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listening**in**

Embracing Vol, Hated Stocks

Kopernik Founder Scours Globe For Values Scorned By The Herd

David Iben, the smiling fellow gracing this issue's cover, and the founder, chairman and chief investment officer Kopernik Global Investors — as well as portfolio manager or lead or co-PM on its funds is a value investor's value investor.

That was certified by none other than Jeff Vinik back in 2012 when he lured Dave to Tampa from Los Angeles, where Dave had built Tradewinds Global Investors into a $40-billion value behemoth. When Vinik switched course less than a year later, taking his own assets private, he became among the first investors in Kopernik, the new institutional advisory firm Dave started for himself and his team. At this juncture, it doesn't seem either has reason for regret.

While Kopernik is, as yet, managing only about 10% of the AUM that Dave once wrangled from LA, he seems to be reveling in the freedom a more manageable portfolio size affords him to snatch up values of any size, in any place, he can find them. Meanwhile, Kopernik's performance has been more than respectable, amid an anti-value market. Dave's predilection for independent contrarian thinking and risk-taking is being given full play as he revels finding values in the market's most reviled sectors. Listen in. ***— KMW***

Welcome back, Dave. I know you just got back from Africa. How was your trip?

DAVID IBEN: Oh, it was good. I putted around the Congo, Zimbabwe and South Africa, touring platinum mines and zinc mines and copper mines.

Did you run into more Russians or more Chinese in your hotels?

DAVE: It seems like there are way more Chinese there. I didn't run into a lot of either, where my hosts were taking me — out in the middle of nowhere. But it sounds like although both of them are there, there's a lot more Chinese money in evidence.

Dave Iben

A lot of it is supposedly going into infra-

> *In Memoriam*
> **Steven Reynolds**
> 1943 - 2019
> Kemper, Wachovia, Princeton Capital Management, Craig Drill Capital. Investment Thinker, WOWS Contributor and Interviewee

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structure and it sounds like that's what you were looking at.

Dave: Yes. Mines. But take Zimbabwe, for instance. I can't believe how poor that nation is. I kind of knew it, but seeing it is something else. They have no electricity most of the time, but the Chinese have evidently gone in there and put in some street lights that are solar powered.

A very big and welcome improvement, I'd imagine — unless they incorporated surveillance cameras.

Dave: Yep. The people have to queue up for blocks waiting for gas.

It's really unimaginable what they have to do just to survive.

Dave: Oh, I know. We're very fortunate, by comparison. What's stunning is that the country — 30 or 40 years ago [as Rhodesia] — was one of the richer ones in Africa. Now it's one of the poorest nations in the world.

Stark evidence of what a civil war followed by long domination by a ruthless authoritarian leader [Robert Mugabe]can do to a society.

Dave: Yes. Not a cheery thing to think about.

Especially in our present political predicament. But let's not dwell on that. Your recent letter, "Once Upon a Time on Wall Street" is grim enough. Anything that starts out quoting Santana and then segues to Buffalo Springfield's, "For what it's worth (FWIF)" is ominous enough. I remember well how that 1960s anthem goes:

"There's battle lines being drawn
Nobody's right if everybody's wrong
Young people speaking their minds
Getting so much resistance from behind
It's time we stop, hey, what's that sound
Everybody look what's going down"
—*Stephen Stills*

Dave: Well, I admit, my letters all tend to be a little strange. One time, when I was giving a speech my introduction was "His recent client letter has to be the only one to ever quote both Marie Antoinette and The Buggles."

The Buggles?

Dave: You missed them? They were a British new wave band — one-hit wonders in 1979 — with a single called, "Video Killed the Radio Star."

I have no recollection of that one, which proves nothing, I'll add.

Dave: Yes. Most people know the song, but nobody's heard of the group.

***Sic transit gloria mundi*. But you've caught the zeitgeist about battle lines being drawn.**

Dave: I think so. Like me, you've been following this business for a while. I mean, I wasn't in the business in the late-'60s —

Nor was I!

Dave: But I was old enough to follow it. It's interesting how Wall Street back then was just celebrating day after day after day. *At the same time* that people were taking to the streets and the popular culture was becoming increasingly anti-establishment. There was huge anti-war stuff and civil rights protests and Wall Street just ignored it.

Hey, that was a huge bull market. The "Go-Go Years," as John Brooks dubbed them. Any stock with "tronics' in its name going to the moon. Seasoned investors hiring "kids" whose very inexperience made them fearless speculators. Then the clock stopped. So there was a generational bifurcation in Wall Street then, too.

Dave: Yep. But it was interesting, investors didn't care about what was going on — until one day they did.

"It's intuitive — at least to me — that when everybody likes active investing, it's a decent time to be a passive investor and when everybody likes passive investing, and so nobody's doing any fundamental analysis, it's a great time to be an active investor."

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Even lemmings may have regrets as they go over the cliff. So you're implying the market, like history, is cyclical?

Dave: Yep. And, generally speaking, we don't learn from it, however. As someone — Hegel as I remember — said, "What we learn from history is that we don't learn from history."

Global social revolts by Patrick Chappatte, *Der Spiegel*

An admirably cynical but also unfortunately accurate observation. Your letter is really a manifesto for independent thinking by investors at this point in the cycle; a warning that while there are lots of opportunities, they aren't in the popular indices. Why am I not surprised, given that you are a value fund entrepreneur?

Dave: Well, I find it interesting. When you think about it, it's intuitive — at least to me, it's not counter-intuitive — that when everybody likes active investing, it's a decent time to be a passive investor and when everybody likes passive investing, and so nobody's doing any fundamental analysis, it's a great time to be an active investor. And — I guess I'm biased — but to me value investing is the epitome of active investing. It means you're out there doing price discovery and due diligence and looking for where the market's wrong. So what a beautiful time it is to be doing that — when basically nobody else is doing it anymore. There was a JPMorgan study not long ago showing that between passive strategies and closet-indexing something like 80% of invested capital is on autopilot now?

That's probably a conservative calculation —

Dave: That's probably right because we've had a number of clients come and tell us that they have lots of other managers and our portfolio overlap with their other managers is zero. Zero. I mean, that's music to my ears but —

You never were one to hug an index, even as a PM at a huge institution.

Dave: No, I never have. I've always loved the saying that you won't find value in a crowd, but you will be more likely to find it, the farther you can get from the crowd. I remember only too well that 1999 was very, very painful for value-oriented investors. But it set the stage for a wonderful decade and yet here we are again — value's "dead." That's the question I get from everybody now, "Isn't value dead? Isn't it somehow different this time?"

Exactly, how can you stubbornly stick with a strategy that has been a bust for so long? Much less waste time and money actively researching stocks?

Dave: Yes, that's the argument of the crowd. But like you said earlier, these things are cyclical. What I'm essentially telling everybody in every meeting now is, "All right, either the world is linear or the world's cyclical. If it's linear, then, yes, I get it. Get rid of value investing, go passive, just go about your life. But if it's a cyclical world — well, we are at arguably the biggest extreme ever — the biggest gap ever, in value performance versus growth; the biggest gap ever between active/passive. It's the biggest gap ever, U.S. versus non-U.S. There's the biggest gap ever in the performance of notional versus real assets. Granted, every single successive cycle is arguably the most extended —

In everything, it seems — but once a cycle

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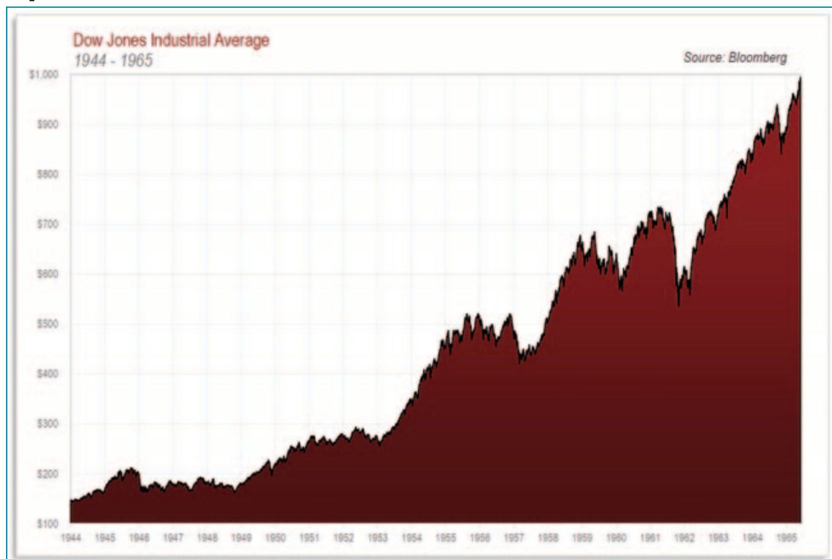
Cycles, Before and After – 1960s ad 1970s



peaks, it's pretty much all downhill – and you think markets are cyclical.

Dave: Yes. But no matter what I think, thank God, at this point there is bifurcation in this market. In 2007 it was hard — there wasn't a lot of bifurcation in equities valuations — people liked everything. By contrast, in 1999, as the internet bubble was topping, it was easy to buy cheap stocks and that allowed value investors to make a lot of money the next year, as the growth guys were getting killed.

I think we're at that sort of juncture again. People now love momentum stocks and they hate anything that doesn't have momentum — they'll sell it at any price. Actually to me the most *fascinating* thing now in this whole bifurcated market is that people are paying a fortune for certainty.

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That's crazy on so many levels. In the first place, there's no such thing as certainty in markets or in life. Then there are all those supposedly sophisticated strategies that define risk as uncertainty – instead of recognizing that it is uncertainty that creates opportunities.

Dave: Yes. Yes. Like you say, certainty doesn't exist in the real world. People who think they have certainty about what the future will bring are fooling themselves. Then, No. 2, if you're going to pay up for what you think is certainty — it's fascinating. Here's what I have been telling people: "Here's the proposition. You can buy a 10-year Treasury, that's the closest you're going to get to a guaranteed return in this world — and you'll be guaranteed to get payments in nominal dollars — but you're going to make less than 2% a year. You can do the same thing in Switzerland and actually earn a guaranteed loss. You are guaranteed to lose money, but have absolute certainty about how much, in nominal terms, you're going to lose every year."

You know precisely what you're going to have to pay to the government.

Dave: Exactly. And people are signing on for that certainty. But my point is that at the other end of the spectrum, if you invest in things that *lack* perceived certainty, then you can buy things really cheaply.

And most likely pay a lot less than they'll eventually be worth. But what things?

Dave: That's where the bifurcation in the market really helps here. But the opportunities today tend to fall into two categories. The first is buying things that people don't like; the other is buying things when you don't know when the timing is going to work out. But I'm telling you that it's Econ 101 — supply and demand. So when things trade at too low a price, supply shrivels up. And it doesn't come back until the price gets high enough again to incentivize new production. So, what we're saying here is, "All right, if we can buy ships or land or buildings or hydroelectric generation facilities or oil wells or copper mines — and if we can buy these things when the related commodities are trading at half of what it would take to make it worthwhile to build new supply —"

That's a value proposition?

Dave: Yes. That's how I can tell people, "The good news is that we're going to double our money. The bad news is that we don't know *when*." Then people invariably ask, "Well, what's your catalyst?" But my response is, "Well, I don't have a catalyst. I've

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got long-term economics that argue that the price is going to go up. But whether it's going to happen next week or three years from now, I don't know."

I can't imagine that's an easy sell at this point in the cycle —

Dave: It's not. Most people then say, "Well, if you don't have a catalyst, then I'm not interested."

And then what?

Dave: Well, then I break out a chart and I say, "All right, if you're going to double your money, and it happens in one year, that's a 100% return. But if it takes two years, it's a 41% a year return, and if it takes three years, it's 26%. And if it takes seven years — usually things don't trade below their cost for that long — but if it takes seven years, you're making 10% a year. If it takes 10 years, you're making 7% a year. So what I'm really telling you is that you're probably going to make somewhere between 7% and 100% a year. But you don't know when. Then again, if you buy your Treasury you're guaranteed to get a nominal 1.9% a year for a decade."

And that is a clincher?

Dave: No, people still say, "I'll still take the Treasury."

But this is the greatest thing ever, *for an active manager.* People, just really *want* the certainty. But in return for "certainty," they will accept a yield that *certainly* is less than what the central bank has promised because they're certainly going to make the money devalue by more. So, in effect, they're locking in the certainty of economic loss. At the same time, they are running away from making healthy double-digit returns and possibly 100% certain returns. But that's the world we live in, and that is why I say this is a great time to be an active portfolio manager.

Assuming you don't mind being lonely, have extraordinarily patient clients; lots of staying power.

Dave: That's the hard part. You come out of school and you think, "Okay, we're all smart and hard working and we have passion for the business, and blah, blah, blah." So we all start out convinced, "I'm going to do great." Then you realize, "Well, Yes, but the industry is filled with people that are smart and hard working and have a passion for the business — "

So the competition is tough? Wah!

Dave: No. What I've realized is that being smart and hard working and passionate are just the prerequisites in the investment business. It's having patience and being able to tolerate being lonely — surviving outside of the flock — that something that the vast majority of people have no interest in. That's why value strategies, over the centuries, have always worked well, *given enough time*. But just as certainly, when they are not working, they are not working.

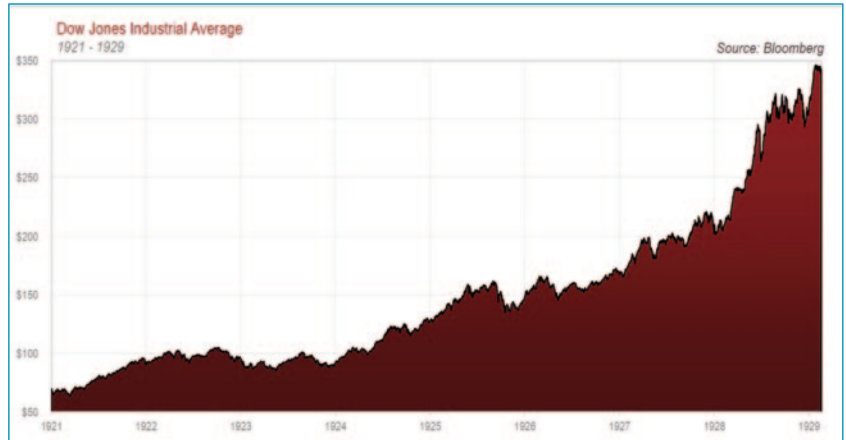
That's also why even the most successful value investors of all times have typically suffered through long stretches, over their careers, in which their portfolios have lagged bull markets — often by a lot.

Dave: Oh, Yes. As some people say, maybe you just have to have value in your genes to be able to spend time in the wilderness — or maybe it's even more challenging than that — as Jean Marie Eveillard said, "Value investing is about pain."

He always cut to the heart of the matter.

Dave: And he's right. When value is about to work really well, it's at that point of maximum pain. For me, 1999 was a point of maximum pain and it was followed by some really, really good years. So now, that the market is fairly painful again for value investors is good news, I think. Especially since most people have thrown in the towel on active

Cycles, Before and After — 1920s and Its Aftermath



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investing.

Market valuations seem to say that most real assets are passé. Somehow everything needed to sustain life can be created virtually.

Dave: Yes. The mindset in well-advanced market manias is amazing. It's also interesting that we hear people saying things like, "Well, you have to admit that this is the most efficient market ever. That there are more CFAs and more smart people participating and using algorithms and computers for instantaneous access data on just about anything."

I detect a note of sarcasm —

Dave: Lets' just say that my response tends to be: "Actually I think this might be the *least* efficient market ever." I recognize that many people believe in the efficient market theory, but that doesn't have anything to do with data transfer speeds. We all get the data quicker than we did in decades past. What it's really all about is whether humans are rational decision makers.

I'd bet against it, more often than not.

Dave: Yes. Humans are no more rational than they've ever been, it seems. On the evidence, modern innovations like social media, which facilitate the formation and spread of crowd psychology, have made people *less* rational. People are famously less rational as part of crowds as they are on their own. Everybody should read Charles MacKay's ***"Extraordinary Popular Delusions and the Madness of Crowds"*** —

Or Edward Chancellor's *"Devil Take the Hindmost,"* for a contemporary update on the same human foibles.

Dave: Absolutely. There's a rich vein of insightful works on the topic. Once educated, I'm confident that most people will realize that the computers employed in the world of finance are not being programmed to be cooly unbiased and rational. They're basically programmed to be momentum traders. So the reality is that their widespread use has actually created a wider gap between market prices and intrinsic values.

All too frequently producing irrationality on steroids, in episodes sometimes known as flash crashes.

Dave: Absolutely. You can also look back in history and see when the markets have gotten more irrational — and it's always been during periods of easy money. Need I add that when you look at the amount of money that's been printed in the last dozen years worldwide, it's breathtaking? The central banks have even tried to exit easy money — only to admit now that they've failed to exit and *can't exit*. Now the Fed is on pace have replaced all the QT they had tried to do by February, from what I read. So, if you have the longest and most globally coordinated easy money in history — so that's on steroids on its own — and then you throw algorithms on top of that — then what we have is steroids on steroids. Then, when we add on top of that this whole feeling, or investor consensus, that only an idiot would actually still pay money to do due diligence and price discovery, well, you've got everything it takes for massive irrationality and massive bifurcation. That's why I think that the future will prove that this was a beautiful time to go away from the crowd and do your own homework.

And you're betting that way big-time?

Dave: Yes. As you noted, our portfolios have always looked different than the index. But like in 1999, we are *very far* from the index. What are the ETF algorithms buying? They're buying big liquid stocks. And, if a stock gets popular and doubles, then those ETFs own twice as much as they did before. What could be more anti-value than to want to own more of something *after* it doubles than you did before?

Good question. The market is "always right." Until it heads south. And folks seem blissfully unaware that AI reflects the biases in the data it's fed.

Dave: Yes. It's interesting times.

But not really unexpected. The "market" is an aggregation of people's decisions — and as we said, people are not particularly rational.

Dave: True.

Passive investing only puts that irrationality on autopilot, which probably won't be pretty when the turn comes.

Dave: Like you say, the break inevitably must come. But with the world's central banks all standing ready to print like crazy any time the market has a 10% drop, it will be an interesting downturn when it eventually happens.

Then you don't believe they can ultimately sustain their floor under the markets?

Dave: No, though you hear all the time — there was a strategist from JPMorgan or someplace like that who came out just the other day with a statement to the effect that with the sophisticated cen-

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tral banks we have today, maybe we should just get rid of the whole concept of economic and market cycles. The thing is, central bankers are just human beings at best — and political human beings, at that.

The idea that these guys are god-like and that they actually have the ability to make cycles go away? Seriously? That ignores, so much, including the fact that the central banks have already caused lots of what appears to be mal-investment. So the notion that the central banks continuing to incentivize mal-investment is going to make the cycles go away — is nuts. Yes, people say, "There's too much riding on it [easy money and the bull markets]. They can't allow it to fall."

But I say, "Yes, they can't *allow* it to fall. But "what can't go on forever, won't go on forever."

Indeed. Thank you, Herb Stein. *[The late chairman of the Council of Economic Advisers, under Nixon, originally formulated the aphorism as, "If something cannot go on forever, it will stop."]*
Dave: You are right. Therefore it won't. They're going to fail. It's just a matter of who knows *when* they will fail.

And that's the problem. Nobody wants to leave a good party early.
Dave: True, even if they know they *should*.

No question, belief in what's now the "Powell Put" is the market's security blanket. Even so, one unmistakable theme in President Trump's recent speech to the Economics Club of New York was that the Fed chair isn't accommodative *enough*.
Dave: It's interesting. I mean, you've got Trump and then you've got almost every political party in every country of the world now all seeming to believe some way or another that it's okay to spend money you don't have. It doesn't matter whether you're calling it MMT or People's QE or just the politics of today — I have not heard any major politician anywhere in the world say lately, "We've got to tighten our belts. We cannot go on spending money we don't have."

We've got Trump saying, "Let's spend a bunch of money," and we've got the Democrats saying, "Modern monetary theory," and we've got the Europeans and the Chinese and the Japanese — everybody's like, "Oh, well, this is just magic. If our voting public wants something, why should we withhold it? We can print the money. We have a printing press. Why on earth ask them to postpone anything?" I actually find it fascinating that something that to me makes no sense whatsoever is considered normal nowadays.

With monetary policy hitting the zero boundary, the fiscal pendulum definitely has swung. The GOP that used to be so adamantly focused on balancing budgets has essentially disappeared.
Dave: Yes. That is what it is. But if debt keeps getting bigger and bigger and bigger, then people's ability to pay it off without causing inflation goes down. Then, it seems, obvious that interest rates should go *up*.

But now we have a world where the *worse* the situation of a country is, the *lower* its rates go, because the central banks' put is there — and this is backwards. I think that, 10 years ago, all of us would have said that negative interest rates weren't even a possibility.

They make no sense, as far as I can tell, but there they are, in Europe.
Dave: Yes. We used to say it's impossible, or it can't happen for more than a few weeks. And yet here it is. But what do negative rates do to people's ability to price discover and to make reasonable business decisions? To me, it makes about as much sense as "Here, I loan you money and if you can't pay me back, I lose everything and if you can pay me back I still lose X% a year." That makes about as much sense as, "Tell you what. Why don't I come work for you and I will pay you, instead of you paying me wages. I will pay you for the right to work for you." Or, "You can rent a room from me and I will pay you to rent the room from me." I don't know why anybody thinks it's okay to have negative interest rates, but here they are.

In fairness, there have been signals recently that the eurozone has learned that the hard way.
Dave: Yes. At some point, you've forced disintermediation.

But aren't the most vulnerable places, when the flood of easy liquidity subsides, likely to be the less-developed economies that have piled up huge debts in currencies that aren't their own?
Dave: There will be world of hurt to go around.

You were doing active global investing long before it became fashionable —
Dave: That's right. The situation now is interesting. The emerging markets *have* borrowed a lot — espe-

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cially China. And that massive borrowing is a concern — although the developed world in general still has way more borrowings, in terms of debt-to-GDP, than the emerging markets do.

Still, I do think the whole world is going to have to figure out what they're going to do about all this debt that they really can't repay.

What are the options, realistically? I doubt there are any that don't incorporate more pain than most folks are willing to accept.

Dave: I think that's it. Any classical economics would say that we've got to get out of this problem; start paying our debt down. But there aren't really any countries on earth that have any stomach for belt tightening or any pain or discomfort of any kind. So, I imagine countries that have borrowed in their own currencies are just going to print the money they need.

Not optimal, but not an option for the rest of the world, that has had to borrow in, dollars, euros or even renminbis.

Dave: Yes, the ones that have borrowed in other currencies have got a problem. At some point maybe they have to straight-out default.

Those are the sorts of events that upset financial markets.

Dave: Sure. If you cannot payoff what you've borrowed, a straight-out default is bad. Then again, a technical default through money printing is also bad.

So isn't it interesting to compare now to, say, four decades ago? I mean, when I came into the business, it couldn't have been more different than it is now. People were saying, "Who cares that Paul Volcker is ratcheting rates up to 22%? The Fed is *incapable* of stopping inflation."

"Impotent" was the favorite descriptor.

Dave: Yes, absolutely. But *nobody* thought 22% was enough. Buying bonds with 15% coupons to hold for 30 years was stupid — because bonds were "certificates of confiscation."

I remember that well. And people would kill for those rates today.

Dave: Yes. And no matter who you talked to, you heard that inflation is *endemic* in society — and especially in democracies. Because democracies will *always* get to the point where they can vote all the largesse that they want for themselves — which leads to the destruction of their currencies. So inflation was taken to be inevitable. I think everybody was going around quoting Voltaire, who wrote that "fiat money eventually returns to its intrinsic value — zero."

Are you implying that 40 years later we've hit the opposite sentiment extreme?

Dave: Well, here we are and the consensus mindset is obviously the opposite. Everybody is convinced now that the central banks have proven incapable of creating inflation. Saying, "They just can't do it."

I mean probably the only thing I've ever agreed with Ben Bernanke on is that he has said, "Of course, we can create inflation. We're going to create inflation. We have a printing press. You know, the incremental cost of a dollar is zero. We can print as much of these as we want."

Yet the crowd is asking, "Well, how do we get the inflation rate up?" If you recall, in the early 1970s people were worried sick about 2% inflation. Yet the prevailing question today is how in the world the central banks can get the inflation rate *up* to 2%.

There's a pretty good case to be made that the Fed *has* created lots of inflation – just in asset prices, instead of the CPI.

Dave: Well, there again, I'm sort of old school. To me, printing money by definition is inflationary. And history shows that the inflation usually goes into assets first. Well, in the midst of the Great Financial Crisis, the central banks printed money and bought bonds. So, if you want to see inflation, just look at what the prices of bonds have done over the last 12 years. They've gone to infinity, based on negative rates. Then they succeeded in getting people to roll out of bonds into other assets — reaching for higher returns — and so the NASDAQ is up sevenfold. Now, people don't *call* that inflation — but they probably should.

Consider too, that prices of grade-A properties have gone to the moon in most cities around the world. Meanwhile, anybody that has had a need for education or healthcare has seen those costs go up by huge amounts over the last 12 years. Yet the government is still telling us, "We just can't create inflation." Well, it's everywhere.

But people don't tend to complain when asset prices are rising – at least until extreme disparities in wealth become obvious. So now what?

Dave: Well, history also shows that when inflation goes into the asset markets first, once the value of the assets gets really extended beyond the underly-

WOWS 2019 Issue Dates

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ing fundamentals, then one of two things happens: Either the asset prices collapse, or the government keeps printing money and the inflation spreads into everything else.

Everything?

Dave: Yes. And with the central banks insisting that they are not going to allow prices to come down, I think the plan is just to keep inflating — and probably to just keep telling people, "There is no inflation."

So how are you planning to make money in the markets?

Dave: Good question. I suspect that today may be just like 1982, when rates were 22% — and you only had to be a little right if you were buying those bonds.

How so?

Dave: You didn't have to have a solid grasp of the course of rates over the next decade. You just had to say, "All right, I don't think inflation is going to run at more than 20% forever." That's all you had to believe to buy those coupons.

In like fashion now, with rates at zero — or bonds at zero, 1%, 2% — it's just easy math. If you buy bonds at 1% and, in fact, inflation is dead: congratulations, you made 1%.

No thrill there.

Dave: Not to mention that, if in fact printing money is inflationary and does eventually leak into the system — I've looked at the tables that do the math — if you buy a 30-year bond and rates go back to where they were just four years ago, eight years ago, 15 years ago or 30 years ago, you lose massive amounts of money.

Now, that's not a prediction. I'm just saying that if rates go back to where they were during most of my career, that investor loses 85% — and if inflation and rates don't rise, he makes all of 1%.

Horrible odds.

It goes back, again, to what we were saying about people way overpaying for a presumption of certainty. You have to be very, very certain that there will be *no* inflation in the next 30 years to lock your money up at 1%-3%. As I said, we live in fascinating times.

Yet *somebody* is still buying them — even though institutional and even retail investors have also stampeded into equities and anything else dangling higher returns — creating this risk-on market.

Dave: Well, the central banks' goal — and they've succeeded — was to make bonds un-investable. My term, not theirs. So I think they have forced the institutions — and many other investors — out.

I mean, if you're a pension or an endowment or a foundation or anything, you need a return of 5, 6, 7, 8% a year to operate. If you lock your money up for 30 years at 2.5% or 3%, that's not risk-taking. That's guaranteed failure. So why anybody would do that, especially when the central banks have promised to make future purchasing power drop, too — what I'm saying is that has been rational for institutions to get out of bonds.

But then what? You can move into stocks. Stocks *might* go up if the central banks continue to inflate — or they might get killed if they don't inflate further. We'll come back to stocks. Real estate? It's the same thing there. You can participate with inflation there. But if cap rates go up, then you can get hurt.

What about private equity? There are lots of great things about private equity. The thing is, usually, when $5 trillion pours into one area — you don't find value in a crowd. To the contrary, you often find a lot of danger in a crowd. So ...

Your caution speaks volumes. Well put.

Dave: Well, I told people in 1999 that tech might work but it might not — and I'll say the same thing about private equity now. There's a lot to love about it but a lot to fear about it — and there's so much money in there. We'll see how that works.

Basically, with stocks and private equity and real estate — unlike bonds — at least you have a fighting chance here to be all right. But there's also so much risk here that you could just get killed.

What did Keynes say, "In the long run, we are all dead." Might as well try.

Dave: Then, self-servingly, I will point out — what's the cliché? — "It's not a stock market; it's a market of stocks." You don't *have* to buy the index, you don't *have* to buy these passive funds, you don't *have* to buy the NASDAQ after it has gone up seven times.

I'm not sure anyone remembers how to buy honest-to-goodness stocks —

Dave: But you *can* buy individual businesses and you can buy them all over the place. There are

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businesses that people are not investing in and haven't invested in for years. You can buy businesses whose stock prices are way lower than they were 10, 12 years ago. You can buy companies where the demand seems pretty guaranteed for the next 10 years. People will keep eating food and they'll keep using electricity and things like that.

That's the great thing about now: The market is so bifurcated. We have found that there are two areas where they're just giving this stuff away.

Do tell —

Dave: Both come back to uncertainty. If you will accept the uncertainty of emerging markets, there's lots of opportunities there. There, the uncertainty partly stems from dealing with all the geopolitics and partly arises because people *hate* volatility — although why a long-term investor considers volatility to be a risk, I don't know. Anyway, among institutional investors, I think it has more to do with career risk than it does with portfolio risk.

Nonetheless, one thing we have found is that we can buy some of the biggest and best franchises in the entire world — and buy them at big discounts to book value and at single-digit P/Es — as long as they happen to be based in South Korea or Brazil or Russia or Indonesia or places like that. We can come back to names.

Okay, where else is value going begging?

Dave: Remember what I touched on earlier, that another place where we find things we can buy at half-price or one-third of value or one-quarter of value is with things that will eventually double, triple or quadruple — but where we don't know how many weeks, months, or years they might take to come to fruition?

Sure —

Dave: Well, our entire portfolio trades at less than 80% of tangible book. We hold, for instance, the biggest two hydroelectric generators of cheap electricity; we've got the biggest two trading companies; the biggest nuclear generation company; we've got the two biggest uranium producers in the world; we've got the biggest phone company in the world. We also have a couple other phone companies that are tri-opolies, in good countries. And all of this stuff we've bought at valuations that are really, really cheap.

So back in 1999, to do this, you had to buy small-caps and/or bricks and mortar old-economy companies as they were called. This time around, you can pay ridiculously low prices for stuff in emerging markets. Or you can do it by buying, instead of old economy stocks, more hard assets. People tend not to like hard assets these days.

Of course not, real assets depreciate! Might even require you to lay out some maintenance capital.

Dave: But that's so short-sighted. Remember in ***"The Big Short,"*** where those guys were willing to lose a little money every year for three years or so — in buying those, in effect, put options on mortgages — to gain the opportunity to eventually get paid off big? It's kind of like that now. If you buy oil tankers or if you buy a uranium mine or if you buy natural gas — you may have to put some added maintenance capital in there for a while. But, when — if — eventually prices go to where it seems like they must, there's massive upside.

On a side note, since interest rates have been held so low, and since that has caused all kinds of malinvestment, and since low rates are playing games with people's valuation models, and since the world has rarely been dicier than right now, I think this is the wrong time for people to be torturing their numbers.

Torturing, meaning?

Dave: Working over their models, trying to find something that — if everything goes right — they can probably make 10% or 15% in. This is a market where you shouldn't buy stuff that you don't think is going to double or do even better than that.

It's not a market in which you can win by swinging for singles?

Dave: No. And that's what it feels like. That surprises people a bit, because I have something of a reputation for consistently hitting singles. What I tell clients is "Yes, I'm a singles hitter, but the bases are loaded with nobody out now. We're at Wrigley, the wind is blowing out of the park and the pitcher doesn't have his stuff. I'm going to swing." Plus, in my game, you get to swing 70 times and you only have to hit a few of them to make a lot of money. It's really a beautiful market.

Let's get a bit specific about some of your favorite — and therefore most unpopular — positions. And how you find them in institutional size.

Dave: Well, as I said, I think this market is just wildly inefficient, but to find the value bargains I want, you've got to be willing to look out in the wilderness; you're going to be lonely if not just

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buying stuff that people downright hate.

In terms of liquidity, we're committed to never getting as big as $20 billion in AUM. At my previous firm we had $40 billion, and that worked fine — and we have only $4 billion now. But we want to stay small enough to be able to buy stuff that the really big firms can't buy. I already mentioned that we have some of the biggest companies in the world — phone companies and gas companies and utilities, you name it — in the portfolios, and we're happy with that. But we also want to be able to buy stuff that huge investment organizations — and certainly huge ETFs — can't buy. We can go, for instance, into Japan and buy things that are – they actually have *no* enterprise value. It's just like the old Graham & Dodd net-net stuff. We have found a few of those kind of names.

That said, we keep our portfolio pretty liquid, but we're able to put 5 - 10%, or a maximum of 15%, in names that might take us a week to get out of — for big firms, it might take them 10 years to get out of those same kinds of names, because nobody wants to buy them. You probably won't be surprised when I say I think that is a competitive advantage.

You're right, I'm not surprised. So tell me about a stock you expect great things from.

Dave: Here is one that has got everything — who knows what the timing will be; it's got geopolitics that people don't like and it's got what people say is a tendency to overreact to bad news. This is a company called Turquoise Hill — the symbol is TRQ on the NYSE, but it is headquartered in Vancouver.

Turquoise is a nice stone, but I somehow suspect the name is misleading on that score.

Dave: Yes. This is a company that operates in Mongolia. Which is something that does not attract people — but a few years back, even though it was operating in Mongolia, the stock got up to $18. Now it's at 50 cents. So it's something that could have massive potential, if it just got back to a price where it sold before.

But why should it?

Dave: This company is in the process of developing what would be the third-largest copper mine in the world, the Oyu Tolgoi Project in Southern Mongolia. In addition to copper, it has a fair amount of gold. And even after — like a lot of commodities stocks — falling precipitously over the last decade, just in the last year the stock is down by another 80%.

Sounds problematic, all right.

Dave: What we have here is 40 billion pounds of copper and 18 million ounces of gold.

I suppose someone *might* someday pay more than today's depressed price for all those pounds of copper.

Dave: Exactly. If you can make $1 a pound on the copper — that's $40 billion. Yet this company has a market cap of about a $1 billion. Now, it has also got future cap-ex requirements and liabilities of another $8 billion, so call its current enterprise valuation $9 billion. Not a lot has to go right for this to be worth four times that enterprise value and many more times than that on the equity value — and I didn't even give them credit for the gold. So we see many, many multiples of upside.

But it's scarcely a slam dunk.

Dave: I'll grant you, one, that the prices of copper and gold are volatile, and copper has not been strong lately. Two, people don't like emerging markets and frontier markets and it's operating in Mongolia. Three, people will correctly say, "Mining is a tough business. Things take longer and they cost more than you would expect them to." In fact, this company came out last summer and said, "It's going to cost us $1.5 billion more than we said it would to finish this mine." That's bad news.

And the obvious reason the stock took it on the chin.

Dave: Well, we've subtracted $1.5 billion from what we thought this thing was worth and we still think, as I say, it's worth multiples of where it's at now. That $1.5 billion was an 8% haircut in what we thought it was worth — but the stock market instantly took $4 billion out of its capitalization. We like over-reactions like that.

I remember after the Fukushima nuclear plant accident, one of the railroads in Japan had a billion dollars worth of damage — but its stock dropped $4 billion instantly on that news. So we bought the shares. That investment worked out very well for us in the end. It was a nice time to buy that railroad.

Okay, but presumably that railroad had a significant operating record. This mining outfit, well, doesn't. I presume you've heard the old line about the definition of a gold mine — a hole in the ground with a liar standing at the top?

Dave: Who hasn't! In this case, it seems to us that you've got decades worth of reserves with some built-in inflation protection. Yes, it is bad news

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that their costs over the next couple of years are going to be higher than expected. We're not happy about that. But this is a stock that was, we thought, grossly undervalued *before* it fell by $4 billion — and we find that very attractive.

Is Turquoise a new name for Ivanhoe, that Mongolian mining project that what's his name, the Canadian mining promoter, has been trying to get off the ground (or into it?) for years?

Dave: Yes. The history — the property was owned by BHP, one of the big guys, until sometime back around 2002, 2003, 2004. Then, at the very bottom of the 25-year mining cycle — I can't remember exactly when — BHP decided that they should sell properties like this one that were going to take a while to build. So they sold it — and they sold it to Robert Friedland's Ivanhoe Mines.

The "colorful" Robert Friedland —

Dave: Yes, Friedland is very promotional, so people worry about that — and yes, he can really spin a story. But he has also had success after success after success, and now he's being successful again. He makes lots of money and he keeps his money invested in his ventures and he's not giving himself a bunch of options or doing a lot of the things that have earned the mining industry in Vancouver a bad reputation.

What he did was buy this thing for $200-some-odd million from BHP. Then he did a lot of work with the Mongolian government, made a lot of progress, got permits, got things started and then turned around and sold the property to another huge mining company — Rio Tinto — for a fortune.

So it's a separately listed sub of Rio Tinto?

Dave: Rio Tinto owns over half of Turquoise. And that's good news/bad news. People like the fact that a big, well-regarded company with mining expertise has a big stake in the mine — that portends good things. But some worry that Rio Tinto might try to squeeze minority shareholders out of the mine at these depressed prices. I don't know if they do that or not. Anyway, people either like or hate the fact that Rio Tinto owns more than half. But it is a mine with huge prospects — one of the biggest in the entire world — and its market cap is just $1 billion right now.

We think it goes up many multiples from here and that the market has overreacted on commodities and overreacted on emerging markets and overreacted on company-specific bad news. So we see big potential.

It's your kind of risk —

Dave: What we've noticed over the years is that when you do things like that, they generally work out. And even if a few of them don't, the fact that ones that do work out are going up over four times, while the ones that flop only go down, at worst, one time, means that the math works out really well. So over the last 20 years, we've loved opportunities to buy companies like this.

What else do you like? Anything here?

Dave: We have almost nothing in the U.S. We find it interesting that 56% of the all-country world index is in one country. Now, we love the U.S., but we've long pointed out to people that as great as the U.S. is, 1929 and 1972 and 1987 and 1999 and 2007 weren't really good times to own the U.S.

Gee, but you'd be diversifying by buying the all-country index, haven't you heard?

Dave: Very funny. We've seen in the past what happens when one country's stocks come to dominate the all-country. You probably remember that Japan became almost half of the weighting in the all-country in 1989.

Right at that top.

Dave: Yes, and again, there's no value in a crowded place. All that money that poured into Japan didn't work out well for the investors. I think that over half of the all-country index's weighting currently being in a country that generates roughly 20% of the world's GDP makes little sense. Half of the world's GDP is generated by the emerging markets, yet they are only a 10% weighting in the all-country index — hence we have a lot of positions in emerging markets and almost nothing in the U.S. But let me give you the name of one of the few U.S. stocks we have.

Over the years we've watched the price of natural gas go to $10 and back to $2 and back to $10 and back to $2, then up to $7 and back to $2.

It's been dizzying.

Dave: Yes. And here it is, back in the low $2s — though it has bounced a little lately. On absolute value, it is cheap — and relative to oil it has gotten very, very cheap.

Now, the company — which people used to love — is Range Resources (RRC). The stock has dropped from $90 to $4.

Small wonder investors' ardor cooled.

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Dave: Yes. We started buying at $12.

Ouch.

Dave: I know. But it's got the stuff that we tend to like. It has long reserves — low-cost reserves — and it's in good areas. Plus, insiders have been buying a lot of stock, which we like to see. While they have a little more debt than we like, they have less than most of their competitors — and they *are* profitable, even with natural gas prices as depressed as they are.

To repeat, it's a profitable company with insiders buying, and it's selling at a quarter of book value; at seven times trailing earnings, and they have proved reserves worth $18 billion, so, if we subtract the debt of $6 billion, it's a $12 billion company — theoretically — that's trading at an enterprise value of $4 billion. We could see a tripling of the enterprise value, which would be way more than a tripling of the stock price.

If the natural gas market ever sorts out —

Dave: Sure, there is risk here and the stock market is saying that things are going to be difficult. But it sure seems like we're buying a good company at a trough in the price of gas — and gas has been picking up share. Coal and oil have been losing out to wind and solar and gas — while nuclear and hydro basically hold their own — and that's without electric cars. If electric cars ever take off, that will be a boon for natural gas.

Electricity needs to be generated — somehow. Is Range resorting to much "high grading" of its reserves to stay afloat amid so much pressure on gas prices?

Dave: That's a very good question because you can find some smart people on both sides of the argument over whether fracking is nirvana or not. Those folks say Range's costs are really, really low and so what a huge competitive advantage it is — and those smart people also say Range is not high-grading and that they're doing a wonderful job.

On the other side of the argument, people are making a reasonable point when they ask, "If that's the case, why has the fracking industry been taking on so much debt? If you're actually making money, your debt should be going down, not up. And why is everybody borrowing a bunch of money to keep drilling more holes? Especially since these wells tend to —"

Deplete quickly — that's the term you're searching for, I suspect.

Dave: Yes, that's the word – deplete. So those folks argue that maybe it is just another mal-investment syndrome of easy money.

Which side convinces you?

Dave: I suspect the truth is somewhere in the middle. Again, buying a stock like this at a 10% discount or a 20% discount makes very little sense to us. But we think that if the price of gas can level out at just $3.50, which is not that high —

Leveling out is a bigger bet than that price —

Dave: Nonetheless, if that happens, we think the stock is worth in the 20s. And here it is at 4. So once again the market is just saying, "We don't like hydrocarbons and we don't like volatility. Sell." And when people buy or sell without any real thought on what something intrinsically is worth, we think that's a great opportunity.

Given lots of patience and staying power. Keynes also said something about the market remaining irrational longer than you can remain solvent.

Dave: Yes. The last time we talked on the record *[WOWS, 7/25/2014]* — was probably a good example. We were loading up back then — probably a year or so too early — on things that people passionately hated, whether it was gold mining (which we still like) and Russia (which we still like). They both got killed for probably the next year after we talked. But since then, they've been two of the best performing areas. And even measured from when we talked, they've been good holdings.

So when you hear people protesting they wouldn't buy a stock at any price, you pretty much can't resist?

Dave: Guilty. That used to happen when I'd say, "We like Gazprom (OGZD LI) or we like Sberbank (SBER LI)" and people would be like, "Well, they're the enemy." I'd acknowledge, "Yes, they're the enemy. But what's the stock price?" If Exxon was trading at $20 a barrel should Gazprom have been valued at $15 or $10 or $5? We were buying it at $1 per barrel. I'd tell people that and what I'd hear was, "No, I won't buy it at any price." And I'd say, "Well, that's music to my ears."

I wonder if any of them are lining up now to buy Aramco shares from the Saudis?

Dave: Maybe. But as I said, by now our gold stocks have done pretty well for us. We still like a number of them. And our Russian stocks have done pretty well but we're still finding some value there. And the group that is universally hated now is natural gas.

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I went to a conference in Calgary in July and it was like a ghost town. The few people there were just so depressed —

That's a good sign for contrarians. When Calgary is a party town, it's no time to invest in oil and gas.

Dave: Exactly. So here we have Range Resources making money with prices down on their ass. We see this as huge optionality and people hate the stock. That's why we can buy good companies that people used to love. We've got a handful of others, but Range is the cheapest.

You mentioned Japan earlier. It led the world, going into the tank after its bubble popped in 1989, but has lately shown a few signs of life —

Dave: Japan might be a good laboratory for us. After their bubble popped, they created a whole lot of money and kept interest rates next to zero up until recently. More recently though, corporate margins are finally reviving.

After they got a little ruthless with zombie companies at long last —

Dave: Yes. But now we're following in their footsteps, keeping our zombies on life support!

Talk about not learning from history.

Dave: Incredible. I remember being taught in school that if your cost of capital is low and return on the capital is high, then people will borrow and invest until the difference between those two is arbitraged away. But now it's seemingly just understood that if you make that difference zero, people will leverage up their companies and buy their own stock back at ridiculous prices — at the same time "creating wealth" and taking margins "higher."

But I think history ultimately will show that accounting numbers and economic numbers aren't the same thing —

In the meantime, an awful lot of management incentive programs will have further enriched the top tier of the income scale.

Dave: Unfortunately that's the case.

Enough said. Let's focus on Asia. Didn't you mention finding some values there?

Dave: In South Korea. A couple of them. Let's start with a big boring company: Korea Telecom, or as it's now called, KT Corp. (KT).

It's about as exciting as AT&T, before Judge Greene.

Dave: Right, like a lot of other big companies in this industry around the globe, they used to have pretty much of a monopoly structure and now they've got a couple of competitors. In Korea now, there's sort of this tri-opoly and the wireline business has its challenges. But the thing that's interesting is regulators do what they do so — sometimes they're nicer and sometimes they're less nice — and I view that as yet another thing that's cyclical. For instance, the time to buy Eletrobras (EBR) in Brazil was when former President Dilma Rouseff was forcing them to lose money. But since they impeached her in 2016, the stock is up 10 times off of the bottom.

Go on —

Dave: KT is kind of similar. So if you say "phone company" today — people used to love phone companies in 1999, and they were wrong on their timing. But they were right that moving data through pipes was a growth business for the future, and that having an oligopoly in that business is a pretty good profitable way to go.

What's happened is that, one by one, countries tend to force the economics to get worse. So in Korea, the regulators have sort of forced margins down for all the companies there. Investors are looking at that and saying, "Well, Korea now has low margins, so they'll always have low margins."

A bad assumption, you're implying?

Dave: Well, let's examine two possibilities. Let's say that's correct, and the margins stay way lower than almost any place in the world. Nonetheless, *at current margins* you can buy this thing at 10 times those depressed earnings. You can buy this company with this franchise built over decades at two-thirds of *tangible* book value — at half of book value. This thing is selling at 28% of sales; at less than 5 times free cash flow. And that's if they are *never* allowed to make a decent return on their money.

And you clearly expect that pendulum to swing the other way —

Dave: Not only that, these guys have some of the best technology in the world. KT, along with their competitors in Korea, are further along than anybody on developing and implementing 5G. They are known for their technology. They've got good infrastructure. What if their margins are allowed to go up three times? If they go up three times, that would make their margins essentially average for the world — in fact, they could go up six or seven times and still not be out of whack with what we're seeing in a lot of countries.

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So what we think we have in KT is a great franchise in a tri-opoly business that isn't going away in the next 10 years. A well-run company with a pretty good balance sheet and great free cash flow — if nothing goes right. But if they ever are allowed to make decent returns, it has *huge* upside.

What is KT's ownership structure? A chaebol like so many companies there?

Dave: They've got some government ownership — I can't remember the specifics. But it's not one of South Korea's infamous chaebol structures. It is much cleaner.

Then it's not a Samsung?

Dave: No, though Samsung is fascinating.

True. Also byzantine.

Dave: Yes. Just recently we've added a few Korean companies that do have a little bit of chaebol in their ownership structure that is being cleaned up, but we try to buy them at big discounts.

It's amazing what a discount can do.

Dave: As we said earlier, people like them as a sort of security blanket. But Howard Marks' book from about 10 years ago ***"The Most Important Thing: Uncommon Sense for the Thoughtful Investor,"*** had three chapters on risk that should be mandatory for everyone CFA, everyone in business school — every investor. The idea is that people don't knowingly put most of their money in something that's thought of as risky. But usually the real risk turns out to be in things that didn't seem risky at the time — to the contrary, things that seem really risky often turn out to be the least risky over the long haul. One of Marks' examples is a portfolio of bonds that are in default. If you can buy them at 10 cents on the dollar, you're probably going to paid 30 cents on the dollar in the eventual workout — and therefore it's very low-risk to buy those defaulted bonds that are seemingly very risky.

Volatility is another thing, as we've said, that people equate with risk. That's why the herd has been saying, "I want to buy low-vol," and pouring all this money into low-vol funds. They're not stopping to think that the "low-vol" stocks those funds are buying are being pushed up by all their buying from 10 to 15 to 20 — and then up to 60 or 70 — when they are still probably worth 20. That people think something is low risk (or low-vol) when it's been pushed to the moon is crazy.

So you're more than happy to snap up "volatile" issues when they're trading at big discounts.

Dave: That's true too. I was trying to figure out the other day at what point in recent years the definition of volatility changed to mean only a *down* move. People seem to have forgotten that they actually should *want* upside volatility.

If a company earns $2, $2, $2 and you pay 50 times earnings for that, it's probably risky. But if a company's going to earn $1, $3, $1, $3, $1, $3 — averaging $2 a year, people say, "The heck with that. I'll sell it to you for $6 —" That's the world we live in. And we feel pretty good taking advantage of that now.

No wonder you're writing about some of the rebellious anthems of our youth as this market hits all-time highs.

Dave: When those rebellious anthems were being written, the U.S. market was also hitting all-time highs. But as Bob Dylan wrote, "the times they are a-changin."

I have always been a big fan of John Templeton and he was *not* participating in that manic market of the 1960s. Templeton was pouring all of his money into Japan, where he made a lot of money buying growth companies at 4 times earnings. In hindsight, it seemed obvious, of course — but very few people were doing it. Because people didn't like Japan then. The memory of WWII was too fresh in the 1960s. Japan back then was like Russia now. "The enemy."

We can only hope Putin's ambitions are foiled in time.

Dave: What's interesting here is that we see abundant opportunities in this market, but not in the popular indices — where we see much more risk than upside. Indeed, we see more opportunities outside of the developed markets, where stocks are priced for perfection, than in them.

How about one more example —

Dave: Let me see. I could talk about a small cap Korean tire company or Ukrainian sugar beet company — which would you like?

Let's be topical and talk about Ukraine —

Dave: Sure. The geopolitics are iffy, to say the least, and sugar is pretty out of favor, too.

Did someone say "healthy lifestyle"?

Dave: Yep. There's a company called Astarta Holding, a Ukrainian agricultural and industrial company, that has traded in Poland since 2006.

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What's to like?

Dave: What we have here is, once again, insider buying of a stock that in the last two years has fallen from $70 to $19. It is trading at 27% of book value. Ukraine is interesting. After they stopped being communists, they cobbled all this land together — but instead of giving everybody their small plot of land and having people choose to sell it or be strong-armed into selling it to the big guys — they let people keep their ownership stakes in the land while also cobbling it into big pieces so that they could lease it out to big companies.

That has actually turned out to be more fair and more effective, because profitable farming requires large scale, and they figured out a way to allow the people to get their share of the pie. The companies are also doing well, because they lease the land at pretty attractive rates.

I've followed agriculture of a long time, and the U.S. Midwest, parts of Argentina and Ukraine are considered to be the three best soil places in the world. In fact, Ukraine has a long history of very productive agriculture.

One reason Russia continues to covet it.

Dave: Yes. Beyond that, this company is volatile based on food prices and currency swings and things like weather. So they'll have bad years and very good years. On average, it sells at around 3, 4, 5 times earnings over time. But they're not having a good year now.

Now granted, all things being equal, my first choice would not be buying an ag business in Ukraine. But land that would cost $9,000 - $10,000 an acre in Iowa is on sale for $800 an acre in Ukraine. This is very productive land farmed by companies that have been successful for years — with insiders buying a lot more shares, and the stock is cheap on book value.

That doesn't mean it can't go lower, but —

Dave: That is true. It comes down to this: As value investors we expect to be wrong a third of the time. But with 70 names in the portfolio, we can be wrong on 20 of them and still make a lot of money. Still, nobody should put all their money into any one of these names.

Meanwhile, the choice today, like in 1999, is to buy the popular indexes and pay really high prices, or to buy best-in-class companies that no one wants at the moment, but that have the potential to go up 3, 4, 5 times or more.

You've left no doubt about your choice. You didn't mention any African stocks, despite your recent trip. No values tempt you there?

Dave: All we have in Africa right now are mining companies. We visited a company called Impala Platinum (IMP SJ), traded in Johannesburg, that we bought a while back — then it went way down and fortunately we bought a lot more — it's up 7 times or so in the last year. An example of the massive upside I've been talking about. They have mines in South Africa and Zimbabwe — not people's first two choices of locations — but the price of palladium has gone to the moon and these guys have a lot of palladium and it's worked out. So we visited their mines.

Then, we mentioned Robert Friedland earlier. He made a lot of money years ago in Diamond Fields Resources, then he created Turquoise Hill, which we talked about, which was originally called Ivanhoe. After he sold more than half of it at a big profit, he created another company, also called Ivanhoe. He's done a great job of finding unbelievably good mining properties and he's done a pretty good job of attracting other investors. The Chinese now are investing a lot of money in his new Ivanhoe company and in his mine — as is Friedland — and they keep finding more copper and more platinum. The stock has also been very volatile, but it's been good to us. It had a really nice run in 2016 and then last year got cheap again. But that's the other company we visited in Africa. Ivanhoe is based in Canada, but its properties are in Africa — and at some point, that continent is going to get the flywheel moving.

One can only hope, for Africans' sake. Thanks, Dave, for sharing your ideas.

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Welling on Wall St. Interviewee disclosure: David Iben is the Chief Investment Officer of Kopernik Global Investors and is the sole Portfolio Manager of the Kopernik Global All-Cap strategy, Lead Portfolio Manager of the Kopernik Global Unconstrained strategy, Co-Portfolio Manager of the Kopernik Global Long-Term Opportunities strategy and Co-Portfolio Manager of the Kopernik International strategies. He is the Managing Member, Founder and Chairman of the Board of Kopernik Global Investors. For more information: see https://www.kopernikglobal.com.

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 Vinki, 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.

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