THE MIKE ALKIN SHOW

TALKING STOCKS OVER A BEER

Announcer: Free and clear of the chatter from 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 Monday, October 22nd. Hope you had a good weekend. I am sitting here, right now, with a couple of colleagues of mine on the open road in Colorado. We are looking at snow-capped mountains as we head into Wyoming and South Dakota going to look at some uranium projects. So if you hear a little background noise, that's the 80 miles an hour on the road in the car, so I apologize. But, yeah, we're going out looking at a bunch of different projects in the uranium world and looking for value. As I think about going and doing this, you go out and you drive into ... We flew into Denver and I've got to drive about four and a half, five, hours. I wasn't into getting a 14-hour double-connection flight out of New York. So I'd rather just go and drive, and fly to Denver and then drive the four, five, six hours that we got to get to where we got to get to.

It's funny, when we're thinking about looking for value, [inaudible 00:01:54], obviously uranium's one of those things right now that I categorize as real deep value left-for-dead industry, and you've heard me talk about uranium before. But when I do, it would be categorized as what I would say an asymmetrical investment. When I talk about asymmetry, asymmetry to me is theirs, I believe, if the thesis is correct, there's in anything when we're talking about asymmetry is the risk/reward is very skewed. And if I'm look at go long, the risk means I have dramatically much more upside than I do downside. And that's what I mean by asymmetry. And conversely if I'm looking at short ideas, I think the downside is tremendous and there's very little upside.

It's hard to find those sometimes sitting behind a desk. You gotta go out and hunt them down. And so that's kind of what we're

doing here and to talk about that I'm going to bring on ... I'm going to keep the introduction short only because I'm driving and just got a lot going on right now with some calls and stuff, but ... So we're going to bring on a guest who I have just a tremendous amount of respect for. I've gotten to know him over the last year and we talk quite a bit, and we talk about investing ideas, and we'll spend a couple hours on the phone and doing that, there are times where I think, "Geez. It's like he's inside my brain!" Not that that's a good thing, but it's really interesting because he's a asymmetry hunter, and he ignores most of the market like I do.

He's not looking at ... I couldn't tell you probably on most days what the S&P did or what the Dow did because we're out just looking at one-off ideas or one-off industries. I'll catch it up at the end of the day and see how it did but just looking for stuff, he really ... he makes his living looking through undervalued long and long ideas. And looking for stuff that has been discarded, it's thrown on the trash heap. And when you do that, most of them, the market is reasonably priced. I mean, the prices is in mostly incorrectly. So you have to keep sifting through and sifting through. And it can be tedious. You can be looking at industries or a company, a one-off type company, and you're just looking for different attributes which we're going to talk about in the interview. But you're looking at things and most of the time you just say, "You know what? They deserve to be here."

But once in a while you find a company or a sector where you say, "Wait a second. I think there's change taking place." And even if it's going to take a little or even sometimes a little bit lot longer, what's the price I'm paying and what's the value I'm getting? And if that tradeoff is such where the risk/reward is so dramatically skewed to the upside, well then you might have yourself something.

I'm going to bring on Chris MacIntosh. I've had him on before, but what we're going to do this time is I really want to drill down to talk to Chris about his investing framework, his investing philosophy, how he thinks about the world of investing. And hopefully you'll get a lot out of it. So without further ado ...

Chris MacIntosh. Welcome to the podcast.

Chris MacIntosh: Thanks Mike. It's great to be on.

Mike Alkin: It's always good to talk to somebody 17 hours away. We both sound fresh, isn't that right? Not one woke each other up in the middle of the night, so it actually worked okay.

Chris MacIntosh: Yeah, yeah, yeah. Well, it's the advantage of being in Mordor.

Mike Alkin: Yeah.

Chris MacIntosh: I've got the first of everything. If you want to know what the stock price is going to close at, just give me a call [inaudible 00:05:35]. If only [crosstalk 00:05:39].

Mike Alkin: A head start. So Chris, you know, I ... You have Capitalist Exploits and I have been reading that for a while now, and I gotta tell you, I just absolutely, I love the way you think and the way you frame an investment idea, and the way you think from a macro perspective and the second order of thinking that comes along with that. And always kind of looking around the bend as to what's out there. But not looking around the bend to say, "Oh, it's working. Let me go chase it." It's just the opposite. It's a deep, deep value approach to investing with a very long time horizon. So why don't you, for listeners, talk about your investment philosophy. How do you think about the world of investing?

Chris MacIntosh: Okay. It's probably not the easiest thing to actually talk about.

Mike Alkin: I'm going to let you run.

Chris MacIntosh: I guess it's one of those things when you're asked a question like that: What is it that goes into how you think about things? There's a whole lot of stuff in there which has got you to the point that you've got to, and then ... It's hard to quantify.

Mike Alkin: Well, okay. Let's start by this way. Let me interrupt you for a second. Let's do this. A name that's near and dear to both of our hearts. So I look at a big open-ended growth story, like Tesla. Let's use that for example. And I look at that, now, aside from the fact that the SEC charged Elon Musk with fraud, and he just settled the agreement. But I look at that, and aside from the carnival barker that he is and the promises that he never delivers on, but there are millions of people who look at that and say, "Look at this open-ended growth. This is unbelievable. What can be down the road two, three, four, five years when AI kicks in and the autopilot is fully self-driving and they have their own ships, and it's gonna ...". Right? And then, "My God, he's gonna ...".

Let's go to boring. He's going to drill a hole through the city and then he's gonna take people to Mars. I look at most of that stuff and not immediately call bullshit, but I'm more inclined to call bullshit on that type of stuff. The big pie in the sky stuff. But hey,

you know what? In the stock market it takes bulls and bears and you see the stock go up.

When I look at something personally on the trash heap it's this sector, the stock is down 70, 80, 90%, nobody likes it. Everyone's walking away from it. I kind of get excited and I say, "Oh, yeah, maybe there's some value here." Where are you on that spectrum?

Chris MacIntosh: Well, what you've just described, Mike, is really in its essence asymmetry. If we go back to Tesla, let's just play that game and let's assume that ... because we're both bears. And bear in mind, I wasn't initially a bear because I thought that Elon Musk was a fraud. I was purely a bear because math exists, right?

Mike Alkin: The other was just icing on the cake.

Chris MacIntosh: Exactly. But nevertheless, where we're at today and the stock is still trading at an insane valuation, which is really just testament to the fact that people by and large are sheep. And there's another element which Tesla has which very few other companies have, is there's a cult status. What you're dealing with essentially is a religion as opposed to an equity. And religions or ideologies, if you will, are very powerful things. They can outlast our human life quite easily and have done in the past and will continue to do so in the future. So in that respect, shorting something like that is not necessarily the smartest thing to do because you can get run over. So that's one thing.

But when you think about your potential for that growth, that the bulls anticipate, the $4,000 a share that ARK Invest discuss, everything is just a set of probabilities. So when you run that on a probability scale, it's far off the deep end. I mean, it's not even quantifiable. So even if she was correct in that assumption, that's still not the game to play because the probabilities are not in your favor. It's akin to going to Vegas and saying, "Well, you could win a million dollar with a thousand dollars." That is true. But it's not a probable invent. So it's not the way to bet.

Then if you take an instance with a sector that you know already exists, that has dynamics and fundamentals which are calculable. Because what you're dealing with AI and with all this other nonsense is a set of probabilities that you don't know because you're talking about technology that does not yet exist. And that may or may not eventuate into something.

Mike Alkin: And Chris, by the way, I'm going to interrupt you for a second.

You in your prior life were a venture capitalist who saw pitches all day long on technology, so it's not like you don't know from what you're speaking about, big future bets.

Chris MacIntosh: Absolutely. And quite frankly it's one of the reasons that I stepped out of that in 2015, and here we are three years later and that entire world has become a complete Ponzi scheme. It just ... everything has been built on these growth multiples which coincidentally is actually a consequence or a knock-on effect of, by and large, quantitative easing. When you're pushed into a set up where yield is basically unachievable without taking extraordinary risk, then people take extraordinary risk, which is exactly what we've seen, which is why EM bonds have got bid. Which is why things like Tesla exist, because the stuff that has worked, if I'm going to use that word, when I say "worked" I mean gone up in price, has been growth technology and a decent chunk of it has gone up in price while not producing any profit whatsoever. And so there's a dynamic that exists within the venture capital world that is a consequence of central bank activity. Nevertheless, if we go back to what you had initially alluded to as a sector that is understandable, cyclical, and you're not dealing with AI, you're not dealing with some unknown set of facts, that on a probability calculation is much, much more easy to deal with.

So you and I have discussed in depth uranium, amongst other things, so we'll use that one and I guess many of your listeners are familiar with it. So there you've got a set of known factors, right? So we know, for example, that uranium is not going to go away as an energy source, and we know that because there are a number of power plants in existence today that are not being shuttered. We also know that there are a whole set of new power plants being opened. We know what the existing supply looks like. All of these factors are our known factors.

Mike Alkin: Calculatable.

Chris MacIntosh: And that gives us ... Sorry, go ahead.

Mike Alkin: Calculatable.

Chris MacIntosh: Absolutely. So then you can run a set of probabilities. And typically the only thing that you're dealing with is time frame. It's dealing with ... What you're dealing with is a when, not if, situation. And those I like the best because on a probable ... Again, look. You go back to Tesla. Let's just say we got it wrong. Okay, fine. It's trading a like nearly $300 bucks, $250 bucks a share. So, you

know, if we were going to get, I don't know, a ten bagger out of it, we need it at two and a half, like ... It's just so difficult to get there.

On the other hand if we take a number of uranium companies, and even if we just took a basket of these things, for us to get, okay, ten X's is a hard ask, but again, the probability compared to Tesla is just, in order of magnitude, higher.

So those types of situations are, from an investment perspective, far, far more stable, far more lucrative, and as you know, Mike, in this world you can talk about the stuff that is on the headlines and it'll sell newspapers. And in our world of publications that's probably what you and I should do if we wanted to sell stuff, but we're money managers and that's a stupid, stupid way of going about managing money.

Mike Alkin: You mean you're not coming out with a cannabis edition?

Chris MacIntosh: Cannabis is the dot com of today.

Mike Alkin: Yeah.

Chris MacIntosh: I'll tell you. So ... And look, I mean, I'll be the first to admit that I missed that boat.

Mike Alkin: Same, same.

Chris MacIntosh: And there were friends of mine who made out like gangsters on it, and who've notified me of it and I missed it. I was looking at other things and so on and so forth. Nevertheless, you know there's ... Where you've got the set of probabilities that are quantifiable and knowable, that's really what you want to be looking for, and then you're just looking for the time frame. And that's the most difficult part but it tends to be stuff that's hated. And so when you point it out, it's not an easy sell, and that's fantastic.

I mean, if we take, again, we can move back to uranium. We could talk about all other stuff, shipping, oil, and gas, you know name it. You've got these sectors. I think it was the conversation that you and I had more recently when we were discussing capex involved in something like, say, offshore oil. It's enormous. I mean, you want to put a rig out, it's over a billion dollars. So that's a debt-based sector. It has to be. Nobody comes in with cash, a billion bucks. So it's almost always financed with debt, and you've got this situation where you've got a bunch of companies that have

just been decimated, and much of the sector's been wipe out. Kind of like the uranium sector. And then you're sitting with a setup where you have companies with existing assets, oil rigs, and no debt. And you ask yourself, "How the hell do you get to such a situation?" And the answer is that equity holders have been completely wiped out. Debt holders have been converted into equity holders and pretty much wiped out. And so you have this unique set of circumstances where you have assets that are worth billions of dollars with no debt. And nobody's interested in them.

So those are the kinds of things that you look for. In terms of ... Look, you know, I used to be an investment banker before going into venture capital as well, and there's dozens of ...

Mike Alkin: Why don't you complete the trifecta. Were you a lawyer? Because your worth ... You left three legs at the school and we'll just hang up now.

Chris MacIntosh: Yeah. So I guess the point is, like I grew up looking at and analyzing stuff, and there's no competitive advantage to it because numbers are numbers and everybody can analyze them, and by and large you're coming away with the same conclusion about things. And what I realized over the years, mostly from getting smacked around the back of the head, was that, I guess is what has been ... there's that old saying "markets can stay irrational longer than you can stay solvent." And to a certain extent that's really what you've got. There's other dynamics at play there, and so I look at a lot at behavioral finance, social factors, and geopolitics at a macro level to try and understand what's going on. Because I still believe [Draco Miller's 00:20:01] right. The thing that moves markets is liquidity, and so you could be right on a fundamental basis for any particular equity, but if you're swimming upstream, it's a very, very tough thing to do, and you can essentially ... You're right when you're making money. That's kind of what it comes down to.

And so you could be invested into some equity which is just not performing well and you cannot understand why the hell it is because every analytical skill that you have tells you that that shouldn't be taking place and yet it is. And that's just a consequence of the macro factor. It's a little bit like sitting in a forest and going, "This tree has got all the sunlight in the world. It's getting rain. It's ... Like, why is it ... Why do people not realize it?" And then you scale out and you realize the forest's on fire. It's like, well, you know, your little tree is going to probably die anyways. So you need to focus on some of those things and that's I guess what I've tended to do over the last decade or so. Is looking

at these kind of macro elements that play in or cause capital to shift.

Mike Alkin: So I get asked a lot of times is "How do you come up with your ideas?" And we are the exact same. Identical investment framework and philosophy. So people ask me, "How do you get your ideas? What are you looking at?" Right? And I tell them, "I don't know." You know? I'm a voracious reader and I stumble across things, and I do it because I just cast a wide net and I look for things that just intuitively don't make sense to me. Where there's a disconnect. And that's how I found uranium three years ago. And then once I do that it's diving deep to understand the fundamentals.

Because I love the guys who screen for everything because like you said earlier, with banking it's all numbers and everyone has a spreadsheet. Everyone could look at the numbers. Everyone could put the projections in, when things are working, and when you're trying to paint a big dream. But not everyone can take a different view. So for me it's just stumbling upon stuff from casting a wide net, being a voracious reader, and looking for things that are out of favor or things that don't pass my smell test right away.

What triggers an idea for you?

Chris MacIntosh: That's a good question. I think I guess it's important to not be contrarian for contrarian's sake. I do believe that ...

Mike Alkin: Absolutely.

Chris MacIntosh: Because you can go down that analytical path and you can find sectors and assets and so on and so forth that again look very favorable. I kind of do that and I scale back out and say, "Okay, what are the macro factors in play, and how's capital shifting around the world? Basically, what's liquidity like?" And when I mean liquidity I mean large pools of capital moving both on a sector basis as well as a country basis. And then trying to fit it into that and seeing if it fits. And if it doesn't fit, sitting and just watching it.

I mean, I've got like a dozen things, I'm just been sitting, watching for years. Which, I know years ago, ten years ago I would have bought them. I would have thought, "Okay, I've got to buy this." And it would've been the wrong decision.

Mike Alkin: Well that comes down to the word catalyst, right? Because ...

Chris MacIntosh: Yeah.

Mike Alkin: Yeah, it's identifying. You can find so many things and to what you said about contrarian for contrarian's sake is a recipe for disaster. When I find stuff, I still might see it and see great value there but a lot of stuff I pass on because I think, doesn't matter. If I see it, who cares? Everyone else has to see it. What is it ... What's that event or series of event that's going to cause money flowing in or out of, if it's a short, into that sector. And then it's [crosstalk 00:24:20] identifying those catalysts, right?

Chris MacIntosh: Yep. Yep. You've got to have that catalyst. So for example, here's a good one where I got smacked around the head. This would've been back 2010 I think it was. I don't quite remember. It was around about 2010, 2012, something like that. I was looking at the bonds, at sovereign bonds, and this kind of structure in play where there was just getting bid. Yields were collapsing, and I thought ... And then you looked at the debt in [inaudible 00:24:57], I'm talking predominantly developed world countries. And I was like, "This doesn't make any bloody sense. It's like you have to short this." But, I've learnt that you don't ... For me, I need to put my feet in the water because then I pay attention to the temperature. If I'm just looking at the water, it's not the same thing. I kind of need to just put my toe in and feel the temperature, and that's not going to hurt me.

So basically what I do is I'll take like a half a point position, right? Which is meaningless in terms of ...

Mike Alkin: But it's on the sheets and it makes you pay attention.

Chris MacIntosh: Look, it's a ... Basically I'm screwing with my own psychology, right? I'm making sure that I pay attention by putting some capital down, and then I really sit and I watch it. And so I did that with bonds and I got run over, obviously. Okay? And then I was like, "Okay, why is this not working? Why is the market not adjusting as it previously would've?" And in that instance, I believe that the reason for that was that you had a set of circumstances where you have global central bank cohesion, or coordination if you will, that we've not at any level in history. And so you had the major central banks of the world, the BOE, the BOJ, the EZB, and the Fed all coordinating the same policy. And there's a number of reasons why that took place, we don't need to go into it.

But the point is that as long as that setup remained in place, you weren't going to get a break in that market. You weren't going to

get a break in the market because there's nowhere to go. If you and I can move out of that and go, "Oh, well we'll go and buy some Norwegian kroner or whatever the hell we want," but if you're a large sovereign wealth fund or if you're a big pension fund, you can't do that. You can't go and move four billion dollars net settle day end into kroner. It's just ... You're going to hurt your own position, so you're not going to move it. So you're going to look around go, "Well, today I guess the euro looks a little bit better than those other shitty ones," and then you buy that and you kind of shift around between the big boys. But they're all playing the same game.

So I kind of realized that you had that overall structure in place, and then I was like, "Firstly, what's holding it in place?" Well, what was holding it in place was a threat to the developed world politics. It's not ... And that politics was threatened as a consequence of the economics being threatened. So that's why those policies were enacted. But that in itself laid the seed, or the seeds, for what we're seeing today, which is a rising nationalism and populism. Because you had this massive distribution of wealth it started taking place.

Anyways. So, I've ... Quite frankly, that's why in I think it was 2016 I wrote an article called "Rise of the strongman and what it means for the global economy," and that was I guess a formulation of a whole lot of thoughts around how this was playing out and it's how I managed to, gratefully, accurately anticipate Brexit and Trump and the rise of, they're calling it alt-right which is kind of more center, really, in Europe. In any event, those ... You could see why that would take place. You could see how it could take place on a social basis. And that, in itself, when you think through the second order into that, it's impossible for central bank policy to stay coordinated in that world. And guess what? It doesn't.

Mike Alkin: Chris, I just on last week's podcast I spent time talking about an article I read that Ray Dalio had written from Bridgewater, and he said that right now, geopolitics are playing a great role in driving world economies and markets than anytime his 50 years of investing. And when a guy's worth probably $20 billion dollars and manages a few hundred billion, he's worth listening to. And he talked about the most important things that happened in his view happened over and over again, right? That there's this cause effect relationship and they're timeless. And I see that when I look at cyclical industries, right? I love that. Then he goes on and he talks about the conflicts within countries and between countries, and all because of this wealth income opportunity gap and these diverging

values. And he talks about the rising powers, like China, emerging to challenge the existing powers like the U.S.

And he says, "You know, this big rise in populism is leading to really important policy shifts that influence economies, and the tariffs, the sanctions, the capital controls, the big corporate tax cuts." And he thinks the market implications are enormous.

Mike Alkin: Tax cuts, and he thinks the market implications are enormous. And he attributes so much of it to the rise of populism. They did a big piece of work on it, it was very fascinating.

Chris MacIntosh: I couldn't agree more. So then you think of what are the second order events of that, and here's an example. Let's go back and think about the QE. The QE basically pushed, it meant that everybody went yield hunting. When you can't get yield you go yield hunting. So we had EM basically got bid, pride stuff got bid, crap like Tesla got thrown in there with it. Now that that's changing, this feeds into an alternative, because those growth stocks are now competing with an alternative, because you've got a higher discount rate that investors have to consider when you think about those kind of cash flow models.

And that's kind of important for a lot of those tech stocks. Which is really just another way of saying the risk is getting re-calibrated, so-

Mike Alkin: Risk on and risk off.

Chris MacIntosh: Well, it is to a certain extent, but it's also how do you define risk?

Mike Alkin: Yep.

Chris MacIntosh: Right? You know ... sovereign debt for example, has always been considered to be low risk. Well, that depends on what the sovereign debt looks like. By and large, for the last twenty ... well, ten, fifteen years, [inaudible 00:31:48] and growth stocks have been fairly low risk, even when you look at the volatility of them. Volatility has actually fallen. And then, of course, you've got all the ETF's and all that nonsense that came out with ... low-volatility ETF's and all that kind of stuff, which further exacerbate that same dynamic.

But if we think about ... in that whole space, one of the sectors that really didn't win, because there were the winners and the losers ... the one that didn't win, and there's a host of factors ... some

of them are social, market [inaudible 00:32:29], and then some of them were purely economic, as a consequence of financing costs, and that's energy.

And again, with energy, metrics are known, mostly. In any event, this is how, at least, partly, we've come to a situation where Capex and Energy collapsed. For example, in 2017, the global oil industry discovered about four billion barrels and global consumption exceeded 35 billion. So that's like a 35 ... that's a 30 billion gap.

Mike Alkin: Yep.

Chris MacIntosh: And since 2012, global consumption ... global oil consumption exceeded new conventional oil discoveries by about 200 and ... 210 barrels. That's a lot.

Mike Alkin: Yep.

Chris MacIntosh: If you think about it another way, it's been about 18, nearly 19 years now since conventional oil discovered ... has exceeded global consumption. And this is the stuff that no one's talking about. So there was risk, there was considered to be risk. Why would you risk putting capital into going and finding oil. I mean, that's risky, right?

Mike Alkin: Yeah.

Chris MacIntosh: So it didn't happen. And ... part of it was this whole, we're gonna get energy from the stars, and unicorn farts, and God knows where else. And, some of that is somewhat true, alternative energy is much, much more efficient today than it was in the past, and so on and so forth. But traditional energy has, as a percentage, it's declined in consumption, but as an aggregate number, it's increased. And there's been no Capex into it.

So, it's basically a knock on effect from qualitative easing, and a number of the other things that are going on. But then you come back to the geo-politics we're talking about, so ... in this geo-political word that existed before, I would say before 2016-ish. It was all kumbaya, one for all, you know ... happy happy. And there wasn't risk to the extent that there is today. Europe was pretty with the US, the US was pretty happy with Europe, Russia was probably the least ... in one of the best positions, one could say, in the last decade. Or at least, I should say, the relationship was one of the best it's been. It wasn't great, but it's never been great.

In our relationships, yeah, across the word were relatively benign. And as a consequence, in that kind of environment, people, policy makers, governments in particular, military: don't see a need to address some things like security. I guess the most egregious example is if you think about the formation of the EU. So, the EU ... if you were a member state of the EU, you didn't need to basically spend so much time considering military because you didn't have a border anymore. Not really. Your border was now an external border, that was an EU border. As opposed, let's say for example, you were Italy.

So there's domestic borders going away, and you didn't need the military personnel, for example. Which [inaudible 00:36:36] on a large scale, you had a lot of these countries decrease military spending. They basically said, okay, well, the EU will take care of it. And then at the EU level, they basically said, oh, well NATO will take care of it. And basically NATO was the US, right. So all of the stuff got pushed down the curve towards a point where the US was basically looking after Europe, right. And then, where is Europe getting their energy from? Increasingly, Russia. So now that's obviously a massive conflict.

Mike Alkin: Yep.

Chris MacIntosh: And you're going see the scaling back. That's what we've been beating on. Where ... we've already seen it, Slovenia's already making noise and ... you know, we're going to see ... we're barely [inaudible 00:37:23] of the breakup of the EU. And that's fine, you could look at them and go, that's all, you could bet against the EU I guess, and a lot of other things. But when you think about the second order events, a lot of these countries are going to retreat and re-trench and look to securing their own politics, and you cannot have a county and a political system that is in any way, shape or form, stable, without security of energy.

Mike Alkin: Yep.

Chris MacIntosh: And that is super, super important. And so then you come back, and you realize that you've got this sector which has been absolutely slaughtered, nobody's paid any attention to it. People have said to me, how can you be bullish on that sector, because world growth is lackluster? I was like, this has got nothing to do with world growth. It's got nothing to do with world growth, really. This is a geo-political factor. [crosstalk 00:38:28]

Mike Alkin: Substitute ... June of last year I gave a talk on uranium. And I was

up in Vancouver at a conference and I talked about it. And part of what I ... and a few months before on Real Vision TV I talked about it. And I put in there, a slider too about the geo-political risk of Russia. How they have been quietly amassing, through themselves and Kazakhstan, and tiny Uzbekistan, but they control half of the world's uranium enrichment market, well the Russians do. But the Kazakhs, Uzbeks, and Russians control half the world's uranium market. The actual U-308. And the great geo-political risk, energy security that the US faced ... and it's interesting because if you go back to the mid-80's the US was almost producing as much uranium as they consumed in their nuclear power reactors.

Fast forward to today, and 98% of what they need they import, and a good portion of that is from those countries. And we see what the Russians do with the Europeans with natural gas, how they hold it over your head. And you look at what Russia does ... they use energy, they can't fight the US, or they can, but they ... it's not about more guns. It's about using energy as a weapon.

So if you think about Russia and China, what they do is they go to a country that wants to ... an emerging market, developing economy, and they're going to build a nuclear reactor. And they say, listen, we'll finance it for you, so we'll lend you the several billion dollars. We'll provide the uranium, we'll provide the conversion, we'll enrich it, we'll fabricate it, and we'll operate it for you. And the country says, wow, great, look at that!

And now they own you. Because they've taken your economy up, they've provided you with clean, safe, power, and now they use it as a tool. And I was saying when I spoke, that's America now. 20% of its electric grid is nuclear power, and you're relying on the Russians. At the time, people would come up to me and say, "Come on! Really?" Fast forward a few months, and Putin came out, and the two of them came out, and they passed some legislation where it's up to Putin himself as to what he can withhold from sending it to a country, and Uranium is one of those.

The other thing you saw was a couple of Uranium mining companies came out, and they filed a section 232 on the grounds of national security to say, "Hey! What about us, Uncle Sam? We need help here, because we're getting hammered by cheap Uranium being flooded into the market from state producers like Kazakhstan." But it's a great tool for countries to use. And they are a lot of knock on effects. Now, at the time, when I was talking about Uranium, everyone told me I was crazy, right? But if you just look around the corner sometimes, there's some real value to be found.

And like you're saying here with oil and gas, I mean, my God ... as you reduce your dependency on those countries, they're gonna have to go find their own stuff. And you mentioned earlier in the call, you've got these drillers that typically are debt-financed. They're sitting there with no debt, so think about when they don't have to pay interest on that debt, or a minimal amount of interest-

Chris MacIntosh: Yeah, yeah. The margin expansion is-

Mike Alkin: The margin expanse is crazy, right? So that leads into then, time horizons. Two things. One is time horizon, and then one is thinking about risk reward. You talk about it, I talk about. Asymmetry, right. So the way I'm looking at this type of stuff, and I'd love your view, is I look at this stuff, and say, okay, I think there's a thesis here. So now I've got to try and figure out what the catalyst is.

So if I could identify a catalyst, what's the time horizon on that catalyst, is it 6 months, 12 months, 18, 24, 36? And I'm willing to wait longer, the better the risk reward. And risk reward meaning, if I'm right, what's the upside? Is it 2x, 4x, 5x, 10x? If I'm wrong, what's my downside? If I could look at a situation where I'm wrong and I have 30, 40, 50% downside, but if I'm right, I have a 5x upside? Right, I have a 500% upside, I have 50% downside. That's ten to one risk reward. I'm saying, my God! And if I can identify a catalyst.

How do you put that in the hopper when you're thinking about your investment decisions?

Chris MacIntosh: Yes, again, you screw with yourself psychologically, because the biggest danger is probably between your own ears. And believing things that you want to believe, right? So I try to not to get excited about anything. I like, first, at the risk from the downside. I say, how can I lose money on this?

Mike Alkin: Yep.

Chris MacIntosh: And if I do lose money, how much? And what does that look like? So, if we ... we've been talking about the offshore oil and drillers, if you look at that sector, you've got ... about 80% of the companies have gone away, they just don't exist anymore.

Mike Alkin: Yep.

Chris MacIntosh: And the market kept them down, on those, some of them, 90%.

[inaudible 00:44:06] So then you look at them, you go, okay, well one of two things is happening. Either we're sourcing energy from alternative sources, and we're not going to need oil from offshore, maybe ever again. Is that realistic? And then you look through the numbers, and you go, well, no. That's not at all realistic.

Mike Alkin: Yep.

Chris MacIntosh: So, that's kind of ... that's taken care of. Because that's your risk, right? That you see something, you think, wow, that's ... look, none of us want to be in that Kodak moment. Like, oh my God, look at ... you've got to buy those things, hold on a second, print it, you know? That photography's gone away, it's all digital now. So that can happen. But it happens far less than most people think. You know, we all remember Kodak, we all remember the internet, because these are all life-changing technologies that ... we will remember them.

But for every one Kodak or should I call it, digital photography phenomenon, there are like a hundred that people thought were a phenomenon and are not.

Mike Alkin: Yep.

Chris MacIntosh: And so, when you think about an energy space, you could look at solar, and you could look at wind, and you could look at ... I mean, should even ... try and get, river hydro. Things like this, anyways. And certainly solar is taking up a much, much bigger chunk of the space now, and it's much more economical, and so on, and so forth. But there's all sorts of other components that go into that, which is storage. Factory storage. So on and so forth. And it's really not competitive with [inaudible 00:45:50] energy. It's not. It might get there at some point, but it's not now and it's not likely to be at least in the next five, ten years.

Mike Alkin: Yep.

Chris MacIntosh: So, that's basically looking at the downside, and saying, well, if I'm wrong, where am I wrong? And then the second question is, okay, well, why did that ... this analysis is correct, and we are ... we're still going to need offshore oil. 'Cause again, 30% of our current oil comes from offshore, so. If that doesn't change, then what's the risk to me in the sector?

Well, then it's just a timing risk. The leftovers that are in there, and there's not many of them left ... either go bankrupt, or they

stay alive. So now it just becomes a situation where you don't want to bet on the wrong horse, A, and B, you say, well, what's that catalyst? And I think we just dealt with what I believe is the catalyst, which is this geo-political shift, from a world where we've believed that everything is hunky-dory, safe and sound, to one where ... who are your allies? Japan is sitting there going, hang on a second. Can we really rely on the US? South Korea's certainly doing so. Europe is certainly doing so.

So this creates uncertainty, and that uncertainty we're already seeing at policy levels where they're shifting, and they're trying to figure out who their new allies are, and in that environment, it's not a growth story, it's like you're hunkering down. You and I are sitting there going, okay, who are our friends? And you know what, let's knock our doors, let's make sure we've got secured supplies in the cupboards, and let's go out and secure more. Because we realized that our pantry's empty, and we need to go and stock up.

And so that's kind of the environment that we're very, very quickly moving into. So I think that's the catalyst for the energy space. We come back to the offshore oilers, and things of that nature-

Mike Alkin: Well it's interesting, when you start talking about it. You said, no it's not when you look at the numbers. And that was key that you said that, because one of the things that attracts me to industries that have been left for dead by investors is there a less eyeballs on it. There are less institutional eyeballs, there are less cell-side analysts looking at it typically, and then you bring biases. If you are an energy specialist, and you have been looking at the offshore drillers for years ... things can be changing, but you've been hammered for so long, you're not going to believe it. And you might have seen it before, you've heard it before.

And people don't tend to ... either lose focus, or they get sucked up into the existing narrative. And for Uranium, I see that a lot. But then you mention the numbers, because when fewer people are looking at it, fewer institutions who have the spreadsheets and the numbers ... and they're sitting there, and they're looking at it. Things fall through the cracks, and you can really capture the changes that are taking place, if you just come at it with a fresh set of eyes. And say, let me think about this. So you ... you've got your second order thinking. And then, 'cause the first order of thinking is what gets priced into stocks, right.

Chris MacIntosh: Mm-hmm (affirmative).

Mike Alkin: The second order of thinking is what causes that change, and what's around the bend ... and when you can marry it with numbers. And I see it running an uranium fund, right, I have everyone and their mother coming after me with a bear case, and potential investors will call me and try and ask.

Almost all of them are driven by sentiment, almost all the bearish arguments. Sentiment or personal viewpoints. They don't come at you with the arguments with the numbers. That makes it so much different when you can make an argument ... fact-based argument. Numbers-based argument. Versus an emotional argument. Often times, people are emotional creatures. And they invest emotionally. As much as-

Chris MacIntosh: Not often times. All the time.

Mike Alkin: All the time, right. And you and I, we ... you have to kind of divorce yourself from the emotions, and it's kind of hard. Right. I see it ... for me, it's Tesla. When I look at Tesla, I just think, are you kidding me? When I read some of the bullish posts on Twitter, and some of these people ... I sit there and say, my God, they're either ... innumerate or they're a cult. And then you recognize they're a cult, and you say okay, I get it.

But when you can just ... simple math, and the thing I love about this business, you know, it doesn't require more than a fourth grade math education. If you can add, subtract, multiply, and divide, you pretty much got it, right?

Chris MacIntosh: Yeah.

Mike Alkin: And so for me, that's it, and so you nailed it when you said, when you look at the numbers. The numbers tell the story.

Chris MacIntosh: You pointed something else out, which I think is really important. You said that the people within the industry can often miss it. And there's a real danger to being in any industry, you become myopic to, again, you're in the trees, not looking at the forest.

Mike Alkin: Yep.

Chris MacIntosh: And how many [inaudible 00:51:47] guys out there been calling for gold to go through, to like $5,000 for the last 20 years, right?

Mike Alkin: Yep.

Chris MacIntosh: And that's almost like a bit of an ideology in itself, I'm just-

Mike Alkin: Yep.

Chris MacIntosh: Picking on gold, but you could take energy, you could take whatever, right? And so, the reason that you and I think alike, is you're not an uranium guy, Mike.

Mike Alkin: No. Nope.

Chris MacIntosh: You're not, you're ... and I'm not a ... look, I'll be the first to admit that my knowledge of the offshore drilling space is pathetically bad, right. I mean ... it's ... we'll cover it up [inaudible 00:52:33], I guess I probably understand more than the average dolt sitting out there. But the point is that I'm not a specialist in that space. Likewise, shipping, or interest rates, or whatever. And that's really, if I've got an edge, that's I guess where my edge is, and I think it's probably where yours is too.

Mike Alkin: Yep.

Chris MacIntosh: And there is that real risk, where if you're stuck in that particular industry, you're surrounding yourself with other people, and they've all gone through the same stuff that you've gone through. And you can see it at the CEO level. No CEO of a major oil company is prepared now, to go out and tell their shareholders that they're going to do a big Cap expend. None.

Mike Alkin: He'd lose his job tomorrow, yep.

Chris MacIntosh: Because he's going to lose his job tomorrow. And because anybody who tried doing something like that in the last couple years has lost their job, and then their share price has been hammered. I mean, their share price has been hammered anyways.

Mike Alkin: Yep.

Chris MacIntosh: So you have this kind of ... and you speak to these guys, and they're like, no ... they're hanging on for dear life and they're exhausted. And really not prepared to rock the boat.

Mike Alkin: Yep.

Chris MacIntosh: And so I find it valuable to get insights from them, but I don't find it valuable to get ... to try and understand what could turn that sector, because they're not looking at it. They're really not. They're looking at flow rates, and they're looking at all these other things. Which, I need to know, but not as much as you would think. And so, yeah, I think that's ... for investors, you don't need to be a specialist in these areas.

Where you find a sector that you think provides you with a good risk reward setup, by all means, go and spend money, and spend time on people that are specialists in that sector, but don't expect them to tell you when to get in or to get out. Don't. You're in uranium, right? I mean, we could look at, I don't know ... pick on Paladin, right, because it did so exceptionally well in the last bull run.

But guess what? And maybe I shouldn't do this, but let's just say that we're going to the existing CEO at the time, right? Now, he had the stock and it ran from 10 cents or something-

Mike Alkin: Yep. One penny to over nine dollars.

Chris MacIntosh: Yeah, so [inaudible 00:55:20] bucks, but guess what? You're sitting there when it ran all the way back down again.

Mike Alkin: Yep.

Chris MacIntosh: And so, there's a prime example that you need to be in control of the bus. Right? Because no one's going to tell you when to get off that bloody bus.

Mike Alkin: Yep.

Chris MacIntosh: And no one's going to necessarily tell you when to ... well, actually no ... everybody in the industry, that is, the CEO's going to tell you to get on. It's like, if you go to a barber, you always need a haircut. Right?

Mike Alkin: Yep.

Chris MacIntosh: So, other than me, I shave my head, so, there you go. I don't need a haircut. I guess that's kind of an important thing for people to sort of understand, but I do ... that's frankly why I hired Jamie, for the resource insider, which we launched, because I fundamentally believe that we are moving, and have already, actually shifted into that space, where we want to be owning tangible assets. In particular, in energy, but across various resources, and other resources are the same as ... not good enough to say [inaudible 00:56:28], you know, 'cause someone will benefit.

But I realized that I needed to have somebody who was super well connected, that basically wasn't a carnival barker, that was a guy ... who's a mining engineer. He knows the stuff. I didn't know it, but I realized I need to know it, in order to get me better alpha within the space.

Mike Alkin: Yep.

Chris MacIntosh: But I said something important to him when we partnered, and I said to him, this is what we want to do, or this is what I want to do, but realize that I don't want to work with you if you don't understand that, at some point, I'm going to close this entire thing, and it's probably going to be the time when everybody wants in to it.

That's the time that I don't ... if I can't put my own money into it, I'm not prepared to do it. Life's too short to deal with that kind of shit. He's like, okay great. You know. So, anyways, the point is that on a risk reward basis, I look at risk first and foremost, I almost don't even ... I try not to think about the potential upside. I mean, you run the numbers, and you look at the stuff, and your jaw sometimes drops, but I try not ... at the end of the day, we know how markets start pricing in ... think about how markets started pricing rates dropping. It became this long ... and I believe rates turned back in July 2016, and this was [inaudible 00:58:17] the 50 year for negative. And some poor dolt bought it.

But even between being ... and then, over the last probably 80 months from then, we had yields rising but on the long end of the curve, they were flat or inverted, which basically meant that the market didn't believe in what was taking place, right? It was kinda like, oh this is just temporary. Short ends curves moving up, but long end was all still ... still pretty [inaudible 00:58:50]. Now, over the last few weeks, we've seen that change dramatically. All maturities. And that's really ... I think it's a radical shift, and I'm not seeing many people talking about it.

I mean, it's all about the equity market, and the S&P got a bit hammered, what about Google, and it's like, forget about that! Think about this major, major shift. And then think about how asset classes move, and how liquidity moves. Because this is a massive shift, and it's at a geo-political level. So, anyway.

Mike Alkin: So let's shift gears for a second. Because you look at things on both the long and short side. And in your corner of the world ... not quite, but your neighbor, in Australia, has had quite a housing boom. What's your view on what's going on down there in the Aussie housing market?

Chris MacIntosh: So, look, I mean ... this is a consequence of that environment that we began this discussion with. When you have a ...

Chris MacIntosh: When you have a sector that's continued to go up, and it's gone up as a consequence of yields collapsing, it's kind of like reverse margin expansion. You can afford more money when your cost of capital is approaching zero, and there's a leverage ratio in there. This is just the same stuff just getting bid up and bid up.

And then of course, that in itself that has engendered all sorts of shenanigans, which again is this human behavior. We can have ... they just had a royal commission out there, Mike, which is to investigate the banks. The report's scathing. These guys did things that the U.S. banks in '08, would've made them blush. You think, "How could that happen? They did it before." And it's like, "It's going to happen. It happened then. It's going to happen again." You're not going to change human nature.

But you think about the underlying dynamics of why that existed. That is because of that entire interest rate set up. Now let's fast forward to today. Here's a few basic numbers that people can think about. The central bank, called the RBA over there, they have kept rates on hold. Everyone's like, "Oh, well, that's fine. Rates are on hold and that means that property prices aren't going to fall."

Well, hang on a second. Because it's a relatively small economy, certainly when you compare it to the U.S., they don't domestically finance everything. About 40% of the banks' book is financed in Euro dollar market. And the Euro dollar market is basically LIBOR.

Take a look at LIBOR, screaming higher. So what happens now is that all of those loans that they have, and they've got them across maturities, right, because they've structured their book, you know how it works. You've got maybe three, six, 18, 12, 24, 36 month lease, various maturities. Anyways, as they roll over, they're gonna have to roll them at higher rates because that's the cost of capital, and they've been holding off moving that onto the consumer, but now they've just done it.

And again, we come back to the big geopolitical move, right. I don't believe we're going anything but higher, which means that that 40% of their book is just gonna keep screaming higher, and they're gonna have to pass it on.

At the RBA level, they could sit there and ... they might even cut rates. But they're between a rock and hard place because let's just say they cut rates. Well, in the [inaudible 01:03:08] starts breeding inflation because they're importing all the stuff, you know how it all works.

Now, it doesn't matter if you take the money away from the consumer by charging him a higher interest rate, or if you take it away from him by providing him with a dynamic that causes inflation so that another 4%, 5%, or 2%, or whatever it is of his paycheck goes on his power bill and his food and groceries and his gas bill and all of that stuff. The net result is the same, and you've got a consumer that's so, so livid. It's an accident waiting to happen, and a little bit early to tell but, I think it's already begun moving. We've had the biggest move down in the last quarter. It's been moving down three quarters in a row. And people are now starting to get worried.

And there's another interesting thing, actually. I read about this a couple weeks back. Westpac, they're the largest of the banks over there, they came out with something really, really unusual about, I was gonna say two weeks back, it was about maybe three, four weeks back now. They turned around to a portion of their loan book which were investors, and they said to them, "You have a month to find new lenders. We're closing out these loans."

That is really extraordinary, Mike. Normally what happens is, you sit down and you go look at your loan book and you go, "Oh shit, we shouldn't have that stuff, that's a real problem," and we do one of two things. You securitize the stuff, you package it up and you sell it. You get it off your books, right? Either that, or, certainly you go to your loan officers and you go, "Guys, this stuff here, we're not doing any more of that. Cut it out. No more of those types of loans, we're only doing these types over here."

So you're doing internal, quick change, and you make sure that you don't take any more liabilities in that space. You can't stop doing that, but then you also, if you're trying to move the stuff, you securitize, you package it up and you sell it. What you don't do is what they just did, because by doing what they just did, they made a massive flag call to the rest of the market, and to all the other banks that said, "Guys, we're in shit, and we're dumping the stuff."

There's a clip in the movie, "Margin Call," which is basically the tale of Lehman brothers, and the guys are all sitting around the table, and they've figured out that, I think it's like a 25% move in the underlying assets that they're holding that wipe out the entire capital of the bank, and so they're like, "Oh okay, that's a problem, what do we do?"

I think it's Jeremy Irons, he's playing the head of the bank, and

one of the guys [inaudible 01:06:21] about who the actor is, he says, "Dump it all. Sell it all. Tomorrow."

And then Kevin Spacey, I think he's the head of the traders, and he goes, "You can't do that, you realize we're gonna, like, we can't do that to all these people we've been doing business with, all these banks, they'll never do business with us again."

And Jeremy Irons turns around, he says, "You know what, there's three ways to make money in this business. One, be first. Two, be smarter. Three, cheat."

And he's like, "We're gonna do the first, we're gonna be first."

And then I looked at what Westpac were doing and I was like, "They're kinda just being first."

To turn around and go with dumping all this, get another lender, what are they gonna do? They're gonna go to all the banks, and there's only a few of them. And those other banks are looking at this going, "Hold on a second, why are Westpac dumping them? Do we really want to pick that up?"

It's toxic. This is after they've all been sitting at the Royal Commission. They all know now what are on your teller's books. I mean, they all knew what it is, these guys all trained together. I think it's gonna get nasty. Well, I know it's gonna get nasty, but again, you come back to the timing thing.

So I think the timing thing is holding even rates, and we're seeing that now, so that's Aussie. And then if you think about New Zealand, we don't have any domestic capital markets, so pretty much 100% of our stuff is financed offshore. There is an article from Chief Economist here the other day about the housing market, and how it's turning in Australia, and he turned around and said, "No, we're perfectly fine because A, we've got a housing shortage, and B, our reserve bank is sure that they're gonna hold rates low."

Does this guy not understand that we have no domestic capital markets? That our banks, which are actually Aussie banks, all financed in the offshore markets, and liable of screaming higher. What the hell?

Mike Alkin: You just landed, right?

Chris MacIntosh: And he's the Chief Economist of what is either the or second largest bank in the country. Far out!

Mike Alkin: And there presents opportunities, right?

Chris MacIntosh: Shipping.

Mike Alkin: Yeah, I agree. I'd like to hear your thoughts.

Chris MacIntosh: Shipping. That's a complex market because they're all different. You've got your product tankers and there's various ones there, but by and large that sector has, again, you come back to the whole QE environment. Why would you finance something that is really expensive, has generally very low margins, and why would you do it under that environment when you could go in by Google, or Snap, or some other crap? Or just go and invest it into, as has been done previously, a lot of it went into high yield [inaudible 01:09:46] debt.

Argentina, remember that?

Mike Alkin: Yep.

Chris MacIntosh: Here's a country that normally doesn't have a bloody government for more than two years, and they were overbid on their bondage. In that environment, you had stuff like that that didn't get financed, and it just got wiped out. Again, you can have a tanker that's a $100,000,000 ship, Mike. $100,000,000 or higher. I saw one, I was reading through reports the other day, $130,000,000 ship.

You've got these companies now that are sitting with these assets, and they don't have debt, and you go, "How can they not have debt?"

And the answer is that they all got restructured. I guess that's another one, so if you think about what to look for, it's MNA. MNA only happens at the top of a market, and the bottom of a market, by and large.

Mike Alkin: Also, in the shipping, you have some interesting stuff where you have some of these that were structured as mastered limited partnerships, and you're saying more and more of them unwind, and they've slashed their dividends dramatically so the general partner that might have had incentive distributor rights has gotten slammed because those payouts they were getting, the

distributions were cut when the dividends got cut. But as they unwind the MLPs and go into sea corps, it could present some very interesting opportunities. I've spent a fair amount of time recently in that space and I just look at some of the upside potential and some of the stocks that have just been left for dead and you say, "My goodness, really, really interesting stuff going on."

Chris MacIntosh: And it's interesting because those MLPs are also a consequence of that yield hunt because, here's what guys did, the smart, I say smart, smart like a fox, okay?

So you'd package up a bunch of these shitty old tankers that were literally a year away from scrap, but your investors didn't know, because it had a high yield. Why did it have a high yield? Well, they're picking up the tankers because they're almost dead, checking them into an MLP, and you suddenly have what ostensibly is a yield-bearing instrument underlying collateral, and guys are like, "Wow, awesome! I'm getting like an 8% coupon, and I've got underlying collateral! What could go wrong?"

They didn't know what crap was being chucked into those damn things, and then they'd lever them up of course.

I remember, I was talking to Cuppy Harris, a buddy of mine, I think you've met before. This was probably four years ago, and we were laughing at it, because we talked to one shipping mate [inaudible 01:12:47] who was basically just selling all of this stuff to this MLP and he's like, "These guys are complete fools," and he said they don't care. They didn't care because they were just not basically broke as investment bankers, they're packaging this shit up and then they're selling it to investors. So long as the sausage sells, they don't really care that the underlying structure of the thing's gonna blow up at some point. And I remember watching this, and we were like, "Oh my gosh, this is just awful, and [inaudible 01:13:18] Albert shorting some of the MLPs," but not really, I don't like shorting. In general I don't like shorting, it's a tough gig.

Now kind of at the other end of that...

Mike Alkin: It's funny you talk about the way you look at it. It was, I think sometime in '14, I took a few of the guys in my office and we went to the Bakken, the shale plain in Williston, North Dakota, and we just wanted to get caught up on just seeing it, because you can read and you can talk but not until you're there do you really get the boom or bust cycles, do you feel it. And I remember, we drove

a couple hours from the airport and we got there and we pulled into a hotel, and it was a Hampton Inn hotel which is, you know, a moderate travel hotel. Nothing fancy at all, but clean, nice. Around here where I live you'd pay, I don't know, $125, $150 for a room. So here we are in the middle of nowhere, in Williston, North Dakota, and I check in and my assistant had made the reservations, and I never really paid attention to what I was paying for a hotel room, when I traveled, and I was always traveling. But when we were driving in through the town, I felt like I was on a soundstage because everything looked like it was just put up, and I felt like we were on a movie set, like, "Look at this, I wonder if there's anything actually behind these structures," you know, like the old Spaghetti Western sets where it was just a saloon. (laughs)

So we pull in and [crosstalk 01:15:02]

Chris MacIntosh: Do you mean it looked like a solar city?

Mike Alkin: Yeah, exactly. It looked like a solar city, Elon showing what these [inaudible 01:15:14] are going to do and it really was a soundstage, and it didn't work! Go figure!

So it had that feel, and we go into the hotel, and I check in and the woman says, I forget, I knew exactly but it was like $450, you're here for four nights, three nights, and it's $450 a night, I said, "What? You mean the whole stay?"

And she said, "No," and I thought, "I live 17, 19 miles outside of New York city, and I'm thinking I'm paying three times more here in Williston? So then we mosey on over to the local steak joint for dinner and it's packed. It's overflowing with roughnecks coming off the rigs, and it takes us 45 minutes to get in. We're all sitting at the table having a beer and we look around and guys are drinking wine everywhere, so the waitress comes over and she talks to us and I said, "Where are you from?"

She said, "The Iron Range in Minnesota," I said, "Oh great, how long have you been here?"

"A few months," I said, "Oh she made more money than I ever imagined in my life," I said, "What are those guys drinking?"

She said, "Caymus," I said, "Really?"

I said, "Wow," she said, "Oh, they're here every night. They're just here every night, and they can't spend enough money. They'll buy

two or three bottles of wine, really fancy wine, expensive wine, and buying $40 steaks. I said, "Okay," and she said, "Well, it's Boomtown here, and all these guys buy dual pickup trucks with cash," I said, "Okay."

It goes on and on and on, I was driving around the town. A friend of mine introduced me to a guy who owned a private company there, where he had invested a few million bucks in capital just a couple years earlier. He was offered a $100,000,000 for the business and I said, "Wow, you gonna hit that bid?"

He said, "No, it's a billion dollar company," I said, [crosstalk 01:17:13]

It just had that feel, after spending four days there, you just knew it wasn't an if, it was a when, and we came back and the MLPs obviously, with a lot of gas pipelines and stuff, everybody was gobbling them up, and then we noticed they were doing a few secondaries and they started to not be taken up well, and as soon as we saw that, we said, "Okay, that's for us. That was our signal."

The demand was starting to dry up and then it just kind of imploded after that, so there were just these little signs you could look at, right? And it's interesting what to look for. So you go to a town like that, and you see it boom, you can either walk out of there going, "Oh my god, this is gonna last forever," or, "Oh my god, this is gonna end tomorrow, or pretty soon."

So you have to put a mosaic of information together. So I remember those MLPs well, it was an interesting time, but yeah, shipping space is pretty interesting right now.

Chris MacIntosh: Yeah, just talking about this Shell thing.

When you think about that geopolitical environment, when you have the oil embargo, that was where the US got smacked, alright? And they turn around and they say, "Never again," and they started building the strategic oil reserves, right?

Mike Alkin: Yup.

Chris MacIntosh: Well guess what, today they don't have any. Why? Well because they were reliant on Shell. They're like, "We don't need to, we're a massive producer now."

I have some concerns around that, because Shell is considered and treated and evaluated as if it's [inaudible 01:18:58] and it's not.

Mike Alkin: Yup.

Chris MacIntosh: The decline rates in Shell are not at all comparable with a traditional find. So, that I think is a potential, not a catalyst, but an icing on the cake.

Mike Alkin: Mm-hmm (affirmative)

Chris MacIntosh: For the overall sector, because again, you've got offshore Mexico. Nobody's making any money over there, nobody. Because they're like, "We don't need offshore oil. To Hell with that, we're Shell!"

Maybe you do, but [crosstalk 01:19:34]

Right now, even if Shell is like [inaudible 01:19:40], which doesn't make any sense to me, it's being priced accordingly. Again, you come back to risk/reward and you're like, "Well, if it's just a hair off, that's very substantial."

Mike Alkin: Yup. You know also, Chris, from a nuclear standpoint I look at it and a big competitor is cheap natural gas, right? These gas plants, and everyone and their brother is pricing in $3 natural gas forever. What if it's not?

Chris MacIntosh: Yeah, that's an interesting space, because I think Natty looks like it's just broken out, on the charts, and again, we're looking at that pretty closely at the moment.

You go through this entire sector and you go like, "What?"

It's [inaudible 01:20:37] effect. It's the second level thinking as to how these things play out, because the problem that you sometimes find, and I get this all the time with subscribers, is they'll get excited about whatever, some particular sector we're in or whatever it is, and you think, "Okay, well let's go after that," but then when you look at how they actually structure the trail, it's just not necessarily ...

Aussie housing for example, okay. How would you play that? Well, you could short the banks but then, how do you want to short the banks? Do you buy [inaudible 01:21:17] in them? Well, firstly, there's not really that much of [inaudible 01:21:22]. Secondly, in the option market there, you've often got really about 19 months. That's not enough timeframe. Can you seriously be able to, in terms of your mind, can you hold that position and keep rolling it for what you need to, which might be three years? In other words,

can you keep getting kicked in the teeth, psychologically, for three years? And people might tell you, "Oh yeah, I can do that," and the truth is, no you can't. You can't because you're going to go out and you're gonna do it and, I had a conversation with one of the guys who was involved in the big short. I won't mention his name, he's kind of a private individual. But anyways, he told me the story about a buddy of his who was on the same trade, he had a $30,000,000 fund, and he went after the stuff. And he basically shut his fund in late 2006, because he ran out of capital.

Mike Alkin: Yup.

Chris MacIntosh: And it's like, you've got to try to structure your trade so that you can last, so that you can get through to the end, and that's really important. You can identify these things, but how do you actually execute them? That's a whole different gig, and it takes a lot more work than most people anticipate. I've seen people come out and they're like, South Africa I've talked about a bit, and people go, "Oh, I'll short easy a day," which is just the ETF [inaudible 01:23:03] and that's a stupid idea. There's about 20% of that is a company which doesn't even operate really in South Africa. It's a South African company, it's domicile there, but it's a tent company, internationally based, and it's operations got nothing to with the country. That's just a poor way to go about doing it. Sometimes it's like you've got to go through that process of finding those sectors and then it's a matter of, how do you execute on it? For, again, least risk. I look at the risk first and try and mitigate that as much as possible, and the reward will take care of itself.

Mike Alkin: That makes sense.

Chris MacIntosh: If you get a dozen of these types of situations and you structure a portfolio intelligently around it, it's hard to cock it up, because you're going to get stuff wrong, you're going to get your timeframes a little bit wrong. Look, you could have a company, let's say take uranium. You could say, "Oh, uranium's been tested," and you go after one company, and you could have a political environment that cocks it up. You could have the CEO run off with the CIO's wife. You could have any number of things that go wrong.

Mike Alkin: (laughs) Yup.

Chris MacIntosh: So, you've got to think intelligently about how you go about participating.

Mike Alkin: So, tell me, tell listeners about, "Capitalist Exploits," about, "Resource Insider." What have you got going on there, with your newsletters.

Chris MacIntosh: As you know, I've got a fund which we run and then basically the research that we put together for that, we use that to provide retail, family offices, fund managers, and the likes with their own set of research that they can utilize to structure their own portfolios, and that we call Insider. That's a macro focused newsletter. And I put out a weekly on that, and then investment recommendations, when and if they make sense, so there's none of this monthly newsletter with the monthly pick. I don't know any fund manager who gets it at the end of the month and goes, "Ooh, I should buy something now! It's the 30th!"

It's not [inaudible 01:25:36]. Do not expect a monthly pick because that is asinine at best. Anyway, so that's Insider. And then what I built, because I wanted to be trying as best as I could to allocate my capital for best bang for buck within the resource space is, "Resource Insider," together with Jamie, who is a mining engineer by profession. Extremely knowledgeable and worked all over the world, and really humble, and honest, which is very important to me, and so that is for accredited investors and that's basically pipes and pre-IPO deals and things of that nature, which we get into. With all of that, we participate, I participate, alongside members, Perry Passu. We won't put anything in front of people that we're not putting our own capital into. Again, the entire business is basically designed for me to leverage what I'm doing personally, and that doesn't mean that it's gonna always work, but it does mean that I've got a vested interest in making it work, and [crosstalk 01:27:03]

Mike Alkin: It's a good structure right? Because you have people doing research, you do research yourself. The income from subscribers provides that research platform, and you're putting your own money behind your investment ideas, so I see how you structured it.

Chris MacIntosh: Yep, that's pretty much it. So what you see is what you get really.

Mike Alkin: How do they get ahold of you?

Chris MacIntosh: My website, which is capitalistexploits.at. So capitalist, as you spell it, and then exploits, E-X-P-L-O-I-T-S.

Mike Alkin: And where do you hang your hat?

Chris MacIntosh: That's where I hang my digital hat.

Mike Alkin: That's your digital, your physical hat is hung where?

Chris MacIntosh: Mostly in this little beach town in New Zealand.

Mike Alkin: Nice.

Chris MacIntosh: Which, in today's world. I've lived all over the place, this is the seventh country I've lived in. I used to be in New York or Tokyo or London.

Mike Alkin: I don't need to be in New York either, I keep telling my wife that but, [inaudible 01:28:19] my in-laws all live pretty close so I'm kind here.

Chris MacIntosh: Yeah, you're probably stuck.

Mike Alkin: (laughs)

Chris MacIntosh: There's worse places you could be, Mike.

Mike Alkin: Yeah, I suppose. Anyway, Chris, it was great. I thank you for your time, I enjoyed it. I love talking to you about investing.

Chris MacIntosh: Yeah, absolutely, I always enjoy chatting to you, and it's great to do it once again.

Mike Alkin: Alright, we'll speak soon.

Chris MacIntosh: Thanks a lot, mate. Take care, bye.

Mike Alkin: Well I hope you enjoyed listening to Chris. He's a good thinker, I really enjoy the way he just thinks about the world of investing, the way he's looking to skew the odds in his favor, and that's what we're talking about on the asymmetrical side. It's not quite a heads I win, tails you lose proposition, but he's trying to make it as heavily skewed in his favor as he can and I think it's a really interesting way to invest, and it keeps you out of the more popular stocks, that's for sure. You're not going to be popular at any Saturday night barbecues, but it can at times be extremely financially profitable. Anyway, I hope you enjoyed the podcast, and we'll talk to you next week. Thanks, bye.

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