

THE MIKE ALKIN SHOW

TALKING STOCKS OVER A BEER



Announcer: Free and clear of the chatter of Wall Street. You're listening to, "Talking Stocks Over Beer." Hosted by hedge fund veteran and newsletter writer Mike Alkin who helps ordinary investors level the playing field against the pros by bringing you market insights and interviews with corporate executives and institutional investors. Mike sifts through all the noise of mainstream financial media and Wall Street to help you focus on what really matters in the markets. And now here's your host Mike Alkin.

Mike Alkin: Welcome to the podcast. It is Tuesday July 24th, 2018. Right here in the dog days of summer. It used to matter when I was a Mets fan. I still am. If you were listening to the podcast you heard me talk about early in the season they were 11 in 0 and God I was on cloud nine. But I think I put a caveat in there that I said, it's still the Mets. Here we sit on the 24th of July and the Mets are the worst team in baseball.

When you're a baseball fan you look forward to those dog days of summers. They're grinding it out. If your independent race it's fantastic. But when your team is the worst team in baseball, the dog days of summer take on an entirely different meaning. Now I'm watching Yankee games. When you grow up in New York you're a Met or a Yankee fan, you're not both.

But here I am watching them because they have one of the most exciting line ups in baseball. Season's halfway over and baseball for me as I know it is over so now I'll just enjoy watching the Yankees and Red Sox battle it out.

Anyway hope you had a good weekend. Friday night we were at a neighbor's house, they were having a birthday party. A bunch of friends over. It was nice to get together with people and see them. A handful of Wall Street guys were there and some non-Wall Street guys, which I really like. Get a bunch of Wall Street guys sitting around talking after a while it just gets old, you're talking about the same things over and over.

I was talking to a few people there that have their own businesses and we're talking and somebody was asking me some questions about stocks and just started talking. It's not like everybody wants

to know about this company or that company. I don't know. I know what I know. But I talked about that. I said, "Well look here's kind of a framework in how you think about it." It got me thinking. I laid out a framework in how I think about investing. And that framework and that playbook has been developed over 20 plus years. When I think about it, I was thinking about it, it was Friday night, it was a part, and I was thinking about it yesterday. I was thinking about, wow, you think about investing and when I first started I really had no clue. I was just grinding it out and working hard. I'm numerate. I'm very numerate. So I've got that going for me.

I have an accounting degree. But in terms of just the art of investing I really had no idea. Over time as it works out you think about all the mistakes ... I was thinking all the mistakes I've made in investing and I still make mistakes. But how after each mistake, I was taught very early on, way long time ago when I worked for Joe [DiMenna 00:03:34] to do a post mortem. You're going to make mistakes but do a post mortem on the mistakes and hopefully you build on it.

I think about that throughout the years and all of the mistakes that I've made in investing and the learnings from them. You keep building upon those learnings and hopefully you don't make the same mistakes twice. Sometimes you do. But as years go on you tend to, at least for me. I reduced the same mistakes but you still make them sometimes. And sometimes you really have to keep your emotions in check. It's easy to say, just step back and take your emotions out of the investment process. And I think I've over the years I've done a very good job at that, but the market is amorphous. It's moving, it's breathing. There's huge volatility and while it gives you great comfort to know that your steeped ... The work you've done or at least the work I've done is steeped in valuation analysis, primary research field work. This big laundry list, check list that I have, but still when those things are moving, you're still a human right?

You have to try and step back from it and you do. I'm way more often than not able to but you still swing around a little bit. I was thinking about it, I was thinking about the conversations we had and about how over the years my process has gotten more fine-tuned and fine-tuned, and my investment philosophy has been fine-tuned and fine-tuned and so we're now after 20 something years, I'm very comfortable with where I am as an investor. It's funny though because as I was thinking about this yesterday. I had time to think about it. Because I'll tell you in a minute what I was doing because of all of the lessons I've learned as a professional investor and had built upon those to become a better investor, I

don't carry those sometimes into different aspects of my personal life.

If you're new to the podcast, this will be the first time you're hearing it, if you listen before and you've heard me say this, I apologize but I come from a very humble background. I come from a blue collar, working class, lower middle income, background. My grandparents raised me. He was a long shore man and mechanic on the water front in Brooklyn and my grandmother was a seamstress and they worked 12, 14, 15, 16 hour days. Very hardworking. I didn't have to be taught about hard work. It was part of the fabric. Part of what I saw everyday growing up. You keep your mouth shut, you put your head down and your grind, and you don't complain, you just do it. And that served me well over my career. It served me well in life. Especially in the investment world. Where you could work sometimes at some of the bigger hedge funds. I was working ... you were working 15 hour days, sometimes 18 hour days, it's a grind.

My grandfather, he could fix anything. He would look at something and he could fix it immediately. It didn't matter. Anything. Anything broke. A neighbor would come over, something happened. He'd go there. He'd look at it, and I was witness to this, he'd look at it. He'd step back. He'd think for a second. He'd say, "Okay here's what we need to do," and my god did we have the tools to do it. They say sometimes just by osmosis you pick things up. That didn't work for me.

When you fast forward all these years now to my life, with my family, I have that blue collar mentality. Nobody shovels my snow. Something needs to be taken down, I take it down. Just kind of the way it is. I enjoy it. I can have someone come in and do my snow. I can have someone come in and take something down but I enjoy doing that and it kind of makes me feel like I'm in the grind and that's fun for me.

Taking stuff down, grinding out, doing things, demolition, I'm your guy. Fixing something or putting something together, I am an absolute deer in the headlights. I learned nothing in the 20 something years I grew up in my grandparents' home. Literally nothing. There was no osmosis. There was nothing that transferred over. I think back when my daughter was, she's a teenager now but we were living in New York City and it was the summer and we got her her first tricycle. My wife got this big box delivered to the apartment and I sat there and we were going out to my in-laws. I put the bike together. Well the instructions, it shouldn't take long, whatever it said, it should take an hour or whatever, I'm going on 10-12 hours. It's a weekend and I'm sitting there, and my wife is out on the terrace. She's day, "Is everything

okay?" I'd say, "Oh I got it." Then she went out shopping, took our daughter, came back. "Doesn't look like you made much progress."

"I got it." This went on and on so it went from the morning, to lunch, to late afternoon. I finally think I have the bike put together. It is put together. The next morning, we go downstairs we get our car out of the parking garage, I put the bike in the back. We get out to my in-laws and my father in law, blue collar guy, really good guy, very handy, can do anything. We're excited, we're out at their house on Long Island. We're gonna put our daughter on her first tricycle and everyone's outside with the camera. We're gonna take pictures. We put her on it. She peddles, the entire thing falls apart. The handle bars come flying, the wheels go everywhere. It was a disaster. My daughter was fine. When I tell you we were crying, we were laughing so hard.

It's funny though how sometimes, as with investing, luck is a great thing. I've had some winners where my thesis was kind of right but luck was by far the reason why something worked out. Well luck was on my side this day because my father in law looked at me. Now I've known him for a very long time. He looked at me and he said, "You are never putting together anything for my granddaughter again." Subsequent to that now he has a grandson and he says, "I will put everything together." Now we're probably talking, 12 years now. I don't think I've put together a Christmas present for my kids, in 12 years. He happily comes into our home, drives in to come see us, in a different part of Long Island, at Christmas time, puts 'em all together. So I had some luck on my side.

Now I also had some luck on my side where not too long ago I was trying to put together a garbage pail. A simple garbage pail for our outdoor patio and I took it out of the box, and I looked at it. Now it's got four walls and a top. I was going on it about two hours and my wife was, I could see her peering out the kitchen window. She finally came outside. She said, "Are you struggling with that?" I said, "No I got it." So again, I have the deer in the headlights. I put it on, whatever I did it was wrong. It didn't work. But thankfully we have a neighbor Kathy, who can put anything together. And her husband told me a long time ago, "I don't do anything. Kathy does it all. She'll be happy to do it."

Now I've learned anytime we need something put together, all it is a bottle of wine, Kathy comes down, hangs out with my wife and puts it together. So I've had some luck on my side in stuff like that. There are things where life imitates art and luck is a part of investing and luck can also be part of your regular life. For me it's a blessing.

That was my weekend but really the reason I had time to think about it yesterday was, getting back to doing things on your own, my wife and daughter decided they're going to redecorate her room. I could tell when there's movement around the house, and there's people in my house that I'm not really sure who they are. I've seen over the years with my wife, whether it's she's having something done in the house and she tends to know if I'm focused on work, I might sometimes just not pay attention. Turns out, somebody came in to help my wife and daughter figure out what they wanted to do with the room. When we built the house years ago, handful of years ago, we had the wood floors done in the kids rooms but the person helping my wife figure out what to do with the rooms decided they were going to carpet the room until a later date and they did and now we're pulling the carpet up.

I was in yesterday and I said, "You know what? You don't need to bring in floor guys, I'll do it." She said, "What are you talking about? You don't have time to do it." I said, "No, it be cathartic for me. It's good." I said, "I'll pull up the carpet and I will ..." She said, "Yeah but then they've got all those things on the side with the tacks and stuff. How are you going to get those up? You're gonna wind up doing something." I said, "No I'm totally fine. I got it."

There I go. All the stuff comes out of the room. I tear up all the carpet. I tear up all the felt underneath the carpet. The wood floors look in great shape. But you know those things that sit along the edge of the wall where they tack the carpet down to? What a disaster. When I tell you my hands are ... I could barely touch the keyboard. I was dropping the F bomb probably every 15 minutes. It was absolutely crazy as I was trying to get those things up and cutting my hands. I've got band-aids all over me. I was thinking, "Don't you ever learn?" Sometimes you just, you gotta let go. But that gave me the time to think about a lot what I'm going to talk about on today's podcast. Anyway that was my weekend.

It was relatively, watching British Open Golf, enjoyed that. Always loved watching the British Open. As times moved on in life I don't play a lot of golf anymore. I used to play a ton when I was younger. And then in my twenties I played a lot. I was never a great golfer, when I say a ton, I would play, once a week. And I might be able to shoot at that time maybe in the mid 80's. Now if I get out once or twice a day. Since the kids, since I've had kids I just decided I'd rather spend the weekend with them and during the week I just don't have time. I don't want to spend four, five, six hours at the golf club on the weekend.

When we moved out from the island, from New York City to Long Island, I dunno, nine years ago, I forget what it was, we

did join a golf club. I thought, "You know what? I'll pick it up again. I'll play it late afternoon, early evening maybe." The kids were much younger at the time and I won't get into what it cost to get in the golf club and what the charge you annually. And I wound up playing once a year maybe twice a year. So figure that out per round and it was ridiculous. But I love watching it. I love the history of golf. I love the gentleman nature of it. The sportsmanship. So yesterday it was really great watching the British Open.

We talked a lot about, over the number of podcasts, you know I think you've heard me say I like deeply cyclical industries. I like the natural resource complex, you can catch things at inflection points. One of the things we've seen over the last performing, from an evaluation standpoint, the commodity complex has been really really beaten up. When you compare it to equity evaluations you look back on a chart and they're really really cheap. It started to have a surge. But that surge has been really upended here in the last short while. I thought it would be good to get a guest I had on the-

Mike Alkin: A short while, so I thought it would be good to get a guest that I had on the podcast before to come back and talk about it, so we're going to bring on Peter Sainsbury, who focuses on the commodity complex, and we're going to spend some time talking to Peter about his views, so Peter Sainsbury, welcome to the podcast.

Peter Sainsbury: Hi, Mike. Yeah, good, thanks for getting me on the show.

Mike Alkin: Yeah, my pleasure. You and I met through Twitter, and you are one of the guys on twitter @petersainsbury number seven that I read every day.

Peter Sainsbury: Glad to hear it.

Mike Alkin: Your focus is on the commodity complex, on the commodity markets, and I always learn what's going on. I mean, I pay attention to the commodities, but I think you have a really interesting take on things.

And I think the last time you were on the podcast, we were talking, and the commodity prices have been down for a quite a while, and the valuations in many of the commodities and the commodity index really, really cheap, and we started to see a rally over the May-June time period. You saw copper really take off, but just recently over the last short period of time, you've seen almost like a commodity contagion taking place where you're seeing some of these prices start to really back off.

You've seen there's emerging market currencies that are really hitting these producer nations, and while some people might be low by the com-financial markets, I'm trying to wonder, the inputs in the global supply chain are flashing, something's going on. So now that commodity's approaching this correction-type territory and they're under pressure again, the dollar has been on fire, global trade tension is out there, how are you thinking about the commodity complex right now?

Peter Sainsbury:

Yeah, I think that's a great question. I mean, I'd kind of like to take a step back and consider it in the context of both business and commodity cycles. They're both short term and long term view things, and I think you mentioned trade wars, and clearly that's something that's gained the market's attention recently. But I think, in the context of the business cycle, I think the sign's been there for a while that the global economy, and certainly particular countries, have been showing signs of slowing down for a while.

So you've got, in China, the decline in the credits impulse. That's a kind of a measure of new credit within the economy. It's been slowing down. The fall in Chinese equities, things like South Korean industrial production, which tends to be quite a good leading indicator of global trade and activity. All these things have been kind of flashing red for a little while, even before the current drop in metal prices and that's one of the concerns over trade wars.

So, you could argue that perhaps the business cycle has topped out earlier this year. You know, we experienced the, sort of the Goldilocks scenario. Everyone wasn't too hot, not too cold, and it seemed like good times were ahead. But things sometimes are always ... the rosier when you're at the peak. I don't think this is perhaps any different.

And I think in a longer-term context, I think you know yourself commodity market's live in long-term cycles, and we had that big run-up in prices from the early 2000s up until 2008 and 2011. And then we've had a, in general, a kind of a run down from prices then, but with periods where prices have surged. So I think maybe we're perhaps hoping for more in terms of upside potential than perhaps we- I think the market perhaps got a bit ahead of itself. If you think about the run-up in metal prices, I'm sure that-

Mike Alkin:

Yeah. I-

Peter Sainsbury:

Yeah, so I'm sure there was a strong demand, but there was also the cuts to capacity in China as well, on environmental concerns. So I think that you seem to see both ways, both long-term and short-term business cycles and commodity cycles as being kind of

behind where we are at the moment.

Mike Alkin: Peter, you brought up metal prices, and it's timely, 'cause they're very correlated with world economic activity. And, over the years, I've come to see that they could predict short-term movements in GDP, right?

Peter Sainsbury: Yeah, yeah.

Mike Alkin: 'Cause consumption moves closely with it. If we had a blank canvas right now for listeners, and they're trying to balance out the cheapness of the global commodity complex, versus what to be looking for to understand if the valuation is gonna increase, how do you think about it? What do you look at? Is it metal prices, or with a blank canvas, what are you focused on when you're forming your viewpoint?

Peter Sainsbury: Yeah, I think metal prices, particularly copper- You know its nickname is Dr. Copper, I think partly for a reason. It tends to give a good, safe [inaudible 00:23:04] of future economic activity. You've got to think about the supply side as well, but certainly it does give an indicator of where demand is heading. At the moment it's not looking too promising.

But I think in taking a kind of wider context, I think it's looking at the markets that are overly-pessimistic, a number of companies have declined, and investors are leaving the set, there's just no appetite there for investment, and then I think kind of looking for those opportunities where there's big potential for growth in the future. If you think about, economies tend to grow through an S-curve, so they start off slowly and then have a big surge in demand and then kind of tail off. I think part of what I look for is looking for where those countries which are, kind of at that bottom part of that S-curve.

One of the ones I'm looking at the moment is India, in particular, and especially around its oil demand. At the moment, when you compare India with someone like, say, China, the level of urbanization is very low. It's kind of back to where China was in 2003, roughly. So there's a big potential for growth, and big potential for demand to grow in terms of oil consumption, but also the infrastructure that economies need to develop as well. I think it's definitely all those different factors, both sentiment, [inaudible 00:25:01] and the kind of broader fundamental factors as well.

Mike Alkin: Mm-hmm (affirmative). And when you're thinking about it, do you weigh them- As you're looking out as a portfolio of commodity investments, what's your view in terms of, do they all move in the same direction, or, when you're thinking about weighting a

portfolio of commodity investments, what's your thought process there?

Peter Sainsbury: Yeah, so that's a really interesting question. It is a bit, very difficult. I think it's about, clearly at different stages, the signs are not all flashing green. Some of them are flashing red. You need to weigh up those signals through time, as to whether they're signaling hold to your current level or increase your exposure.

But I think in general it's about taking a position and gradually expanding it once it sets into a milestones, you go past. So if you're looking for signs of supply discipline within a commodity market, and there's effort into that happening, then that's a sign that the market's moving through that cycle. And then, depending on what your risk appetite is, it might be a sign to increase your exposure in a particular market. So I think it's taking all those things into account, but what's really important is to really document your decision process so you've always got something to go back to, six months ago or longer, and say, "There was this, then this, then this piece of evidence, and that's what resulted in me making that decision that I made."

It's easy to become emotional about an investment in hindsight, but if you've documented it analytically ahead of the time, that can be a real help.

Mike Alkin: Yeah, very much so. Yeah, I find writing things out helps my thought process quite a bit. I was looking through the Bloomberg Commodity Index, and I think 22 of the raw materials in there have fallen since May. And live cattle, cotton and orange juice futures were the only ones bucking that trend. And copper was down almost 20 percent, I think, since then. And you see the same with the emerging market currencies, where I think of the 24 tracked by Bloomberg, something like 20 or 21 of them have been down. And you've seen the big losers such as South Africa, which produces a lot of base and precious metals and coal. And Brazil exports iron ore and agricultural petroleum, and then Chile's a major copper producer. Russia, too, with its natural gas and metals.

So you've got this looming trade war, you've got all this uncertainty about Chinese demand weighing on the prices. How do you think about this, what does it portend for developing nations in general? How do you view what you're seeing with this kind of pain that's taking on? Is there a contagion that can occur from this, or how do you view that?

Peter Sainsbury: Yeah, if you go back to the late 90s, especially the Asian financial crisis, there was certainly an element of contagion because there

was a high amount of borrowing in dollars. I don't think the situation as it is as extreme as it was back then. I think the banks and the governments I believe typically kind of learned from that episode. So I don't think they're necessarily as exposed as they were before.

But I think there is an element of contagion from an economic point of view. We've got the decline in the renminbi, and that's partly what caused the decline in some of the other emerging markets as well. So I think as China becomes a more challenging market to import some of those materials that it needs, those commodities, that will put pressure on some of those emerging markets that are very heavily involved in commodity exports.

Mike Alkin: Right. Yeah, one of the things that I'm wrestling with right now is, as I think about the commodity prices, right, the pass-through of them isn't always so straightforward. Because, while on one hand it indicates a level of demand, but if your commodity prices are not increasing so much, right, that dampens inflation. And if you think about monetary policy to some degree, they're focused on keeping inflation in check and not letting growth get too runaway, which could ultimately keep rates down, right? And the market for a long time has been thinking they gotta go up.

So you know, you think about what role that plays. So, but I- Right? How do you think about that?

Peter Sainsbury: Yeah, I'm kind of thinking that from that point of view, from what happens when the next crisis hits, whether that's what we talked about, an emerging market crisis that envelopes the rest of the world in some way, or who knows where it's necessarily going to come from. But the question is what will central banks do in that scenario? And you've got to think that they're running out of ammunition, certainly of the conventional kind. So that kind of points towards something quite extreme, I think, that potentially could happen. In terms of ammunition, you quantitate it by using "to infinity," whatever that could mean. And that, potentially, in the short term, could be really- Cause a strong wind behind the metal prices, precious metal prices in particular.

Mike Alkin: I really like, as natural resources and commodities, sometimes you can catch industries that are out of favor, and sometimes might be able to buck the trend a little. I mentioned three earlier. I don't know anything about orange futures or cattle or cotton. Not unless I need to, and I haven't paid much attention to it, but you're always on the lookout for commodity markets that have fallen out of favor, that people hate. Right?

Peter Sainsbury: Yeah.

Mike Alkin: So you get a sense for fair value down there, and I know like me, you're always looking for asymmetric returns where the downside is limited and the upside potential is high. One of the markets that's been drawing your attention lately has been the potash market. Potash, along with phosphorous, nitrogen, it's one of the nutrients that go into making fertilizers.

Peter Sainsbury: Yeah.

Mike Alkin: So, why don't you talk about, if you can, the backstory on potash and what attracted your attention to it?

Peter Sainsbury: Yeah, I think this kind of goes back to some of the other things we've been talking about in terms of the markets that were really out of favor. But there's a story, both short and a long-term story about the potential growth of the market. So, as you say, fertilizer's used for- Potash is used as a component of the fertilizer complex, so it's used to [inaudible 00:33:48], helping in the agricultural sector, and I think where it's going to be particularly valuable is in the growth of the- You know as societies get to consume more protein-rich food.

Peter Sainsbury: As societies get richer they tend to consumer more protein-rich food, particularly meats and dairy products, and obviously most entwined with that is the soybean market. What we're seeing within the parts of southeast Asia is really strong growth in soybean demand and the end consumer market for protein-rich foods. There's a short-term potential for growth there. I think there are still many countries which are behind the curve in that growth story as well.

I think the other factor that's key to this is who actually buys fertilizer? It's the farmer that sees it as a real valuable input to his crop but if agricultural prices keep on falling, farmers tend to try and cut their costs. One of the costs that they can cut is the amount of fertilizer they put on their crop. But what we're seeing is that really agricultural commodity prices, again, they're at their peak pessimism.

We've had a big growth in global stocks of crops over the last four or five years, we've had really good weather in all the growing regions, particularly the US and Russia. But that is highly unusual. There's a chance, and I think it's probably undervalued by the market, but some kind of disruption in terms of weather or geopolitical-related.

Then I think the third factor is things like supply and discipline.

We mentioned it previously as one of the factors I look out for as a sign that the market is bottoming out. And we're starting to see that in the potash market as well, particularly around Canadian producers.

Taking all those factors into account and a higher production cost as well with the rise in energy prices, and then you can see that there's a potential for a real supply shortfall coming up over the next few years. What we've seen in terms of potash prices is they've tended to bottom out around about the \$220 to \$240 a [inaudible 00:36:56], that was back in early 2017. They've ticked up to around, say, 270, 280 [inaudible 00:37:03] and gone up about \$10 to \$20 a ton in the last month or so. The signs that the market's responding to those fundamental factors.

Mike Alkin:

It's almost like a textbook cycle, right? You go back, I think it was in the earlier part of '07, where prices bottomed out at about 170 per ton. Within a course of a year prices were nearly \$900 per ton. You've mentioned, it was the perfect storm, right? You had this really tight supply, you had really growing demand, which was biofuels in the US and Brazil, and then you higher livestock production that created more demand. The grain reserves they come historically low and prices go up. What does that bring on?

Then all of the sudden you've got these high prices result in demand destruction. But those high prices attracted all of these big mining companies coming in to the space putting in these new projects, unearthing all these new supplies and then prices go right back to where they were.

It's so typical of what you see in the commodity markets at peaks and troughs. Now you mentioned supply discipline coming in to the space. What do you find more interesting, a demand-driven market or a supply-short market, when you're thinking about cycles at the bottom when you're looking at the commodities space?

Peter Sainsbury:

I think potentially supply shortages are potentially more interesting just from a purely time scale perspective. When markets are short in material the reaction in terms of high prices tends to be that much quicker, which can be a benefit to an investor if they can recognize those signs in advance. Whereas the evolving demand picture can, it does vary, tend to be a much more longer term story from an investment point of view.

Mike Alkin:

Yeah, for sure. So now during this downturn in commodity cycles, how are you spending your time focusing? What are the things that investors who are listening should be taking their cues from? What

are top things that have your attention right now?

Peter Sainsbury: I think [inaudible 00:39:55] going back to what we talked about right at the beginning of the conversation was about some of the factors that are weighing on commodity prices at the moment. I think there's more perhaps downside to commodity prices, speaking generally about commodity prices, in the short term. But I think it's looking out for those factors where the situation could change quite quickly.

We've got a real narrative at the moment about trade wars, which I think is certainly a factor but I think impact of it and the narrative and the effect on the prices is probably being overplayed. Maybe it's look for that period of peak pessimism when it really does look like the trade war's really starting to build up as a time for when perhaps investors should start to think about putting their toe in the water again. I don't think it is probably, famous last words of course, that it's going to be as bad as the current narrative is making it out.

Mike Alkin: Tell listeners about materials risk and your project there.

Peter Sainsbury: Yeah. My website, materials-risk.com, is a website, a blog I started up quite a few years ago now, but it's something where I use to share my thoughts on different commodity markets. I use those to help me develop my own thinking on particular markets but also to share insights to people to read my blog as well, a form of education as well both for me and for wider investors as well. It's been really useful and it's led to me writing two books about commodity markets as well.

Mike Alkin: Yeah, you and I have a similar view, we talk so much about it's all about incentives, right?

Peter Sainsbury: Yeah.

Mike Alkin: Why don't you share your view on that? For me it's so many of these things when you're investing is you have to understand what motivates people and what incentivizes them. Share your view on that if you would. Because I know you've devoted quite a bit of time and research to it, so why don't you share your view?

Peter Sainsbury: Yeah. We've touched on the incentives, both the demand and supply side of the fundamental factors. But there's also a broader context that investors need to be aware of. People that are in the industry, whether it's investment banks publishing forecasts on commodity prices or people producing newsletters touting [inaudible 00:43:21] mining stocks. Some of the research can be great. I think it needs to be thought about as for entertainment

purposes only and perhaps just to spark your own interest in doing your own research on a particular market.

But I think you always need to consider the incentives of why people are publishing this apparent research which could say, "[inaudible 00:43:51] stock is going to go up tenfold, this commodity price is seriously undervalued." The incentive is to market their service, their newsletter, their investment banking services. The incentive isn't to help you as an investor to make a better return.

I think the lesson behind all this is really to do your own research. It's great that there's so many podcasts like yourselves and others that really help investors delve into how different markets work, what factors to look out for, but at the end of the day you, as an investor, need to understand your own incentives behind whatever position you decide to take. It should never be based on a forecast or what a newsletter says you should put your money in.

Mike Alkin: Yup. So, before I let you go, we talked potash, but are there any other commodity markets that you are excited about and any that you are concerned about right now on the edges?

Peter Sainsbury: Yeah. I think I'm starting to look a bit more into precious metals sector, particularly gold, also platinum is looking quite interesting as well. Just purely from a peak pessimism point of view. There are indications that perhaps investors are going to become too pessimistic on there and building up too many short positions in futures market. I think other than that I'm taking a watching brief over the summer and then coming back to it with a bit more research later on in the year.

Mike Alkin: Anything in the commodity complex really have you worried?

Peter Sainsbury: I think something that's looking quite interesting is the sugar market in that it's come down quite a lot and it's still struggling around the 11 mark, having been over 20 just over a year or so ago. I thought that perhaps all the bad news was in the market but I think there are signs perhaps that the supply is perhaps even larger than the market had initially believed. Probably a good argument that prices perhaps can stay at around that level or even perhaps go down towards 10 later in the year.

Mike Alkin: That's a good point, yeah. Seeing markets that are down 50, 60, 70, 80%, whatever they may be from their highs, that's really just a starting point. You can't buy things just because they're down, right?

Peter Sainsbury: Yeah.

Mike Alkin: One of the lessons I've learned, they can stay lower for a lot longer than you think they can.

Peter Sainsbury: Exactly.

Mike Alkin: Right? Yeah. Listen, Peter, thank you for taking your time and giving our listeners an update. I promised them when you were first on that I would have you back a few times throughout the year, so this is the second time that we've had you on and I like your view on taking a tour of the commodity complex and what's going on right there. So I appreciate you taking the time.

Peter Sainsbury: Yeah, thanks for having me on.

Mike Alkin: Talk soon, thanks.

Peter Sainsbury: Bye bye.

Mike Alkin: Hope you enjoyed listening to Peter Sainsbury, I always follow him on Twitter, I think he has some interesting insights. He's one of the go to guys that I look to for commodity insights. Find his work to be quite interesting. And I tried to keep the interview a little bit shorter this time, I know it's the summer, it's the middle of summer, and last thing you need to be doing or want to be doing is listening to me babble on for an hour-and-a-half or hour-and-45 or whatever it may be. I'm endeavoring during the summer months to shorten it.

There's a lot going on in the commodities space, it had a big move up earlier in the year, now it's come down quite a bit, so I just wanted to get his take on it and share that with you. We're going to be bringing a few people on, over the next couple of weeks I have a distressed investor coming on to share his insights with you and, of course, we'll also be keeping the regular commentary going on uranium. So we've got a bunch of stuff in store.

Anyway, hope you enjoy. If you're on vacation I hope you're enjoying it. If not, I hope you go on vacation soon. We'll be back next week. Have a great week. Thanks.

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