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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 of 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 in 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's November 5th, 2018. I hope you had a good weekend. Mine was nice, spent good time with the family. Went to the high school football game. I know, high school football, but in town it's a big deal. My daughter's on the kick line, which is like cheerleading, but like the Rockettes for the varsity. And so, they kick it half time. But our team, I think we have won now in our town, we've won a 30, I think 36 straight games, which is pretty remarkable and there in a conference where they just run over people.

So, they had their first playoff game ran over someone, and it's funny, starters hardly get to play. They play a quarter, quarter and a half, and then everyone else plays, which is fantastic. Biggest is if you're part of the team, I think there's 60 kids on the team and probably they all get in, which is really nice. So, it's good to see that. So, we did that over the weekend and just a lot of house stuff. House chores, how errands, ran around a whole bunch of stuff, and of course I went grocery shopping, and I don't know how, but along the way I always leave a bag or two back at the grocery store that I get to go back and pick up and say, "No, it was here. I was here an hour ago." I don't know how I do that, but I guess I'm in my own world sometimes.

Islanders, let's talk hockey for a second. Again, if you don't like the sports, you don't like the intro, just fast forward a little bit, but I'm looking at the standings right now. The New York Islanders are at the top at the Metropolitan division in the NHL with 17 points. Pittsburgh's in second with 15, the Pittsburgh Penguins, the dominant Pittsburgh Penguins, the owners were beat twice in the last couple of weeks.

I got to tell you for me, and I know I have a lot of Canadian listeners, a lot of Canadian friends, a lot of Canadian listeners, because a lot of people who listen from a mining perspective, uranium and all that stuff. A lot of those, that's a lot of my listener base. And, hockey for me is just something that I may go way, way back from when I was a kid. I lost my mom at seven, didn't really know my dad. And so, I was raised by my grandparents, and sports for me were my escape just from a very early age. And, and at that time the Islanders were just getting started in the early mid-seventies, and I was a young kid. It was a franchise, new franchise, an expansion franchise, and it was 15 minutes from my house, and they were terrible, like most expansion franchises are.

Then as years went on they start to get better and better, but I knew every player on that team. I knew every player on every team in the NHL. I think back, we're going back, what, 40, 45 years. There was no internet, there was nothing. It was just getting the goal magazine going to a game and if you went to eBay, you'd get goal, the Goal magazine and you'd have the Rosters. And, I would read everything, the supporting news, whatever it was I could get my hands on. And, I would memorize the towns, and I would memorize towns. [Most Josh 00:03:57] Saskatchewan, and for a kid from Long island, but all the towns in Canada, small towns where the junior hockey programs where, or where guys were from. And, I could at one time probably tell you, well I knew where every Islander was from. What their journey to the NHL was.

The same with the Rangers even though not a Ranger fan, but it was for me, it was everything. And years, years later when I would go up into Canada looking at companies, and whatnot, and somebody will say where they're from, and I'll say, "Oh, so and so is from there." Like, how do you know that, you know, it sticks with me. But for me as a young kid with, without parents raised by my grandparents who were Italian immigrants, it was really an ... And, generations apart, excuse me. So, much older, no interest in sports. But for me it was a great outlet.

Then in the 80 to 84, they won four Stanley cups in a row. And it was, I mean, I could remember what I was doing, I even remember what people say that I wasn't born, but people say they remember where they were when Kennedy shot. I remember where I was when the challenger exploded. But for me, I remember where I was with each Island playoff game. So, fast forward many, many years now. And, from really the late eighties till now, the Islanders have just been abysmal. They moved from there a home, the Nassau Veteran's Memorial Coliseum in Long Island. They moved into the Barclays Center in Brooklyn.

They tried to Redo the Coliseum, and the Coliseum was like I said, 15 minutes from where I grew up, and five minutes from where I live. Don't worry, I've lived in other places and I traveled the world. So, I'm not in a bubble. But I ... When they moved, and so it was nice. I take my kids, and we'd pop over and go to an outer game. And, then because the county and the state, they couldn't figure out how to fund it, the expansion, the remodeling, the refurbishment, the owners moved into Brooklyn. And the thought was, hey, it's Barkley Center, it's Brooklyn's hip, and we'll get all this corporate crowd. It's a disaster.

First of all, their entire fan base, those of you who don't know, Long Island is about 120 miles long, and I don't know, maybe 10 miles wide. There's a few million people that live here. Parts of it, way out east on the island are very, very rural. Just potato farms as far as the eye can go. Then you have this section called the Hamptons way at the tip, on the eastern edge of the island on the south shore, which is, it's right if your lifestyles of the rich and famous, that's the Hamptons. That's way, that's la la land. That's not reality. But, it's beautiful in there monster homes and people live out there. But that's not long island, that's where the summer people that come from the city and the rest of the world, that's what they call, that's what they know as Long Island.

Then there is North Fork, which is way out there also, but it's the North Shore of the island, and that's rural, and its country, and its farm still, and it's got its charm. But, it hasn't really been populated by the Hamptons crowd, which is nice. Then you have from maybe that 30 miles to the tip, but they're all in between. It's Suburbia. It is just Suburbia, and it is ... South shore has one, there's obviously there is. There's the south shore the north shore and the in between, and the North Shore is more, as you come further towards New York City, the North Shore is not rural, but it's still more open space, and single lane highways and whatnot.

Whereas the south shore and the central part are really like just strip centers, and shopping malls, and they're a nice towns and not so nice towns. It's a smattering of everything. But, that's the fan base for the Islanders. That's the core fan base and at the Coliseum, when they were struggling they would draw eight, 8/9,000 people instead of 16,000. But, when they were playing well you get your 14/15,000, but that's not a modern day arena.

So, they move into Brooklyn. But the problem is, that we must take the train for an hour to go to Brooklyn. When your fan base is there, and it never did the corporate thing. And, they've been

there, I don't know, four or five years. Now the ice is terrible, it's a basket. It was built for really the concerts, and the Brooklyn Nets for basketball. The scoreboard is not over center ice, it's over the Blue Line. It just looks ridiculous when you're watching it on TV. And, I know you all think I'm crazy, because I'm talking about this, but it's, you know, I don't know.

I got off on a tangent, but when you're watching it on TV around the glass, right, if you're watching a game from Calgary or if you're watching a game from Dallas or, I mean, it's in Nashville, right? It's intimate that the lighting is perfect, that the crowd is right along the glass, here half the rank has no fans along the glass. They have Honda advertisements. It looks like you're watching the Charlestown chiefs of the old in the minors, right? With the movie Slap Shot. It's just, it's crazy. Anyway, so the Islanders have suck, but still, even to this day as they've sucked all these years, I still really, I pay attention now. I can't tell you where every guy is from, right? Life takes over, you become a dad, and a husband, and you have to do your job.

But, I still follow it closely and I just see them starting to turn, starting to turn and they have a superstar, John Tavares who left. He left free agency, went home, went to Toronto. Really disappointed people, because they thought he was going to stay. He had been here nine years, and it was very exciting for most people, that they were starting to turn around at the [bears 00:09:53] is there. He's one of the few superstar, well, not a few, but he's one of the superstars in the NHL. Then he said he's going home, which I could appreciate. He wanted to play. He always wanted to wear the sweater at the Maple Leaf sweater.

Now when Tavares comes back to New York, God, it's, you're not going to be able to get a ticket, because people are, the poor guy, he's going to get just roasted the whole night. The crowd's going to go crazy, because they just feel like he just abandoned them. But anyway, so the Islander are playing great. They didn't need Tobias after all, he's doing great in Toronto and they could have him. But for some reason they've got a new coach, Barry Trotz, he won the Stanley Cup with the Caps last year and now he's come in, he's instituted a great system defense, and he's playing really. The team is believing in themselves to playing hard, but they sit in the first place, and I got to tell you, even at my age and even right as a lot going on in life, that, that's like comfort food for me, right? The hockey to me is comfort food.

So, it's really great to see, and I've been really excited. And you

know, the past week I was in Boston. I spoke at the Nuclear Energy Institute conference, and I think in the last podcast I did the podcast from there on a Monday and Sunday night, the prior Sunday night they had, the Sox had just run, won the world series. So, outside my hotel it was crazy. Then they were going crazy until two in the morning. Then when I was leaving on Wednesday, I went to go get my car and right outside my hotel was the parade, and it was just getting started. But luckily I was able to get my car, like I didn't think I would, but the hotel was great and being able to get me.

I get in the car, and I realize it's New York plates, and as I'm driving in New York and Boston sports rival then reserve, pretty crazy. And, as I'm getting in the car there's, the whole city is packed and kids are drinking beer. 20-year-old, 21, 22-year-olds and I'm at a stoplight and people are yelling at me to get out of Boston. It was pretty funny, but, it was a nice time. Took at the conference world, a couple of guys who were from La and we went to the North End, which is great Italian food. And we ate at a restaurant called La Familia Giorgio's in the North End, and it was just great Italian food. And, being of Italian heritage, I could really appreciate that. I make my own sauce on some many Sundays. So, it was nice.

We're going to talk about the [anti-I 00:12:29] a bit later, and I'm not going to have a guest this week. I'm just going to ramble. I decided I just got some stuff, that I thought I'd talk about. So, I was there. I was in Boston the week before, I was on a ranch for a couple of days in South Dakota visiting some uranium projects. So, you talk about the tale of two geographies, right? Nothing for as far as the eye can see. And the next closest town was 80 miles. Then here I am in Boston where it's going crazy, but both really interesting. So, I love to do that. I travel less now than I used to, but when you get out there, there's nothing like getting out there and speaking to people, and visiting, and asking people questions about their projects. About their industry, and for me that's how I find most of my insights, right? From going and doing, so really helpful.

So, it was really, it was good weekend. It's an interesting time now, right? You hear me talk a lot. And, now if you're an institutional investor, you probably want to check out, right? Because, you're going to talk about some stuff that you might know, you might care about, you might not care about, but I don't do this call, for this podcast for the institutional investors. It's more geared towards people investing their own money. So, I was

thinking about ... You've heard me, I think since earlier in the year I've been saying, be cautious with your portfolios, and again I don't like to come out and call crashes, and every time the stock market dips to come out, and come out with all sorts of data.

So, many commentators do and say, "Here's why you should not be listening to that. Here's why it's going to go higher. Or conversely, here's why it's going down." I don't view it that way. And I think if you listened to the podcast, you've heard me say, "I don't make a bombastic cost." But for me, I just step back and say, "Okay, well what's priced into the market? What's not priced into the market? Have we had a big run? Is that ... What's driven that run? Have we had a tough period? What's driven that period? What the factors going into that? And the probability, where are we on that scale, right?" My hands are going up and down right now, like I'm balancing a scale. Like, is there ... Can a lot more good, is a lot of good news priced in or is a lot of good news not priced in. Or, are we hitting a rough patch, but we're still in the early stages, or not.

I think you've heard me say, "We're 10 years into this thing." Right? And I've said, "Just be cautious." If you have companies in the portfolio that have rallied really hard, and they've checked evaluations, right? Now again, you don't ... As a short seller, most of my life as my professional life, you don't short anything on valuation. But if you own things, you have to have a catalyst, right? It has to be fundamentals declining and a catalyst. And Oh, if the evaluations agree that helps. But if you short something based on valuation, you're going to get run over, because who are you to be the arbiter? Who am I to be the arbiter of what somebody is willing to pay for a stock read tesla. And, we did get out of that position in the newsletter, made a bit of money and, more on that to come. The 10K was just filed, but I don't want to get on tesla tangent, all sorts of goodies in there, which makes me very excited.

I think about things, where have we come from? Where are we now? What's going on? What do people pricing in? What risks do they pricing in? What risks are they not pricing in? And, you've seen a lot going on, and we'll talk about in a second. But, as I think about what's going on here, right? And you know, we think about the market, and really what the October sell off, right? So, I mean it was growth concerns, right? That kind of precipitated it. What's the fear in the market right now? Some rising interest rates. Now all of it is a fear now, right? Because, the Fed has taken rates up, and we see in live board go up quite a bit.

But, when rates were where they were, where were they going? Where are they going lower? No. So, rising interest rates, right? You've got these deepening trade tensions between the US and China. You're definitely seeing a slowdown in some foreign economies. That's no surprise. But on the other hand, you've had tremendous earning growth. My own commentators come out, their podcast hosts and other commentators on TV, "My God, we're putting up a couple of consecutive quarters of over 20% earnings growth. The economy is fantastic. It's tremendous buy, buy, buy." And I said, "Sure, yes." That driven tax cuts have helped a lot, right? Share buybacks have helped a lot. But the market doesn't really care what it's doing today. It wants to know where it's going to go in the future, right? So, I think a good earnings quarter so far, I think three quarters of the companies have reported, and it's about in line with where expectations were.

I think 20 ... Actually a bit better coming into the quarter, I think it was 19% growth was expected. I think it's coming in 23/24%, but next year it's going to be 9/10% earnings growth, right? So, its rate of change that I focus on. It's not so much rate of change going forward, right? Is it going ... What's the rate of change? So, if earnings are still growing next year, but they're growing at 9 or 10% coming off at 24%, or the market starts to price that in a bit. Then it looks at the valuations of the companies, and the growth rates, and that's all starts to get factored in. Now you layer on top of that. This uncertainty in that makes for a tough call.

That's what I've been saying all along is listen, you've had some stocks, you've had some, you might, I don't know what your portfolio looks like. I got a lot of different listeners, but I don't know, you might have some growth. You might have a bit of a momentum stocks, you might have some speculative stocks. You might have some dividend payers, but if you've got some speculative stocks, or you have even less now after this big run, if you have regular companies that you think are safe, and they've had huge moves, and you're up big, take a look at them. Take a look, right?

I don't know how you do your research, right? I don't know if you use value line. I don't know if you just surf the web, I don't know, because there's a lot of listeners. But, look at what the evaluation is, right? Then go back, and look over eight years and say, "What's it typically trade at? How is it trading versus the sector? Is it at a premium or a discount?" How has the sector trading on evaluation standpoint, whether it's your PE or your EV to EBITDA, right? Or EV to be free cash flow, EBB and enterprise value. How does the

sector normally trade? What's the historical valuation? What are the growth rates when it achieves that valuation? What are growth rates now? What a growth rate's important going forward? What are they going to look like?

If I have a stock that historically trades at 12 times earnings, it's trading at 18 times earnings right now, and earnings have been okay, how did they get those earnings? Was it revenue growth? Was it margin expansion? That's pretty healthy, right? If you could grow revenues, you get a bit of pricing power. You can take your margins up ...

Mike Alkin: You get a little bit of pricing power. You can take your margins up, right, that's good. Gross margins, your sales might cost a good soul, being gross margin. Or did it come from huge cost savings? Monster cost-cutting plans? Where'd the earnings growth come from? Did it come from major cost-cutting, but no revenue growth?

Look at it, you can see. I don't know if you use Yahoo, whatever you use, I use Bloomberg, so most of you are not going to be using a Bloomberg. But if you use Yahoo, or whatever you use, what's the trend been? Revenue growth is stagnant.

If you see very flat revenue growth, maybe a drop, maybe a little bit more than a drop, but really big earnings growth, where'd that come from? Was it massive layoffs, was it a huge cost-cutting program throughout the system?

Did they restructure the cost base and where did they do it? Is it repeatable? Was it a one-year program, a three-year program, is that why the stock went higher? Look at the share count, did it shrink a lot? Okay.

If the share count shrunk, you might want to think about well, okay, so they bought back stock, shares outstanding declined. Look at the balance sheet. Did debt go up considerably? Did they go borrow money to add debt to the balance sheet at low interest rates and buy back a lot of stock? Nothing wrong with that.

But do they have the room to buy back more stock? Leverage. Did they have net debt to EBITDA? That's a leverage ratio. Did they go from one time to four times? One time to three times?

Look at the filings. What do the filings say? Do they have more room? There are credit facilities. Are there covenants on the bonds

where they can't go above a certain leverage ratio. Because if they can't, and they've been just ehhh with revenue growth, and they had this big cost-cutting program and it's kind of going away, and they borrowed and they bought back share. When you buy back shares, you reduce the share count, which all things being equal, will make your earnings look better.

But now maybe they don't have room to do that, so now how are they going to buy back stock? Those are the kind of things you want to think about.

It's a prudent time to have done that this year, right. You've had a monster move, the tax breaks and fiscal stimulus has just driven everything. There's an old saying, bulls and bears make money and pigs get slaughtered. So that's all it is, it's just taking it and saying, okay, I don't know. I don't know how people are positioned at like 90% in equities, did I use to be in, was it more of 50/50 equities and fixed income and I rotated out of fixed income. Great. Did a tremendous job. Right. You've done well.

But what's the composition of my portfolio? Is it ETFs? How are they doing? Don't just assume they know what they're doing. Or the mutual funds, because these guys are having ... It's momentum now. Now it's all about driving and performing like your peers.

My tone has been and my message has been to podcast listeners and to my subscribers, is just be cautious. There's nothing wrong with being prudent. And if you leave a little on the table, so be it, because you know math. If the market were down 30%, you've got to be up more than 30 to make that money back. It's just simple math.

If at this point in time you start to trim your positions a little bit, not the worst thing. Here comes October, what, the S&P was down seven. It was down 11 at one point. I don't know, tech stocks were down 10, something like that. It got hammered.

What was that? Well, a lot of that is, I think, we talked about rising rates, trying to trade tensions, foreign economies. But then you have what's going on in the U.S., from a U.S. perspective. You got the midterm elections. That's a big deal. They take place tomorrow, November 6th.

Really, what's hanging in the balance that people are focused on is how they'll dictate the balance of legislative power in D.C. Up for debate is will the Democrats take majority control away from

the Republicans in the House and Senate, because in the House and Senate, the Republicans control it. Pro-business. The House is Republicans.

Will the GOP, the Republican Party, are they going to keep majority control in both houses? Is it going to be a split Congress? Well, right now, conventional polling wisdom is kind of saying it's going to be a split Congress, with Democrats holding a majority in the House and Republicans maintaining a majority in the Senate.

The midterm elections, I think, have weighed a lot on this market, in addition to the other things that I mentioned. Look, it's going to come, it's going to pass. The markets like certainty.

When you have these financial things going on, rates, trade wars, economy slowing, and you layer on top of that the uncertainty about what's going to happen in the biggest economy in the world, the biggest country, yeah, economy in the world, and because it could swing one way or the other, based upon who gets into office, you know, that could change, because growth concerns.

Think about would a split Congress be bad? Well, it depends. Do they roll back any of the stimulus that was put in place? Will they stand, if the Democrats took control of the House, would they stand in the way of passing additional fiscal stimulus and try and stifle the efforts that have already taken place with reducing regulatory burdens? Market might not like that.

But the market knew November 6th was coming and so, it starts to price that in ahead of time. Layer on top of all the stuff we just talked about, now the political uncertainty and you start to come into what we saw in October.

Now does it go further? No idea. Ride a little bit. I think the market was up a couple percent last month. Where it goes, I don't know. But again, I still hold the view that if, again, the market wants to know, tell us what it is. Mr. Market says, tell us what it is and we'll figure it out.

If we don't know what's going to happen, if we're not sure, then we're probably going to be cautious. You hear me talk about risk-off. Well, that's kind of risk-off. Risk-on is, hey, you know what, we're good. We're not that concerned about stuff.

I think you need to think about, right now, the market is still uncertain. Tomorrow evening, we'll know. There will be certainty.

If the market has a relief rally, so how do I view that? Well, if the market just wants to know and it said, okay, the Democrats here, you might gyrate for a little bit. People say, "Oh, my God, they're going to roll back regulatory burdens. They're trying to repeal the tax decreases." And who knows.

The market could sell off a little bit. Or, conversely, the market might say, hey, you know what, at least we know now and we're going to move it higher. I would use that as a time to, again, lighten my portfolio a little bit, to reallocate.

But it's all about preparation, understanding what do I have, why do I own it, what's it worth? What's it worth? If you own story stocks, because at the end of the day, if you own a story stock, it's built on this story.

When there's a risk-off environment, people, it's all good times, low interest rates, people are rotating into equities and it's like we've seen in the last decade. Story stocks do really well. They can do really well, because people pay less attention to the numbers. When it starts to become a risk-off environment, the numbers matter.

So just try and jump start it, you get ahead of that. Start thinking about some of those things that can make a difference in the equities. It's just kind of all about being prepared and numbers matter in this business. Stories are good. Stories are one thing. But at the end of the day, the numbers will take over. The fundamentals will take over.

Now, you don't always know when, but it's about growth. It's about do you have too much leverage? Can you pay off the debt? Are you going to grow? Will your earnings grow? At some point, stories fade. I think it's important to pay attention to that.

Speaking of that, I was at the Nuclear Energy Institute conference last week and I spoke. If you listen to the podcast, you know I have an investment firm that is focused on the nuclear fuel cycle and the uranium mining industry. And I have investment vehicles that invest in that. I do speak publicly a lot about it. I'm asked to speak at a lot of different places.

I stood up there and I talked to the buyers about how I view the environment. I talked to them about what a good job they have done over the last several years. Back in March of 2011, there was an earthquake off of the coast in Japan. It caused a tsunami and

I'm sure many of you have heard of the Fukushima nuclear reactor disaster.

That caused all the Japanese reactors over a period of time to go offline because of safety concerns and it was about 13% of world demand. They went offline and it caused a backup in the supply chain and the price of uranium, which at one point at its peak was $137 in 2007. When Fukushima happened, it was about 73 bucks.

The nuclear power, the price of uranium, settled down a year and a half ago or so at about 17 bucks. If you're in the developed world and you are a nuclear fuel buyer, you're a nuclear power plant in the U.S. or let's use the U.S. for example, it's difficult because while nuclear power is a base load power, it's always on. It's reliable and it's clean, it's 100% carbon-free versus any, except like hydro.

It's safe when you look at it on a per terra watt hour, it's extremely safe. It's one of the safest forms of electricity generation. Obviously, people don't focus on that. They focus on Three Mile Island, Chernobyl and Fukushima. But the numbers would bear out how safe it is. I'm not going to get into a debate on that.

But if you're in a place like the U.S., you're competing against half the reactors. There's a hundred of them. Half of them are in a market that is regulated, where they have fuel riders, where they could go to the state regulators, the public utility commissions and if the cost of fuel goes up, they can pass that on. Reg payers pay for it, ultimately, but they can pass that on.

If you're in a competitive market, an unregulated market, well, you're competing against other fuel sources, and right now natural gas with the U.S., with the shale plays, where they're pumping out so much natural gas, it's been very difficult for them.

Now, I argue that the actual cost of uranium is just mid-single digits percent, and whether it goes up or down, it's not that material to them. There's a debate around that. The whole front end fuel cycle, enrichment, conversion, and all the other stuff, it could be 18%. But the U308, the uranium, is not that much.

But, to the fuel buyer, it is, that's their job. They're going to try and get the best price. Over the last seven years, they've held out of the market. I won't get into all the reasons why, but they've held out of the market and the price kept coming down and good for them.

While conversely the uranium mining companies were increasing production for many of the years during the downturn. As I said to the fuel buyers, shame on them. That during a downturn, you didn't have the foresight to cut production, because if you cut production and produced less, you bring the market supply demand in balance, in line. Instead they diluted their shareholders a lot over the last several years.

Why I love investing in deeply, deeply cyclical industries is because ultimately supply and demand will balance out. If you have way too much supply, the response is to cut supply. When you cut supply, it depends, you might have to go shallow or deep, but you've got to bring that market back in balance.

That's how you get prices, right, there's the saying, a cure for low prices is low prices. It will resolve itself, because when you bring supply demand in balance, or it goes into a deficit, it starts to rise.

I spoke to them about that. And I said, "Listen, you guys have done a great job. The miners, really, many of them, should be ashamed of themselves for increasing production. They've diluted shareholders."

But now, you know what, and I showed them our work. It's going to get into my talk about numbers. At the end of the day, there's a cost to produce something. If you look at the supply, here's your primary mine supply and here's the secondary supply, and here's the demand.

Now when you're talking to a roomful of a lot of Western developed country nuclear power people, there is somewhat of a state of depression, for the reasons I just spoke about. But the growth isn't there. The growth is coming from the developing world, the emerging markets. That's where all the growth is coming from.

Nuclear power net/net, when you look at the developer in the developing world, is growing. It's a low single digit grower, it just is. Take all the closures, get draconian on your assumptions and add the new reactors coming online and then look at what's down the pipeline, and it's growing.

I just shared that view. Here's primary supply, here's secondary supply, here's demand. See that white space? That comes from new mines. And those new mines, if you think about how long it takes to license, permit and start build a uranium mine, it could be 10 to 15 years for some of them.

I said, "Here's a list of all of the mines, every one of them that can go into production. And here's the price they're going to need to go into production. It's at least 50 bucks. It trades at about 28 bucks per pound now."

You have to think in terms of dog years. All these projects, most of them, not all, but most of them have stopped all their permitting and licensing and all the progress made on them, because why would you go and spend money to do this advancement of a project when you're going to sell something for 28 and your costs are much higher? And most importantly, the economics of the project, the ability to get project financing, are based on $50 uranium.

What I shared with the buyers was here's all these mines coming on and here's every one. Look at the price needed. Oh, by the way, some to many of these are older reports. There's mining inflation. And oh, by the way, when they put these reports out there based on this price, it's their best foot forward.

When I look at these reports, I don't take that at face value. I go through them and I could add 20, 30, sometimes higher percent in what I think it's going to be.

We talked about that and I showed them. At the end, the talk was over, and somebody walked up to me from industry, and said, "Wow, that's an interesting perspective. I know you've been public and you've been out there, but I just assumed that you were a mouthpiece for the uranium miners."

I laughed, I said, "I'm sorry?" They said, "Yeah. You're always talking about how the fuel buyers should be buying uranium, so I thought you were like a pro-uranium mining company."

I said, "I'm a pro-nothing. I'm supply and demand and it all comes down to the financials and the economics of a business. Right now, at this particular point, I think the uranium mining industry offers the best risk reward of any investment I've seen in my career. But that's now, and over the years, who knows how that's going to be. But I'm not talking for anyone."

I said, "You should hear me on the phone with some of the CEOs. If you're investing capital, you're not there to placate anybody. You're there to understand the business dynamics, the fundamentals of the business and the economics of the business and hold management teams to be responsible with their business."

And this person said, "Wow, that's interesting. I just kind of thought you were bullish because you're pro-uranium mining."

I have respect for this person. I know this person. I said, "You got a minute? Here, let's open up my laptop." We spent the next hour and a half where I said, and again, this is where I talk about it comes back to numbers. I said, "Let's go through my model that I've spent three years building, and why I have the conviction I have."

Now it doesn't mean I'm right. There are things in models sometimes, you have a lot of assumptions. I think I'm right, I feel I'm right. My experience tells me I'm right, but I could be wrong, but I don't think I am. That's markets, right, you make your bet. You're bulling, you're bearish, you're neutral, you're whatever.

I walked him through and I said, "Look, here's a list, as you can see, of every nuclear reactor on the planet. Here's a list of all the closures that I think are coming. Take a look, by country, by year. Here's what I think, not what I think, but what's in the pipeline that's coming online.

"Here's the amount of uranium that gets used when a new reactor comes online. Here's the amount of uranium that gets consumed by the average reactor in the world. And here's the size of the old ones. Here's the size of the new ones. Here's all the list of prospective mines and all the economics of those mines. Here's how it all feeds into the main model. Here's all about enrichment."

It's a big part of the uranium fuel cycle. You have to enrich uranium that comes out of the ground, so that it could work either as nuclear fuel or a nuclear weapon.

Here's the amount of ...

Mike Alkin: ... of here's the amount of secondary supply in the market. By underfeeding it's part of the secondary supply market, by government sales, by mixed oxide fuels, by year. Here's the inventories in the world by country, commercial versus governmental. Here it is in Japan. Here it is in the U.S. Here it is in China. We go back all these years. Here's supply-demand gaps that I think. Here's reactor constructions, by reactor, by country, by when they come online. Right? 20 tabs ... I think it's 20 ... that all feed into a main model, and I can change different numbers as I do my research, and that will change the outcomes. And then it's subjective. It has assumptions, and if those assumptions move up

or down, that's what you do during the day or whenever you do it, and when that changes it changes the outcomes.

But if I'm standing up in public and talking about something, it's not 'cause I like nuclear power. It's not 'cause I look the Uranium mining guys. Really nice guys, a lot of hockey players too 'cause a lot of 'em are Canadians. But you could damn well rest assured it's based on math, and the thing is every one of you listening, it's fourth grade math. It's addition, subtraction, multiplication, division. Once in a while, maybe a little algebra in there, but you can figure it out. But it's not complicated math; it's grinding. It's work. It's digging. It's uncovering. It's going to speak to people. It's reading, a nauseous amount of reading. And reading. And more reading. And talking. And more talking.

But if you do it over the years, you can kind of get to it. So that gives me conviction. Now, I'm just talking about ... give you an example. And the person said to me, "Holy crap. I had no idea. I had no idea." And again, doesn't mean I'm right. It means this is my work. This is my best effort at thinking I'm right, and it's why I love industries that are ignored. It's why I love industries that are left for dead. It's why I love the trash pile because there are so many smart people working. I use hedge funds because that's my 20-plus years of experience, and the IQ's, the intelligence ... People are off the charts, and it's not about one thing; it's about everything. Talk geopolitics. Talk economics. Talk anything you want. Most of those people in those offices are pretty well-versed at it, and the goal is they all want to manage a lot of capital, a ton of capital. Billions. And when you get to that point, you're all looking at the same stocks, and so you got really, really, really, really bright people looking at the same stocks.

And then you got the mutual funds guys. Hedge funds get paid for outperforming every year, and they haven't done that in quite some time, by the way. And that's a whole structure; I've talk about it before, but mutual funds. They want to do well of course for their investors. But they want to be around their benchmark. The hedge funds need to make money for them to make money, be positive, for the people running these firms. But a lot of really smart people looking at really the same things, and when everyone's doing the same thing, it usually doesn't work.

And hedge funds are short some stuff, so they have net exposure. They're not 100% long in the market, and that's why they underperform during these melt up periods you've seen in the last decade, with the exception of a few hiccups in there. But for me the junk pile ... Nobody's paying attention. Nobody's looking.

Nobody cares. Nobody wants to put the effort in. It's left for dead. And in those sectors, when things are left for dead, change occurs. It's human nature, right?

If you've been a nuclear fuel buyer for all this time during the downturn, you look great. You haven't entered into 7-10 year long-term contracts. You've been buying it spot or short-term contracts. Home run. If you're a Uranium mining company, oh my God. I've heard this before: "It's gonna turn; it's gonna turn; it's gonna turn." It never turns. Meanwhile, the reasons were wrong, so all it was for years: "Japan's coming back online. Japan's coming back online." Well they haven't come back online. But you know what? Markets adapt. Supply has been cut finally. Secondary supply ... In Richmond at the conference two of the big enrichers stood up and said, "We did a survey, and over 90% think there's way too much inventory. Actually there's not. And actually we're not underfeeding as much as we were. Underfeeding has been a big source of secondary supply."

That was a surprise to people. But what happens is you can find those surprises when nobody's paying attention. Very few. I shouldn't say nobody. But very few. Because if you're living in the world, if you're a trader, a buyer, a miner, you're living this every day: "Oh my God, this is a disaster! It sucks! It's terrible!" And you miss the fact that nuclear power's a growth business. You miss the fact that, the changes occurring every day. This one cut production. That one cut production. This one went out of business. That one went out of business. Less supply, less supply, less supply. Less supply's a good thing when you have a market imbalance with really low prices, right? It's a good thing to bring the market back in balance. And then people don't believe it: "We've heard it before; we've heard it before; we've heard it before."

Well, yes, but you know what? All the things that needed to be done weren't being done, and now in benefit of hindsight ... For me, I started looking at Uranium three years ago. I didn't have all the history. I came ... I'm a generalist. I know supply-demand. I came at it with a fresh set of eyes.

And so when I think about that ... So now ... So, numbers. You gotta do numbers because you can get caught up in the story, and that leads to looking at a lot of ... When you're looking at mining companies in any industry, you gotta remember, during downturns companies are always looking to raise money, mining companies, many of the junior ones because they need it. They need it to stay afloat, so of course they tell you their costs are really low, when

they're all in the lowest decile or quartile. They're not ... They allocate them differently.

But you'll hear all of these things, and by gosh, how many of you listening that investment resource stocks or geologists or mining engineers? Right? You can get sold a bill of goods. I'm not a mining engineer. I'm not a geologist. I'm not a nuclear power engineer. I know how to find those people who are, talk to them, understand them, and after a while ... I've looked at a lot of resource reports over my career. I know what I know. I know what I don't know, and when I don't know, I go find out.

But it's easy to get told a story. But the story always falls apart when the numbers come into play. So that's way you do the numbers. So when you're looking about it, if you're investing in the resource space, think about it. You have to have assumptions. I don't know how many people listening use Excel, but maybe you're a legal pad guy, an old fashioned calculator and legal pad. You can still think about it. If you were building a model in Excel, or you were building a regular model on paper, you'd have to think about: what are the assumptions that go into this? Am I looking at gold? Is it grams? Do I have to convert grams to troy ounces, right, 'cause they reports will say different things.

By looking at Uranium, is it tons of Uranium that's processed? Well, how many pounds is gonna come out of that? What's the grade, right? What's the grade ... I have to convert the tons to the grade, and that tells me how many pounds are gonna come.

I need to know, if I'm thinking about it, what are the assumptions out there? What's management say? What does the consensus of the analysts say? What's spot market? And what should I base my numbers off of? Well, if the market is where the market is, and then over time if you've done the work on the macro, you could kinda get a sense for where you think pricing might be, but when you're looking at one of these companies, you wanna understand: what's the grade? What's the recovery rates? What's the mine life? How many years? Is it a few years? Well, that's not exciting. Is it long life? Yeah, that might be exciting. Is it ... The longer the better.

What are the resources? Are we talking measured and indicated? Is it proven and probable? Is it inferred? Measured being the highest conviction level if you're looking at our Uranium miner, indicated being pretty good, inferred being, eh, we think it's there. Know the category. Gold, proven, probable; what are the rate reserves?

Any byproducts in there? Is there a byproduct from what they're mining, and if they're mining it, can they sell that? And if they sell that byproduct that's a cash credit against their costs, so how much does that bring their costs down?

What's the strip ratio? You wanna know what that is. Any royalties they're paying? So if you're thinking about the math: here's how many pounds they're gonna pull out of the ground, and here's what the average selling price is gonna be. Any royalties they're paying against that? They might. What are the operating costs? Big one. What's it cost to mine it? What's it cost to process it? What's it cost to transport it? What's the general administrative cost to do it? What's the cost to explore? Not [inaudible 00:50:07], right? What's the cost to do further exploration on that project? What's the cost to do exploration across the projects? So there's corporate exploration costs; there's project exploration costs.

What are the capital costs? What's the up-front capital costs? What's the sustaining capital to keep it going? Another big one: what's the reclamation costs? You gotta reclaim that land; how much is it gonna cost to do that? You wanna think about the working capital. How does it work? How do they sell it? They bring in drillers; they bring in outside sources to do all this stuff. So they have an accounts payable. How long is it gonna take them to pay it, and how big is that accounts payable gonna be?

And then they sell the stuff. Who do they sell it to? How long does it take them to get paid? How many days of inventory are they gonna keep on hand? That's a big deal. What's another ... Discount rate. Throwing a discount to get my net present value on, right? 8 percent, 10 percent. What's the acquisition cost to the project? So you need to start thinking about: what's the milling schedule? Are they processing it themselves, or are they paying a toll-milling agreement to get it out there? What's the cost per ton, the process internally, or to send it out?

So you need to think about that. But your big variable being the prices you assume. They're big assumptions. And then really, you take all those assumptions, and you start to put it into, well, what's my revenue? What are my unit operating costs? My capital costs? My all-in costs? So ... ‘cause it's not just a cash cost. The cash cost is just one thing. And all that stuff ... You had to take your revenues, minus your costs. You're gonna come up to an EBIDTA number, earnings before interest, taxes, depreciation, amortization, right? Then you're going to say, "Okay, well I'm going to take depreciation out," right?

And you're gonna come up with an EBIT number, earnings before interest and taxes, operating income. Then you back out your taxes; you come to net income. So now you're working your way down. And then you ... If you don't know how to do it, you could look it up. You could do a DCF model, discounted cashflow model, very good in mining to do. You wanna come here, right? You take your EBITDA, less for adjustments: your capital expenditures, your taxes, your working capital changes, the reclamation costs. You get total adjustments. Back that out of an EBITDA number and you're gonna get an [unlevered 00:52:39] free cash flow number. You can apply discount rate.

What's the net present value of the asset? What's the purchase price? What's the net present value? You can look all this stuff up; I just don't have time to do that math for you in Excel spreadsheet here. I have it, but I don't have time to walk everyone through this. But I'm telling you things to look for: what's the payback period of this project? How many years?

And then you wanna do a sensitivity analysis, right? So what's my transactions yet present value? What's the break-even price of the commodity, whatever I'm looking at that I'm going to need for this project to at least break even? And then you sensitize it. You want to sensitive it to a different price of the commodity and sensitize it to your different costs. And that's gonna give you an internal rate of return.

So these are things you wanna think about. Again, it comes back to numbers. If you have a framework, you're less susceptible to the story. It's easy to fall prey to the story in any industry, especially the mining industry. So to have a framework for doing some math ... My framework for doing math on the macro for Uranium was three years of toiling and grinding and reading and reading and talking to people and building models, building a master model from all those things I talked about it that feed into one main model.

But none of that is high finance. None. It's a lot of work, but you don't need an MBA from Wharton to do that. I can promise you that. Same thing with the companies. If you have a framework for assumptions, revenues/costs, doesn't square with what others are telling you. Most of these companies have feasibility studies, pre-feasibility, definitive feasibility. Before that, they'll have a pre-economic assessment, and they'll lay out what the project's gonna cost, what the project is going to ... how much revenues you're going to get. All the stuff I just talked to you about, look at it. Read

it. Go to the websites under technical reports. You might start from scratch.

Your first one; you have no framework. Look at three or four other companies. Are the costs per whatever ton they're telling you for processing transportation, G&A? Are they reasonable? Are they in line with others? Or are they really low? If they're really low, why? Ask 'em. Or, if you can't get to the management team, read about it. Ask people in the industry. Go to LinkedIn. LinkedIn's great. Find a mining engineer. Send him a note. Say, "Here's who I am. Here's what I'm thinking about doing. You got a second?"

You'd be surprised. Anyway, it all comes back to numbers. At the end of the day, the numbers will dictate what goes up, what goes down. Not in the interim all the time, right? Sometimes it could be quarters, it could be years; but at the end of the day, you gotta have a framework. So I just want you to think about that, especially with story stocks 'cause anyone can tell a good story. You can hire anyone to tell a good story. But is it supported by the math?

So anyway, that's my little chat on the numbers. We're gonna wrap it up here. I kept it right to an hour shockingly. So again, to review, the Islanders are in first place with 17 points sitting atop the Metropolitan Division in the NHL, 2 points ahead of the multiple Stanley Cup-winning Pittsburgh Penguins, just in case any of you weren't aware of that, if you missed that in the early part.

And we'll know tomorrow what the mid-term elections look like. Who knows? I have no idea. I mean, politics ... I pay attention to it 'cause I have to. I think often politicians are full of shit, just my opinion. Sorry. I just ... I'm so jaded by them. But anyway, I just want to let you know that I am the co-founder and chief investment officer at [Sachem Cove 00:56:57] Partners, LLC, and due to industry regulations, I don't discuss any of Sachem Cove's funds on this podcast. And all the opinions expressed by the podcast participants are solely their own opinions, and do not necessarily reflect the opinions of Sachem Cover or its affiliates.

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