned, the next seven, eight years were almost too good to be true for value investors. It was crazy how well we did early in this century. But now, as we've acknowledged, we have had another long, long cycle of value stocks going nowhere, ever since the Great Financial Crisis. *If* you go back and look at how a lot of the value-tinged stuff has done from 2007 up through last month, their performance is pretty uninspiring. Over that span, China was down, I think, a lot of the emerging markets did very little. A lot of commodities prices are lower now than they were in '07 — despite a tenfold increase in the money supply. Fundamentals-wise, there are a lot of these things that are cheaper now than they were before a tenfold increase in the money supply.

Proving I suppose, that cheap can always get cheaper.
Dave: Alas. They're downright cheap in their own right, but as inflation continues to migrate through the economy, that, I think, is encouraging. What's more, that's just looking at the past. In terms of the numbers, the prices people pay for stocks in the U.S., versus the prices you pay for stocks in any other country — there's a huge valuation gap. U.S. stocks are *really expensive*, versus *very cheap* stocks in the Rest Of The World. Take your choice. Really expensive or really cheap? While this gap between Value valuations and Growth valuations has corrected a lot over the last year, it's still very pronounced. How much people are willing to pay for growth versus what they will pay for value. Even within the value universe, the gulf between what people are paying for the quality franchises versus what they are willing to pay for some of the more traditional value names is still pretty pronounced.

Then too, consider the dollar. Most people hated the U.S. currency a dozen years ago —

Before it went tearing even higher —
Dave: Yes, at least in the ways that most people look at the value of a dollar. The dollar that people hated a dozen years ago then went on a tremendous run when looked at in the way most ways people look at the buck.

Sounds like you have other thoughts.
Dave: It seems to me that the dollar could be vul-

nerable here — in other words that it might be a good time to own other things. As I mentioned before, people like to debate value. What is value?

What's your answer?

Alissa: It seems to us that if something is *needed* and it is *scarce*, it is inherently valuable.

Dave: And *most people* thought that way — up to the mid - to - late 1970s when they said, en masse, who wants financial assets? Who wants to own bonds? They only go down.

People started calling bonds "certificates of confiscation," as I recall.

Dave: Absolutely. And, of course – the chorus also asked, who wants to own stocks? They only want to go down. Everyone piled into gold and oil and commodities like that.

I do remember when hard assets were all the rage. But that mania didn't really last very long, in retrospect. A year or two.

Dave: Because that was Paul Volcker had already starting slamming the brakes on the money supply. But that juncture, when nobody wanted to own financial assets — was clamoring for gold or silver — that was the time to buy bonds yielding 15% and to buy growth stocks that were trading at 12 times earnings. That was also the time to get out of gold at 600 and to get out of oil at 36 on its way to 10. Two years ago, and somewhat again right now, the situation we are facing is just the opposite. People love stocks and bonds. As is quite evident, they are still taking any chance they can to pour money back into these financial assets, pretty much regardless of valuations. Despite relatively poor performance last year, stocks and bonds are still *not* cheap. Meanwhile, investors are once again ignoring things like oil and gas and gold and copper and lumber, which are back to being pretty cheap again, after their recent corrections.

It's too staid, complicated and also just very unhip to buy real, tangible assets — plus, then you would have to worry about nettlesome things like inventories, logistics and crop yields; mining permits and weather events. Storage costs and insurance, even.

Dave: You are right, there hasn't been a lot of buzz in buying something as elemental as commodities, certainly not in a world where, just a year ago, people were quite willingly competing to pay millions of dollars for a "digital home" in the metaverse. How could owning real lumber possibly compare?

Let's hope that craze has come off the boil. If a certain former president's offering of digital trading cards — excuse me, NFTs — didn't cap it, I can't imagine what it would take.

Dave: Maybe. Maybe we have backed off from peak insanity. But when I think that for thousands of years nobody ever even considered the idea of negative interest rates, yet we have actually seen them for a decade — in Europe and Japan — and zero rates here, I'm wary of declaring that the unthinkable can't continue to happen.

I suppose that's wise. After all, banks actually booked business at those "rates."

Dave: Yes. It's so interesting. If the prices of stocks and bonds and real estate are set off of interest rates, and interest rates are at zero or at negative yields in real terms, then things get overpriced. And if playing around with interest rates leads to mal-investment, it makes sense that we probably had massive amounts of mal-investment over the last decade — that we're just beginning to see. What that all adds up to, I will say with great bias, is that people are going to want active investment managers again.

They're going to want people who can roll up their sleeves and do fundamental, bottom-up analyses on companies and figure out supply and demand and valuations and all these things — as the broadly overpriced stocks and bonds come back to earth. That may be wishful thinking on my part, but it makes sense.

It *makes sense* to me that last year and probably this year are about moving away from peak passive — the tyranny of the indexes. But who knows? The indexers and the ETFs coalesced into a pretty darn efficient perpetual motion machine for sucking investor dollars into passive assets — and unrelentingly bidding up the indices. It may have looked like a Rube Goldberg contraption at first, but once the flywheel got going — I don't want to count it out too soon.

Dave: Oh, everything was designed to keep them going up, but nothing grows to the sky.

There are lots of bulls on the other side of that trade. Why are they wrong?

Dave: We could point to a number of things, but a big part of it is that all the excitement around and promotion of MMT [Modern Monetary Theory} a year or two ago looks now like it convinced enough governments and companies to take on so much debt, that it will increasingly be a problem to service that debt down the road.

Especially at higher rates. Won't that likely make it harder to keep the perpetual motion machine going?

Dave: Maybe that's why interest rates have stayed negative in real terms here. Maybe interest rates can't go to zero again in nominal terms. That would likely have serious implications for all of these heavily indebted governments and businesses. If the cost of money isn't zero or less, there will be real implications for heavily indebted businesses.

A real cost of money would introduce quite a bit of friction to the system — something neither businesses nor government is used to dealing with any more. But the bankruptcy bar will have a field day.

Dave: Companies in the habit of borrowing money to buy dreams will be particularly pinched. It's better if that borrowing is free.

No doubt. But I don't think financial assets likely will stage a big straight-line retreat any time soon. Risk-on investors are giving every indication that they'll fight the bear tooth and nail. A sawtooth decline would provide opportunities for agony at every turn.

Dave: I'm sure you've seen all these different stats that show, I can't remember the specifics, but like the ten biggest up days the NASDAQ has ever had occurred during bear markets.

Sure, it's a staple of retail brokerage desks. Heaven forbid you sell — you're likely to miss a great rally if you do.

Dave: Right, there are similar stats for about every market. Animal spirits don't die quickly.

No way. The greed and FOMO that fuel snapback rallies don't quickly evaporate. And excessive animal spirits pretty much defined the last decade — along with copious monetary ease. But now that tightening is, however haltingly, in process —

Dave: One thing that we've been talking a lot about is this idea of why inflation really is confusing to a lot of investors —

Well, it *is* a new experience for anyone who isn't a boomer.

Dave: Well, it seems that even some boomers confuse the numbers that are put out by government bureaucrats — the various statistical series, CPI, PCE, etc. — with *money supply*. We believe that increasing the money supply is inflation — and a tenfold increase in the money supply is *really* inflationary.

You've probably noticed that, like many value guys, we like quoting people a lot. Buffett, Templeton, all of them. But we also take it to an extreme, digging back through three centuries of history to frequently quote a guy named Richard Cantillon, a 17th Century Irish/French financier and economic theorist.

Why go to all that trouble? We certainly have no shortage of economists today –

Dave: Cantillon basically wrote that money printing is not neutral. If you double the money supply, that doesn't make prices double across the board. It helps some people, it hurts some people, it helps some things immediately, it helps some things over time. From that, we understand that because of this tenfold increase in the money supply we have seen in recent years, some things will go up in price more than tenfold, some won't go up that much, some are even going to take a lot of years before going up at all.

Implying that economy-wide inflation is unlikely to take a straight path to the clouds?

Dave: Like you've seen with lumber and copper and other commodities, they can shoot up by five times, and then they tend to fall back to where they're only up by two times from their starting points. That's when we hear a lot of people say, "Oh, that's deflation." But we say it's not. History shows us that increases in money supply tend to show up in financial assets first. Then, history says that when financial assets get expensive that is what allows people to build businesses and build houses and do a lot of other things with that more expensive money. For instance, if you can make money developing real estate, you'll do it, and then the inflation — the increase in money supply — starts to go into lumber and copper and the other stuff that's needed to build the houses.

When more people are employed doing that, they earn more, so wages go up and insurance costs go up and the cost of general services go up, too. That is how inflation migrates through the economy.

We've been basically preaching that for quite some time. Especially, a few years ago when the Fed was telling us inflation was transitory. We would drop a few lines about that into every client letter we wrote, saying, no, inflation is not transitory. *It is migratory*.

It migrates from one part of an economy to the next?

Dave: Yes. The upshot is that we are kind of rafting down a Cantillon river, heading downstream with the inflation resulting from the tenfold increase in money supply. Prices are going up and down, bouncing all around us. But that gives us opportunities to buy things when they are bobbing down in the river of prices and to trim positions when they bob up.

Keep in mind that if you're eventually going to need some*thing*, need to make something *real* — if you need copper to build EVs and windmills — but people aren't building new copper mines to increase the supply, that ten-fold increase in the money supply is going to migrate into physical copper prices one of these days. Likewise, if 8 billion people want to eat food and you've printed a bunch of money, that money probably finds its way into food production.

At the risk of playing the spoilsport, that's not exactly how that inflationary impulse is moving through the markets today.

Dave: Well, the market currently tends to disagree on the outlooks for the stocks of companies that produce food or produce copper or produce gold or transportation. These economically sensitive cyclical stocks can often sport single-digit P/Es. But it still early in the cycle. While we can talk about why active management might do well and why value management might do well, the market doesn't seem ready to do that.

Most investors seem to still be playing the things that did well during the four decades of disinflation and falling interest rates. But just maybe, amid reinflation and rising interest rates, people would do well to look back at what did well in the 1970s. Look at the things that eventually benefited from the guns and butter policies of Lyndon Johnson. The ballooning monetary ease of that Vietnam War era eventually went into food and metals and energy.

It sure did, but it took quite a while —

Dave: We think it's really a wonderful thing that even after last year's big run, energy stocks are still only 5% of the S&P 500 index. Energy's share was closer to 30% when I came in the business. That spells big opportunities.

People argue that the inflationary era of the 1970s has few lessons to teach today's investors. The world and the economy have evolved too much since then.

Dave: We've certainly evolved — or devolved — or whatever. But even the government is estimating that the U.S. budget deficit is going to be $1.4 trillion with a **T** every year. Most likely, that debt — given everything we know about history and logic — will be inflated away in the future. That's happening everywhere, not just in the U.S. It is happening globally. I always ask people to name a major political candidate in any major country in the world, in any party, who is campaigning on "Let's balance the budget." People like that don't exist. They don't get any votes.

Well, the new Speaker of the House seems to be talking that — at least out of one side of his mouth —

Dave: Oh, you have to look at the politicians' actions, disregard all the posturing.

Don't fall for the smoke and mirrors?

Dave: Basically. There are some who are even suggesting why even go through the charade of raising the debt limit. Why don't we just make the debt ceiling infinity? These are not the attitudes that arise at *the end* of inflation, I don't think. But the important point is that — because the market disagrees so much with what I'm saying —you can buy all these stocks at five times earnings, plus or minus. And do well even if I'm completely wrong.

But if all this money printed over the last ten years migrates into the real economy — the tenfold increase in the money supply — then you'll do much better in the cyclical stocks and hard assets most investors won't touch now.

Clearly, you doubt that the Fed's monetary tightening in the last six months or so has a chance of turning the tide on the inflation migration?

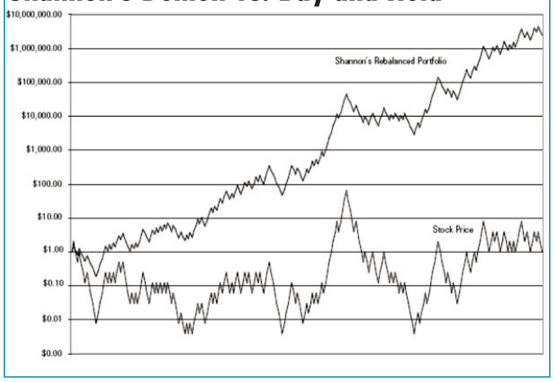
Dave: No. Too little and too late. If they want to keep deficit spending in the future, then I imagine 99% of all investors believe the Fed is eventually going to change course. That's one of the few elements of our outlook where we're aligned with the consensus. The Fed probably will turn the monetary spigot back on.

The stocks in our portfolio don't need that to happen, they're so cheap. But if that *does* happen, we've essentially got a free call option on the Fed. Central bankers inflate. Always have, always will.

Alissa: I'll just point out, if I can, that one of the big differences between the '70s and now is the vast amount of debt that is outstanding. Volcker was able to actually jack up rates all the way to 15% to cool that economy. But that would seem to be very hard to do in this environment, with both government and corporate debt loads at such enormous levels. Which means that real rates, for the foreseeable future, are going to be negative.

That's what the consensus sees — the Fed eventually having to reverse its tightening

Shannon's Demon vs. Buy and Hold



Source: Courtesy Kopernik Global

to prevent a collapse. Even Uncle Sam would be hard put to carry its debt load if it had to pay real interest rates.

Alissa: Right.

Dave: Yep.

Of course, when that happens, the only sure bet is that it'll spawn more market volatility. But you *like* volatility —

Dave: Yes. We find it interesting that so many people define volatility as "risk" —even though Howard Marks and some others have done a pretty good job of saying, well, if "risk" is volatility to some people — while to other people "risk" is the chance of permanent loss of capital — and if you can buy things cheaper, you're less likely to lose money. What's more, if most people don't like volatility, that means volatile stocks sell at cheaper levels, which actually makes them less risky — more upside, less risk. It's really a wonderful thing.

Exactly. That dichotomy of opinion on the nature of risk creates a lot of opportunity.

Alissa: We used to have charts of Shannon's Demon in some of our quarterlies showing that even if a stock goes nowhere, as long as it's volatile and you trade around that price volatility, you can make very good returns.

Wait a minute. Who is Shannon and what's this "demon" stuff?

Alissa: Claude Shannon was arguably one of the greatest geniuses of all time, even if few people have ever heard of him. As a Bell Labs scientist in the 1940s, he lay the mathematical foundations of information theory.

Which has what to do with investing?

Alissa: A lot, actually. Shannon was also a very successful investor — an extremely intelligent one who had no use for the novel financial dogma that swept through institutional and professional investment circles in the 1960s, namely, The Efficient Market Theory — markets are efficient, volatility is risk, and only suckers pay active management fees. I have a great quote from him somewhere — here — "You know, the economists talk about the Efficient Market where everything is equalized out and nobody can make any money, really, it's all luck and so on...I don't believe that's true at all."

I don't imagine that made Harry Markowitz, William Sharpe, et al quake in their boots.

Alissa: Nor do I. But Shannon used his mathematical prowess to *prove* that volatility is not risk; also, that cash is optionality, it's not a drag on performance. He showed, with his Shannon's Demon, an experimental rebalanced portfolio, that an investor can make money, even if a stock's price goes nowhere. In other words, even if stocks are truly a random walk, you can still make money.

How does that happen?

Alissa: His Demon portfolio essentially put 50% in cash, 50% in a stock and rebalanced every day, trimming the stock position when it rose, adding to the position when it sank. During a sideways market in which a buy and hold investor would have had no profit at all, Shannon's Demon rebalanced its way to a value of $1 million (starting from $1) in about 240 trades.

Dave: That's right. This chart [above] also shows that even in a stock that's going up, you can do better by alternately trimming and adding to the position on the volatility along the way, than if you just buy and hold it for the duration of its run up. Which is also very interesting.

That's heresy to the passive investing/efficient market crowd.

Dave: True — which includes most everybody.

They argue that you most likely will be eaten alive by trading costs and such. Only your broker will benefit.

Dave: Yep. But it isn't necessarily so.

Tell me more about this chart you sent me of Shannon's Demon?

Alissa: Sure. The one I've sent is from an internal presentation I gave to our research group several years ago. My point, basically, was about how — despite our intense focus on the patience and the inaction so often required in value investing — we also have to be aggressive when the market serves up a fat pitch.

I think the pertinent Charlie Munger quote is "success means being very patient — but aggressive then it's time." But I also like the way Stan Druckenmiller put it, "I like to be very patient and then when I see something, go a little bit crazy."

Let's talk about where you're finding unloved values in unappreciated places.

Dave: We are pretty much finding that we can put the things we are buying into two broad categories. We find that when we're investing in places that people don't want to be — in countries that aren't popular — then we can actually buy the kinds of stocks that every other value investor wants — these sort of compounding quality franchises — at very friendly prices. You don't have to pay up for those companies — *if* you're willing to invest in South Korea and Japan — various emerging markets.

What goes into your other category?
DAVE: The other things we're buying fit into that Cantillon theme I mentioned — as the bloated money supply courses through the economic system, scarce-but-needed things will go up in price. So, if we can buy them in the stock market *now* for less than liquidation value, we are also getting a free call option on the fact that economics works in the long run and math works in the long run. We call that "latent value."

I'm not sure I'm following. What will make that latent value manifest?
DAVE: When people can see cashflow, they are willing to put a big multiple on that cashflow. But if you say the cashflow may be out one, two, three, four, five, six years in the future, people tend to yawn and conversation over. They don't like the uncertainty. They don't want to wait for that cashflow. But we are happy to scoop up bargains on those sorts of stocks.

Ironic, isn't it? At the bull's peak madness, investors were vying for the privilege of paying infinite multiples of *presumptive* cashflow infinite years in the future.
DAVE: I always did find that interesting. It's like, we're investing in what we think is high probability cashflow — but you'll have to wait for it — and people say no. Yet, as you point out, people will give you an infinity multiple right now, on quite improbable cashflow because they've been sold a beautiful dream that it might turn into infinite cashflow.

The problem with those kinds of value bargains is that they can stay cheap longer than your investors are prepared to wait for a turnaround or something else to surface that latent value.
DAVE: Yes, but that's why we employ rigorous, bottom-up fundamental research on every security before it is admitted to one of our portfolios. Also, why we apply a margin of safety to our estimate of intrinsic value for a security. That margin is larger for stocks that have more risks — and investments are only made at prices *below* what we call a stock's RAIV (risk-adjusted intrinsic value). What's more, our purchases are *never* based on forecasts.

The geopolitical cross-currents and tensions are definitely rising. Is that giving you second thoughts about looking for value on distant and exotic shores? I know you have assets in Russia and Ukraine — and now China is floating spy balloons over our heads — can you even begin to assess those risks?
DAVE: Well, we shot it down, now we're all safe!

Can you imagine being that pilot, thinking, "God, don't let me miss!"
DAVE: I can hear the roars of "All that money the Pentagon spends and they can't hit a balloon!" if he/she had missed their target.

A giant balloon, no less.
DAVE: It is interesting. I'm not really seeing an increase in investors snubbing Kopernik as global tensions rise, or blaming geopolitics, per se. But the beautiful thing about our business is there's always something most investors don't like in our portfolios.

Because you relish the opportunity to take the other side of that trade —
DAVE: We've seen that over and over. I mean, in the last 15 years, we've seen the BRICs go from something you *must* own —

To that which must not be touched.
DAVE: Yes. You had to own them for a while, Brazil, Russia, India and China. China was only going to grow and be bigger and better. Everyone was *sure* China was going to be bigger than the U.S., by what, five or six years ago. India was not far behind. And at that point, Brazil and Russia were going to be selling every commodity to China and India forever. You *had to own* those nations. But by 2015, the script had flipped. You must *not own* them.

The BRICs were scarcely the first foreign investment fad to dash investors on rocky shores. I'm sure you remember when Japan was inevitably going to utterly dominate the global economy, back in the 1980s.
DAVE: You and I can remember that. I certainly can. But I don't think the younger people I talk to truly appreciate that history —

Japanese companies were manufacturing wizzes, impregnable juggernauts — and Japanese investors were buying up every trophy real estate project in this country.

Dave: I think there were five Japanese stocks worth more than our entire stock market.

Something like that.
Dave: One block in Tokyo around the Imperial Palace was worth more than California. Japanese investors were walking around California and Hawaii just offering people cash for their houses. They paid way too much for the Empire State Building and Pebble Beach. People thought it was just horrible then, "they're going to rule the world." But it was just the bubble talking. Now, of course, Japan is in just the opposite position. They're sitting on massive amounts of cash even though the yen is yielding nothing and depreciating.

Which just shows that the pendulum *does swing*, albeit quite slowly at times. In 2015, we were able to buy things in Brazil and Russia for a song. Then, over the next five years, Russia was the best-performing developing market on earth. Not better than the NASDAQ, but it did a lot better than the S&P. At that point, we sold the bulk of our Russian holdings, took profits, and then bought some of that stuff back when the stocks got cheaper. Those positions are what we're now stuck in, for now. But China has been interesting.

Isn't that a curse? What do you mean?
Dave: Was it three, four months ago, we had quite a few clients suggest, basically, that they understand we are value investors and contrarian, but maybe we should just admit that China is a mistake and sell. I spoke to a lot of people. I said people don't like China even though they don't like Russia, either — and nobody disagreed with me. But since then, I think China is up 60%, something like that.

Yes, the local Chinese market has gone completely bonkers.
Dave: It has gone bonkers, and even Hong Kong has done very well. Fortunately, we had been able to get some good positions there. Since then, we've lightened up in Hong Kong. But the difference in the prices you pay for good-quality companies in a place like, say, South Korea, versus what you would pay elsewhere are pretty pronounced.

You're saying that Korean value stocks are screaming bargains?
Dave: Yes, if you compare, say, the valuations of the South Korean telecoms to those of our phone companies, the disparity is pretty impressive. If you take a look at, say, Hyundai, which has a pretty large EV business itself, and compare that to, say, Tesla — well, I don't have the updated statistics at hand, but a couple of years ago, Hyundai sold ten times more cars than Tesla, but Tesla had ten times the market cap.

I guess that shows the power of marketing, in the stock market —
Alissa: Very much so.
Dave: That was shades of 1999. I remember eToys sold back then at a bigger market cap than Toys "R" Us. But that old-fashioned big box retailer, in those days, was cranking out a couple of billion dollars in annual revenues and had an online toy business that was bigger than eToys'.

That bubble was all about the brave new world of the net — and sock puppets reigned. I thought I'd seen it all then, but obviously I had not.
Dave: Who could imagine? We'll see what 20 years from now offers us.

I don't want to imagine — some misbegotten, benighted spawn of crypto and AI — So let's talk about your "latent values" in hard assets — which have been in investors' penalty box for years. Are you being patient or just stubborn?
Dave: Where do we draw the line between patience and stubbornness? Stubbornness is "this is what we're doing and we're going to not listen to any input." It is the other extreme of just blowing with the wind and changing your mind every time there's a new input. That's a guaranteed way to fail in this business. Stubbornness can get you blown up. On the other hand, I think we are patient when we've done our homework and we know why we own something at a distressed valuation. When we think the upside is phenomenal and decide that we're going to wait however long it takes. When a position deserves our patience, we are not going to sell just because some hysterical stories come out or because there's an economic downturn.

Even Keynes said he changed his mind when the facts changed —
Dave: Right, and for that reason we are, however, *very open-minded* to anything that suggests our analysis was wrong or that the world has changed a lot. That's one of the nice things about the really boring stuff we own — something like copper is boring but it is probably not going to suddenly go obsolete. Corn and palm oil and things like that are also pretty boring, but we're probably going to keep eating. We can talk about whether we wean the world off of natural gas in 50 years or in 40 years. But it's not going to be in three years. These things

are the opposite of disruptors.

Because?

Dave: I actually wrote a piece a few years ago talking about how disruptors are exciting and they can have big upside, but they're also risky.

Disruptive companies tend to arise in businesses that can be disrupted, so they're actually riskier. A company might be a disruptor today, but they might very well become a disruptee down the road.

Whereas boring businesses like nuclear reactors and hydroelectric dams and copper mines and farming franchises are highly unlikely to be disintermediated. That knowledge makes it easier for us to be patient holders of those kinds of positions until we find evidence that people have discovered better, cheaper conductors of electricity than copper or have invented little pills that mean we don't have to eat food anymore. In that case, we would give up on our patience.

And you said you vary the size of the margin of safety you require?

Dave: Absolutely. As value investors, we don't pay full price for anything. We always insist on a margin of safety. We've always believed that if Exxon, say, decided to move to Indonesia tomorrow, that would present us with more risk, not less risk. Therefore, we should want a bigger discount, and that's served us pretty well.

Occasionally, we do get burned in the emerging markets. But the idea is that if you invest at a good margin of safety, you will make more money when you are right than you will lose when you are wrong. And hopefully, you'll be right a lot more often than you are wrong. The math works out pretty well.

Meanwhile, people nowadays, maybe because of social media, seem even more than ever inclined to default to a binary thought process. Things either are *good*, or things are *bad*. We find that investors either love something and say they are going to own it forever, or they hate it and say, "we wouldn't buy that at any price" — and that is music to our ears.

While we are also reluctant to buy things in a country that has more risk, if it deserves a 40% discount and you're giving us a 70% discount, great, we are buyers. Likewise, we are reluctant to own things that have a lot of debt, but if the debt makes it just a little risky and yet the discount on offer is huge, we're happy to buy that, and so on. Lots of investors are way too binary today in their thought process, we believe, and that's an opportunity.

Let's delve into your positions. Your U.S. weighting is minuscule, I take it, relative to the Rest Of The World?

Dave: Right, if you don't count a couple U.S. gas companies — an industry where the U.S. actually has a competitive advantage — we don't really have money in the U.S.

It's unusual to hear that the U.S. has a competitive advantage in any tangible asset business, anymore.

Dave: I know. It's interesting. But we do have lots of gas — and cheap gas. Now, in a world where we can sell our gas to Europe, which is no longer buying it elsewhere, everything is in the quality U.S. gas producers' favor.

I take it you're much more heavily exposed to Canada, with its vast stores of hard assets?

Dave: Yes. The Canadians, somehow or another, just through accidents of history, have acquired vast stores of hard assets around the globe. You can look almost anywhere in the world and they are major owners of the oil, gas, uranium, gold and silver resources. Now, because people are selling these resources at very cheap prices — like I say, way below the prices where they sold a long, long time ago — those bargains on offer have led us into those shares. Hence, Canada is our biggest exposure for the resources. There are a lot of other things to like there, as well, but investors generally don't want to explore other assets there, outside of natural resources.

But if people don't want to own good franchises, phone companies and transportation and industrials and things like that in Canada, then Asia starts becoming very interesting. Places like South Korea, Japan, China —

In South Korea?

Dave: Absolutely. I don't know why the South Korean market sells so cheap — except that maybe some investors don't even consider it an emerging market. It arguably just doesn't have the development issues the other EM markets do.

Anyway, we own auto companies and auto parts makers there, a bunch of conglomerates and the South Korean telecoms. Also, a couple financials — in reinsurance and a bank.

Let's talk some specifics.

Dave: We're happy to throw out ideas of stocks we really like — ones in the areas of agriculture or energy or transportation or metals or various emerging markets.

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I'll listen to all of them. But first, I have to ask, as an industry, mining is notorious for spawning companies that are "nothing but a hole in the ground with a liar standing on top." Canada has had its share; it's not been confined only to more exotic environs. How do you avoid the cons?

Dave: We always love that quote. But Canada did have Bre-X —

A particularly spectacular fraud, one I rather fondly remember reporting on.

Dave: People always ask, do we visit managements or visit the companies' operations. Generally, we do, but we say, it depends. We're happy to own Nestle without heading out to Switzerland. But we visit a lot of these mining companies because if it's just a liar standing next to a hole in the ground, we *can* avoid that. If you see tons of people at work and hundreds of millions of dollars being spent on infrastructure and ball mills and slag mills and you name it, then you feel much better about it.

Alissa: Then too, we also diversify.

Dave: Right. We buy them way too cheap and we diversify our holdings.

Let's talk about some of the things you like in the energy sector before going deeply into mining. Natural gas is widely disdained by passive investors, and the ESG crowd won't touch it — creating an contrarian opportunity, I assume?

Dave: Just the way that passive investing becomes self-fulfilling in the short run when everybody's doing it, but in the long run creates opportunity for active management because you can pick the good ones, ESG has shown itself to be even more of an opportunity creator for active managers. Do we all want the world to be a better place? Absolutely. But does that mean that some group somewhere can tell us — black or white — this company is bad and that company is good?

You're suggesting there are often 50 — or 500 — shades of gray to analyze?

Dave: Thinking that some outside arbiter can make a binary call on a company's virtues was a colossal mistake the market made. But it was very helpful for people who actually were more interested in thinking about which companies are better. Thinking about which companies can improve — and helping them improve. Especially compared with just mindlessly selling a lot of good companies at cheap prices. Then too, of course we would naturally end up with three or four organizations — with completely different ideas about which companies are good and which ones were bad — vying to sell their ranking services to the world.

SWN Southwestern Energy Co. (NYS) Delayed quote data 2/23/2023 04:00 PM

Last:	Change:	Open:	High:	Low:	Volume:
5.14	+0.10	5.14	5.18	5.04	22,101,510
	Percent Change:	Yield:	P/E Ratio:	52 Week Range:	
	+1.98%	n/a	3.7576	4.57 to 9.87	
After Hours Trading 2/23/2023 05:53 PM		Last: 5.1799	Change: +0.0399	Volume: 171,736	

Company Data

Company Name:	Southwestern Energy Co.
Dow Jones Industry:	Upstream Oil & Gas
Exchange:	NYS
Shares Outstanding:	1,103,578,600
Market Cap:	5.56B

RRC Range Resources Corp. (NYS) Delayed quote data 2/23/2023 04:00 PM

Last:	Change:	Open:	High:	Low:	Volume:
25.26	+0.71	25.10	25.51	24.555	7,226,067
	Percent Change:	Yield:	P/E Ratio:	52 Week Range:	
	+2.89%	1.27%	5.0937	22.06 to 37.44	
After Hours Trading 2/23/2023 06:03 PM		Last: 25.26	Change: n/a	Volume: 982,618	

Company Data

Company Name:	Range Resources Corp.
Dow Jones Industry:	Upstream Oil & Gas
Exchange:	NYS
Shares Outstanding:	241,635,160
Market Cap:	5.93B

All individual stock charts sourced at www.BigCharts.com

Again, we're all for saving the world. We just don't think that dumping a stock at the bottom saves the world. Instead, we try to be proactive and talk to managements about doing the best they can to improve things that need to be improved. And energy is an area where we think we can help our clients and the world at the same time — by *not* avoiding the stocks.

Alissa: We did a whole ESG webinar in 2021.

I saw it.

Alissa: That was at the peak of the ESG craze. It was so interesting to see how people wouldn't look through the ESG fad, look at what the ratings companies were doing. So investors would give Tesla this huge valuation for supposedly being a clean car company, and meanwhile, the copper mining companies were being given very poor ESG scores. Despite the inconvenient fact that the world needs all the copper the mining companies can produce to make the transition to electric vehicles.

Not to mention that we also need lots of rare earths — and much safer, more efficient battery technologies.

Alissa: Yes, and green ways to dispose of them.

Dave: It was amazing, the volume of flawed thought going into a lot of ESG stuff.

One of my favorite perversities is companies getting better ESG ratings after they dump "dirty" assets to marginal operators — ones highly likely to pay zero attention to environmental externalities.

Alissa: The greenwashing can be so transparent.

Dave: Absolutely true.

Okay, which energy companies do you like?

Dave: We can give you one gas company and one uranium, which is a clean energy.

Might as well, now that "cooking with gas" is supposed to be an epithet!

Alissa: One gas company we like is Southwestern Energy (SWN). This is a company that is among the largest natural gas and natural gas liquids producers in the U.S.

Natural gas producers wrongfooted investors even before the ESG craze —

Alissa: Yes, the U.S. natural gas industry was undisciplined to an epic extent during the fracking boom in the early part of this century. The companies brought on way too much supply for the market to easily absorb, levered way up and then levered up some more to do acquisitions — so when the cycle turned in 2015-2016, we took our time. We waited until the stocks plunged 80% or more before we started buying. Then, in 2020, during the pandemic, they got hit again, ending up priced for bankruptcy. In fact, we had added Southwestern to our portfolio in the late fall of 2019 — and watched it plunge from there.

But now many of these natural gas stocks are up multiples from where they were trading then. As we just talked about in terms of ESG, we like the idea of getting away from using hydrocarbons and natural gas, for the sake of Mother Earth, but —

Who doesn't?

Alissa: Fossil fuels still provide 80% of the world's energy. That's not going to change overnight. The transition is going to take a long time, and natural gas has to be part of that solution. That's why we like companies with long-lived reserves — and Southwestern certainly has very low-cost, long-lived reserves.

What's more, with European natural gas trading at so much higher prices than U.S. gas, over time that disconnect should narrow. The upshot is that we like Southwestern and we also like Range Resources (RRC). We think many of these companies' shares can go up by multiples of their current quotes.

As survivors, they're unlikely to repeat the industry's mistakes of the early 2000s — at least any time soon?

Alissa: That's our bet. But forgetting that discipline in the good times is also typical of what we've seen in many mining companies. They always promise discipline at the bottom, but when the cycle turns, and the good times roll, they'll make the same mistakes. This is where being an active manager is so important to investing in resource stocks. You can't just buy and hold these cyclical stocks. You have to buy them at the bottom of the cycle — and then be patient because the cycles can go on for longer than you would ever expect. But you can't fall asleep.

Or simply buy and hold?

Alissa: No. As the optimism grows and the mood changes, the share prices rise, the managements get more confident, taking on more debt and then buying more assets. By then, their investors are clamoring that all they want is growth, growth, growth — until they overdo it, and the cycle turns down — and the whole thing starts over again. But for now, we like where our natural gas companies are in their cycle.

The natural gas stocks have actually bounced pretty decently off their 2020 lows, so you're saying they still have plenty of upside?

Alissa: Yes, though I will say our position is smaller than it used to be. We tend to aggressively trim our positions on the way up. But now the stocks have backed off from their peaks, so we are adding back to our positions.

Can you run through for me how you value a resource stock like Southwestern Energy? What goes into your intrinsic value analysis?

Alissa: Oh, sure. With all resource stocks, we're looking at their reserves and their resource bases.

Proven or prospective?

Alissa: Strictly proven. When we're buying a gold company, say, we don't have any interest in buying a management team making promises to find gold. We're always skeptical of a management's expected success rate. What we tell those companies is, "we'll take a look once you've found the gold." And that tends not to cost us much. Especially in the earlier stages, these companies can trade at very cheap valuations — even after they've found deposits.

How do you decide what to pay for them?

Alissa: We start with our incentive price, which is the price that we think will balance supply and demand for that resource. That is our long-term price, our anchor. Then we ask, all right, what's a normal amount they could expect to make over the cycle at this incentive price? We apply that margin to our incentive price — and we use that for all of their gas production, for example.

However, as we've talked, there are a lot of risks. Management teams can misallocate capital. Maybe the resource that they say they have depletes faster than expected or maybe it's not all there. Or geopolitical risk rears its ugly head. Suddenly now you have countries saying, "Oh, you shouldn't be making this much money on hydrocarbons. We're going to increase your taxes." The regulatory or geopolitical risks tend to increase with the price.

Gee, why isn't that shocking?

Alissa: You've seen a few things. Those are some of the circumstances that you have to be wary of as an investor. And some of the reasons why we require big margins of safety before we invest.

Dave: When it comes to the gas companies, we value them at how much their gas is worth. On a more traditional valuation, something like Southwest is worth more than where it is currently trading, which is four times earnings. We've found it very interesting however, when using a discounted cash flow model, how much precision people will assign to their models. I mean, you are creating a *model*. You are making a *guess* on cash flows for the next 10 years, and then you're making a *guess* on the margins the company will earn on those sales. Then, you're making a *guess* on the discount rate out 10 years from now — and you're plugging all that into your DCF model. That's really tough to do with anything, but it's especially tough to do with commodities. The volatility of those markets is all over the place.

Your point is that there's lots of false precision in many analytical models?

Dave: People can do what they want, but that temptation is very much there with DCF models. Let me put it this way. If I take a gold coin out of my pocket and ask, "what is this worth?" someone will say, "about $1,900 these days." If I then ask, "Suppose, I dig a hole, toss it in and bury it and then ask, what's it worth now?" They'll probably say, "about $900." And I'll respond, "We are a buyer." But then someone will inevitably try to counter me, saying that I'm forgetting about the time value of money. But if something is both scarce and needed, it will probably hold its value over time.

I'm expecting that if I pay $900 for that gold coin, we're going to better than double our money. That's pretty good. If I'm wrong about it keeping its value over the time between now and when we dig it out, I've got a big safety buffer built in there. Generally, if I take the coin out of the ground next year, and if inflation has been 5%, then its price is likely 5% higher. The same thing would apply to food then — it's likely 5% higher. And pretty much to anything else. Now, in any given year maybe that won't be the case. But for lots of companies in lots of years, if they make needed scarce goods, they're likely going to hold their value over time. I'll let other people try to precisely guess what the price of gas is going to be 10 years from now and what's the level of the discount rate then.

And then work out their answers down to four decimal points, at the least.

Dave: Absurd, isn't it? The question I'd rather ask is, if we liquidated all that gas now and paid all the expenses and paid off the market cap, how much money will we have left over? If we'd have a lot of money left over, we'd say we're buying it below liquidation value.

Then, if gas goes to that equilibrium price that Alissa has talked about, we're going to make a whole lot of money — and we're not going to worry as much about the timing — because it probably holds it value and we're buying it at very cheap prices.

You seem to be lumping gold in with the scarce commodities you're talking about. Don't get me wrong. I enjoy my gold jewelry as much as the next woman, but isn't gold really just a barbarous relic? Who really *needs* it?

Dave: That comes up quite a bit — people will say, "We get it, we need petroleum for the car and we need corn to eat and we need copper to put into the industrial infrastructure, but gold, while pretty, is useless." At which point, I'll say, I actually kind of agree with you. Gold doesn't sound like a commodity, gold sounds like *money*. We don't eat dollar bills and we don't put yen in the gas tank and we don't put euros into industrial processes.

Gold is a *medium of exchange*, and gold has been money for thousands of years.

True, but younger generations are far more enamored of digital alternatives.

Dave: And how have those turned out?

Point taken, So far, anyway.

Dave: Then we say, well, if gold is valued as a commodity, then it's worth somewhere north of $2,000 an ounce, certainly. And when gold has risen to $2,000 here and there, in recent years, that has not made anybody go out and start building a new open pit mine. So it's likely that the price of gold needs to be well above $2,000 as a commodity to balance supply and demand. But if gold's not a commodity, as you say, if it's just money, then people should look at the supply of gold versus the supply of dollar bills.

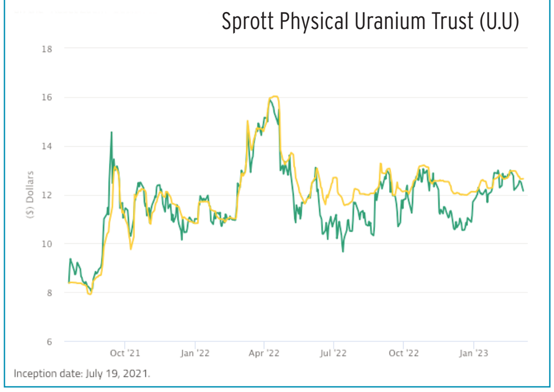
In my career, that ratio has gone from $400 to — where's it now? — tens of thousands. So, you can make a case that gold is worth many multiples of where it's trading now. What we do is say, "hey, we want to buy these assets so cheap that we'll make money if we're wrong and the market's right." Even if gold stays at 18-hundred per ounce, we want to be able to liquidate and make money. If gold is a commodity, instead, the price will eventually go up by $400, $500, $600 or more, and then we'll make a lot of money.

And if gold, rather than acting like a commodity, starts being viewed as money again, then we'll have massive upside that we haven't paid for, free optionality. That's one thing we like about gold stocks.

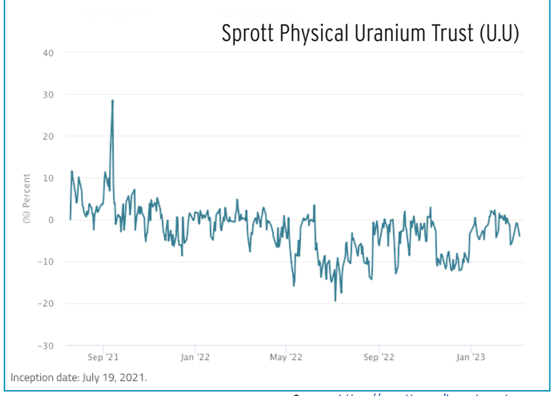
Can't argue about free optionality. But in recent years, crypto has made a strong run at alienating investor affection for gold as a money substitute.

Dave: We tell people we don't disagree. It's an interesting concept. It certainly has the ability to be a better medium of exchange and it's arguably a really good store of value. However, we were told in the past that central banks wouldn't print more dollars, and they did. Now we have the algorithm mavens telling us they're not going to print more Bitcoin or Ethereum. Maybe that's accurate, maybe it's not.

Market Price vs. Net Asset Value Since Inception



Historical Premium/Discount: Market Price to Net Asset Value



Source: https://sprott.com/investment-strategies/physical-commodity-funds/uranium/

Crypto promotors say it can't be hacked into, but you frequently read in the news that it has been hacked into. And you also read things like, if there's a sunspot or an atom bomb or many things in between, a crypto system could be knocked out. Then what? Or if you lose a password, then what? Bitcoin might be fine but it's risky. Gold is really boring, but boring's good. Even if none of those bad things is going to happen, I want my savings to be boring.

You mentioned uranium earlier. A lot of investors react like it's radioactive. Which of course it is –

Dave: The story there is pretty compelling.

Alissa: Yes, but what's more, the market price of uranium has been way too low for way too long. Uranium trading at $18 a pound during the pandemic was a joke. Now it's around $50 but we think it has to be north of $75 - $100 to incentivize any new supply. Mine supply is well below current demand, and the difference has been made up for quite some time by up by excess inventories, secondary supplies.

Selling off Russia's nuclear stockpiles –

CCJ Cameco Corp. (NYS) Delayed quote data 2/23/2023 04:00 PM

Last:	Change:	Open:	High:	Low:	Volume:
27.09	-0.04	27.46	27.47	26.855	2,567,561
	Percent Change:	Yield:	P/E Ratio:	52 Week Range:	
	-0.15%	0.35%	150.2496	20.015 to 32.49	
After Hours Trading 2/23/2023 07:40 PM		Last: 27.05	Change: -0.04	Volume: 4,662	

Company Data

Company Name:	Cameco Corp.
Dow Jones Industry:	Non-Ferrous Metals
Exchange:	NYS
Shares Outstanding:	432,500,100
Market Cap:	11.75B

Alissa: But that can't go on forever. This supply/demand story is something we saw when we first started investing in uranium back in 2013. We thought those fundamentals were really exciting, but then the cycle has stretched out for a long time. But finally, the junior miners of uranium responded to the price — once Sprott came into the market and started buying up pounds of uranium for its Sprott Physical Uranium Trust back in 2021. Taking them off the market. Peak-to-trough, some of the junior mining companies went up, what?

Dave: Ten times.

Alissa: They were 10-baggers, right. We actually think that some of the junior *gold* mining companies should have comparable upside. We are seeing the same sort of complacency in them that we saw in the junior uranium miners before they shot up. Now, of course, the uranium mining companies have obviously corrected, but not as much as they had gone up. And the physical price of uranium also looks very exciting. We could easily see it double.

What makes you so sure?

Alissa: Eventually, the world will need new uranium mines, and that new supply will only come on after there's a price response that will make the required investments rewarding.

Price is the release valve. We don't know the timing, but again, if you're patient, you will very likely see some very good returns. The Sprott Physical Uranium Trust [U.U is its TSX ticker, for units priced in U.S. dollars] is actually one way we're betting on a rising price for physical uranium [charts, prior page].

Sprott Uranium Trust?

Dave: Yes, it trades in Canada — Toronto. They've tried to list it in the U.S. but haven't succeeded. It is an almost $3.2 trillion NAV closed-end trust that invests and holds substantially all of its assets in uranium in the form of U_3O_8, or uranium concentrate, which is uranium that has been mined and milled, but needs further refining to turn into fuel.

Alissa: As I said, the supply side story for physical uranium looks really good, but the demand side is also finally improving. People are starting to realize that nuclear power is one of the *only* ways to meet base load demand for carbon-free, clean power — outside of hydropower — that we could actually scale.

Dave: Right. We are seeing a real shift in psychology. Uranium was long considered just very bad by the ESG crowd. Now, the ESG types mostly consider it good. I saw a poll the other day saying that even the majority of people in Germany now want to restart their nuclear plants.

Most people want to stay warm in winter, no surprise.

Alissa: Yes, it's not a shocker.

For years, I heard that Russia had huge Soviet-era stockpiles of the stuff that were weighing on the market.

Dave: Nobody really knows how much aboveground supply the Russians and Chinese have or don't have. But as Alissa said, we've certainly gone through a lot years now in which mine production did not keep up with what was used. So obviously there's way less uranium available now than there was 10 years ago — and people haven't started new mines. The fundamentals look pretty promising.

I think I heard that argument a decade ago.

Dave: Yes, I've never said patience isn't required in uranium investing. But that's a *nice* thing. People tend to believe that if enough years go by and nothing happens, that proves nothing *will happen*. Whereas, in reality, if the fundamentals continue to improve for 10 years but the price doesn't respond –

The likelihood of something happening has risen quite a bit?

Dave: Well, yes, those of us who are patient or stubborn or whatever, believe we're 10 years closer to those improved fundamentals being reflected. And uranium, as Alissa mentioned, hasn't gone nowhere in the last decade, it's gone from 20 to 50. True, it's still nowhere near the 137 it got to back in 2007, but the price is starting to move up. Since early 2016, value investing has been visibly starting to work in uranium, but really only in fits and starts. Other minerals, too. Gold has gone from $1,500 something to $1,800-something. Oil was at $30 a barrel and briefly dropped to a negative number before bouncing to current levels.

That negative oil quote was surreal.

Dave: A lot of the commodities markets around the world are picking up. I think there's been an inflection point — but one that led to the markets just bouncing around for the first seven years. Maybe the next seven years will be about generating some real returns.

What upside do you see in uranium? At what price would a lot of new mines come on?

Dave: It depends upon demand. If global demand is relatively flat, then there's plenty of uranium available at $25 - $30. But then the price curve becomes pretty steep as demand goes up. Once the really cheap mines are at capacity, mining uranium gets really expensive. And when you look around the world, particularly in Asia, there's a whole lot of nuclear generating capacity under construction. If the industry needs to bring some long-shuttered African mines back on, the price of uranium will have to go to $90 - $100 a pound. And if you want to incentivize people to build a lot of new mines, not counting a couple of them in Saskatchewan or Uzbekistan, then the price is probably closer to $100.

If governments and utilities keep building the reactors they already have under construction, we think, $100, plus or minus, is a reasonable price target for uranium. If for some reason the world goes back to shrinking the number of reactors, then the price could drop a lot lower. But present trends would suggest triple digits.

What we really need is for somebody to invent a way to safely get rid of spent nuclear fuel.

Dave: Yes, that's the problem, of course.

Okay, what do you like in the uranium universe, besides Sprott Physical?

Dave: The Sprott Trust is one of the ones we like best. But another good, solid name that everybody knows, Cameco Corp. (CCJ) [chart, prior page] has good upside even from here. For people that are a little more adventuresome, the biggest and lowest-cost producer is Kazatomprom. [National Atomic Company Kazatomprom] (UK:KAP). The GDRs are traded in London. I visited them in their headquarters in Astana, Kazakhstan in November.

That sounds pretty adventurous —

Dave: Sure, but things look really good for them. Then too, if you believe that the price of uranium might really take off, then the likes of Fission Uranium (FCUUF) and NexGen Energy [NXE] — Canadian guys who have uranium holdings but no mines as of yet — offer that sort of optionality.

I'd guess you do, since you trekked out to Kazakhstan. Did you learn new Borat jokes?

Dave: No, but I heard plenty when I said I was going. Like I said, people tend to love or hate things nowadays. True, the country has its problems, and a lot of people don't even know it's no longer part of Russia. But they've made changes. They arguably have the best uranium company in the world. Khzakhstan also has oil and gas assets that are very attractive — and they've also got copper resources that are really good.

What's more, they have a bank, Halyk Savings Bank of Kazakhstan [HSBK], traded in London, that has a dominant market share with decent growth, high margins and a pretty good book of business. I have visited a lot of companies there that I think are in that category we talked about — they deserve to be selling a 50% discount and yet they're trading at a 75% discount. And, once again, consider that back in the inflationary 1970s, countries that had a lot of natural resources did pretty well.

That was a long time ago. You also mentioned an interest in some agricultural commodities?

Alissa: We have a couple of investments in palm oil. Golden Agri-Resources Ltd. (GAR: Singapore E5H), is one of our larger holdings. Palm oil is a great commodity because its supply is effectively fixed. You're pretty much not allowed to create new palm oil plantations because of environmental concerns. This is one place where the ESG community has been right — jumping all over palm oil companies that were clear-cutting tropical forests and kicking

UK:KAP National Atomic Co. Kazatomprom JSC GDR (LON) Delayed quote data 3/8/2023 04:35 PM

Last:	Change:	Open:	High:	Low:	Volume:
27.52	-0.70	28.30	28.48	27.50	48,769
	Percent Change: -2.48%	Yield: 6.59%	P/E Ratio: 14.6687	52 Week Range: 23.22 to 36.58	

Company Data

Company Name:	National Atomic Co. Kazatomprom JSC GDR
Dow Jones Industry:	Alternative Fuels
Exchange:	LON
Shares Outstanding:	n/a
Market Cap:	7.32B
Short Interest:	Exchange provides no short interest data
52-Week EPS:	1.8761
52-Week High:	36.58 on Thursday, April 14, 2022
52-Week Low:	23.22 on Thursday, June 23, 2022
P/E Ratio:	14.6687
Yield:	6.59%

FCUUF Fission Uranium Corp. (OTC) Delayed quote data 2/23/2023 03:57 PM

Last:	Change:	Open:	High:	Low:	Volume:
0.60	-0.0001	0.60	0.607	0.591	105,462
	Percent Change: -0.02%	Yield: n/a	P/E Ratio: n/a	52 Week Range: 0.4282 to 0.913	

Company Data

Company Name:	Fission Uranium Corp.
Dow Jones Industry:	Non-Ferrous Metals
Exchange:	OTC
Shares Outstanding:	687,736,940
Market Cap:	426.65M

NXE NexGen Energy Ltd. (NYS) Delayed quote data 2/23/2023 04:00 PM

Last:	Change:	Open:	High:	Low:	Volume:
4.17	+0.01	4.22	4.25	4.095	2,779,702
	Percent Change: +0.24%	Yield: n/a	P/E Ratio: n/a	52 Week Range: 3.3908 to 6.56	
After Hours Trading 2/23/2023 07:19 PM		Last: 4.20	Change: +0.03	Volume: 718	

Company Data

Company Name:	NexGen Energy Ltd.
Dow Jones Industry:	Non-Ferrous Metals
Exchange:	NYS
Shares Outstanding:	479,923,830
Market Cap:	2.00B

UK:HSBK	Halyk Savings Bank of Kazakhstan GDR (LON)	Delayed quote data		3/8/2023 04:35 PM
Last: 10.70	Change: -0.22	Open: 11.22	High: 11.22	Low: 10.66
	Percent Change: -2.01%	Yield: 10.09%	P/E Ratio: 2.4443	52 Week Range: 7.67 to 12.20
				Volume: 34,330

Company Data

Company Name:	Halyk Savings Bank of Kazakhstan GDR
Dow Jones Industry:	Banking
Exchange:	LON
Shares Outstanding:	272,706,240
Market Cap:	3.13B
Short Interest:	Exchange provides no short interest data
52-Week EPS:	4.3776
52-Week High:	12.20 on Wednesday, August 24, 2022
52-Week Low:	7.67 on Wednesday, March 9, 2022
P/E Ratio:	2.4443
Yield:	10.09%

SG:E5H	Golden Agri-Resources Ltd. (SES)	Delayed quote data		2/24/2023 01:54 PM
Last: 0.26	Change: UNCH	Open: 0.26	High: 0.26	Low: 0.255
	Percent Change: n/a	Yield: 7.22%	P/E Ratio: 3.4031	52 Week Range: 0.24 to 0.355
				Volume: 2,165,100

Company Data

Company Name:	Golden Agri-Resources Ltd.
Dow Jones Industry:	Farming
Exchange:	SES
Shares Outstanding:	n/a
Market Cap:	3.30B
Short Interest:	Exchange provides no short interest data
52-Week EPS:	0.0764

indigenous people off of their lands. And as a result, the big companies have changed their ways, thankfully. Golden Agri has, I think, hired several hundred people just to do their ESG work.

I can only hope that involves meaningful change, not merely greenwashing.

Alissa: These companies have come a long way, but they still don't get good marks from the ESG groups. Nonetheless, the supply of palm oil is pretty much fixed, as I said, while demand is growing, so prices and the companies' shares should respond. The companies are growing but the stocks are still trading at what we call an emerging market discount that's way too extreme. For instance, Golden Agri-Resources' shares are trading at a valuation that's one-fifth of what you would have to pay in the U.S. for high-quality farmland. Since we say value is about scarcity and producing something that is needed, Golden Agri definitely checks our boxes.

As Dave said with Kazatomprom, if you want to go even more adventurous, then you can go to Ukraine. There, you can buy quality farmland for one-one-hundredth of the price that you would have to pay in the U.S.

And get unexploded ordnance as a bonus!

Alissa: Again, these things we've been mentioning are part of a *diversified* portfolio. We're not going to be right on all of them, but there should be some reversion to a more normal price. And we should see a lot of upside.

Dave: Yes. We've also had a couple small Chinese tech and communication positions. Still do. We don't tend to be traders, but we actually briefly owned Alibaba, when it got really cheap.

I notice you haven't mentioned India –

Dave: That's been an interesting market to watch. We like India, but everyone else also likes India. So we haven't seen a lot of opportunities for us there. Remember, we like to put money in places that other investors have gotten way too negative on.

Is it perhaps an advantage to you to operate from Tampa, FL, not exactly the financial capital of the world?

Dave: I've always admired John Templeton and Warren Buffett, of course, as great investors. Both of them went out of their way *not* to be right in the thick of it. In the modern world, we can get pretty much all the information we need, without even leaving our desks. It probably is an advantage for us not to be rubbing elbows with the Wall Street crowd. Plus, we are only a quick flight away, if we have to come to a financial center. We get to New York and London and other places often enough. But it is nice here. And we try not to get caught up in the emotions of the day.

Okay, Dave. Do you care to make any prognostications about Kopernik's *next* 10 years in the investment business?

Dave: Well, we don't try to predict the future, but we do have a decent idea of where we are in the cycle — and it sure seems like worldwide deficit spending is a thing and under-investment in oil, gold, copper, hard assets is a thing. If the money supply worldwide over time grows, it's pretty safe to say prices are likely to go up for things that are scarce and needed. The good news is those stocks are cheap, because nobody believes that.

But we see inflation continuing, volatility growing, in a world likely seeing a resumption of some kind of cold war, an increase in nationalism, less free trade. De-globalization. Now, less free trade generally leads to higher prices. Higher taxes lead to higher prices. Higher interest rates lead to higher prices.

You are full of good cheer.

Dave: Actually, we really are. With the world changing, globalization fracturing, it seems a strange time, to us, to want all of your eggs in one basket. To put all your money into one country seems like a mistake, especially if it has $31 trillion of debt or whatever.

And you run diversified global funds –

Dave: Exactly. Now, don't get me wrong. We are big fans of the U.S. We've always happily lived here. But we do point out that investing in the U.S. was *not* a good decision in 1929 or in 1972 or in 1999 or

2007. And we suggest that maybe now isn't the best time to be buying a whole lot of U.S. stocks and bonds. John Templeton — when the U.S. market was having a lot of difficulty in the 1970s — was minting money in Japan. This likewise is a good time to look at different countries, different currencies, different businesses, different you name it, and to diversify. And to look to buying cheaper even than you normally would, to make up for all of the unknowns out there.

Yikes, that sounds like fair warning, to me. Thanks, Alissa and thanks, Dave for sharing your insights with the readers of WOWS.

Welling on Wall St. Interviewee disclosure: David Iben formed Kopernik Global Investors, in 2013 in Tampa — with a hefty investment from Jeff Vinik — as a 100%-employee-owned money manager. That was after Vinik wound down his short-lived Vinik Asset Management, which he had brought Dave to Florida to manage. Dave is the Lead Portfolio Manager of the Kopernik Global All-Cap and Global Unconstrained strategies, and the Co-Portfolio Manager of the Kopernik International and Global Long-Term Opportunities strategies. He is the Chief Investment Officer, Managing Member, Founder, and Chairman of the Board of Governors of Kopernik Global Investors.

Prior to Kopernik, Dave managed the $2.7 billion Global Value Long/Short Equity portfolio at Vinik Asset Management, where he was a director and head of the Global Value team (July 2012 through March 2013). Before being lured to Vinik, Dave was lead portfolio manager, co-founder, chief investment officer, co-president and lead portfolio manager of Tradewinds Global Investors, LLC, a $38 billion (at February 2012) investment firm. He continually managed equity portfolios for Tradewinds (inclusive of its two predecessor firms) from October 1998 through February 2012. He was the portfolio manager for the firm's Global All-Cap strategy, North American All-Cap strategy, and Global Long/Short strategy, directly managing more than $20 billion assets at the time of his departure. As CIO, Dave directed Tradewinds' investment activities, including portfolio management, research, trading and risk management. His long-term performance has led to recognition by nationally known publications such as Bloomberg and Morningstar, and to several awards by Lipper and others for top performance in global equity fund management. From 1996 through 1998, Dave was a senior portfolio manager at Cramblit & Carney. He began his career with Farmers Group, Inc. where over the course of 14 years, he worked his way up from securities analyst/trader to portfolio manager and eventually to director of research and lead portfolio manager for both equity and fixed income strategies. At the time of his departure in 1996, Dave was acting as Farmers' chief investment officer responsible for $16 billion of investable assets. Dave earned his bachelor's degree from University of California, Davis, and his MBA from the University of Southern California Marshall School of Business. He has received the CFA designation and is a member of CFA Institute and CFA Society of Tampa Bay.

Alissa Corcoran is Deputy CIO, Director of Research, an analyst covering health care, and Co-Portfolio Manager of the Kopernik Global All-Cap strategy. She has been in the investment industry since 2012 and joined Kopernik as an analyst in 2013. She became Director of Research in 2019. Earlier in her career, she held positions at Vinik Asset Management, a genetics lab, and various non-profit organizations. Alissa has a Bachelor of Science in biochemistry from Bates College and earned her MBA from the University of Southern California's Marshall School of Business. She has received the Chartered Financial Analyst designation.

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Potential Financial Conflict Disclosure*: An independent money manager for Kate Welling has disclosed a small position in a Kopernik fund.*