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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 a 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, December 10th, 2018. I'm back after a week of no podcast, which I'll go into in a couple of minutes, and explain what was going on. So, hope you had a good weekend. I missed last week's podcast, not because I was traveling, not because I didn't have anything to say, but because I kind of fell off my ladder putting up Christmas lights the weekend before.

Over the weekend, like I do every year, I put up my Christmas lights up in the front of the house, the back of the house, and I love to do it. No. I take that back. I try and get in the Christmas spirit and do it, because that's what you're supposed to do. I actually don't necessarily love doing it, but the kids love it, and so on and so forth.

So, I did it, and I think I mentioned on the podcast a couple of weeks ago ... I think I mentioned it. If I didn't, I'll tell the story, but a really close friend of mine, maybe going six weeks now, going back. Was in his garage up on a ladder, and he fell, and he shattered his wrist, broke his arm, compound fracture, has nerve damage, just a mess. And he's in his late 40s and he was saying, "What do I need this for?"

And then, right thereafter, I was up in my attic in our garage, and had some ladder issues, but going to work through it. So, I didn't think about it, and I was out, I was going to Home Depot to go get some more Christmas lights. Every year they just kind of disappear. Take them down, put them away to where I think I put them away, and then throughout the year ... I put them up in the

attic of my house. We have a big attic in the house with a lot of space, so it shouldn't be too hard to find, but it always seems that I'm missing something.

So, sure enough, I was missing an extension cord. I was missing that, so I went out into the car. I went to Home Depot, which by the way, I hate going there. I know the stock's done great, the whole thing. It's done wonderful, great story, Arthur Blank started it and all that, but going there, it's packed and trying to get someone to help you is impossible. It used to be different. It seems years ago I used to go and, be somebody there, whatever category, whatever department they were in, they would know it, and they would get you, they would be able to help you, because I'm a deer in the headlights when I'm in there.

You know, those who listen to the podcast know that I like to try and think I'm a DYI kind of guy. I'm not. I'm clueless, but I have tools, I have stuff. So, all my neighbors borrow stuff because I have it, but I typically am not good at doing stuff, but I have it and I try.

So, at Home Depot it seems that ... I don't know what it is, but lately I go there and I'm looking for a bolt, or I'm looking for whatever, and it's just, "Excuse me. Can I help you?" "Yeah. Be right with you." "Let me get somebody from that department." Then you wait ten minutes. You wait 15 minutes and you're roaming around and it just ... I dread going there.

But, it's where I go. And so, I was on my way to Home Depot, and I called my buddy, Mike, and I said, "Hey listen. I know you can't get on the ladder, because of your accident, and I'm putting up lights today, so if you want, I'll drive to you ... He lives about 15 minutes away. And I said, "And I'll do it." I said, "Look it. At your age, you shouldn't be on a ladder anyway, even after the accident." I was joking. I'm a few years older than him.

But, he said, "No. Thanks. You know, we're just going to do low-key this year for Christmas, and with the lights and stuff like that." I said, "Okay." So, sure enough, I come home, and I get everything laid out. I pick up what I need at Home Depot. I get stuff laid out, and I'm ready, and I have an extension ladder that I ... I don't know how big it is, but it's big. And I put up lights around the bushes, and everything's working, and I get to go on the ladder that I do every year, and I have my routine down now, and I extend the ladder. I make sure it's steady. I get up there, and I start to put the lights on and the ladder collapses.

And now I'm up probably 10 feet, and it was like slow motion. I didn't realize what had happened was the leg collapsed. One of the lower right ladder, that the leg just caved out. Don't know how that happened. So, I came down, banging my jaw, and I just ... like I see things flashing before me. And I turned backwards as the ladder was buckling and I came right down on my tailbone on my lower step, on the stoop.

And I sat there for a minute, and I ... It seemed like a minute. It was probably two seconds. And I thought, "Something's got to be broken. You know, my jaw just got hammered, and I've been hit in the face plenty playing hockey throughout my career, so it's not like I've never been hit in the face, so I understand what that feels like. But this was extra special.

And my tailbone, and my arm, and you know, on my road there's some cars going by, and so I pop up immediately and I'm like, "I'm okay. I'm okay," but I thought I had a broken something. I'm bleeding from ... I've got scrapes and cuts. Nothing broke, though.

But I don't know how I didn't shatter an arm, break my back, because it just landed ... It was thud. So much so, that my son, who was home, was playing his loud music, which is another rant one day with the crazy music these kids play. But he heard the ladder collapse. He heard everything. He heard it came down. Sure enough, I was okay, but I have to admit ... And I normally don't get shaken, but I was pretty shaken, especially when my buddy had just fallen, and I realized how badly he was hurt.

But, you know, you read people fall off of ladders and they die. And here I am, I never think of it. I have gutters that are up pretty high sometimes, and I'll be a little brave on that ladder, and if something's a little clogged or something.

So, that was Saturday, and I woke up Sunday and I felt like I got hit by a truck. I literally couldn't move. I was so sore ... Not the kind of sore you get after you had a great workout, but like something's-not-right sore.

And I said, "All right." So, I had some ice and stuff, and I took some Advil, and a lot of Advil, and it just kept getting worse. Sunday, Monday, and I'm not the kind to just go to the doctor, because I can move everything, but I, you know, you just get beat up sometimes.

And so Monday came, and then Monday started to come in. I

normally do this on Monday, and I started not to feel so good, like just the achiness, and I couldn't tell if it was like, sick achy or not. I had just been commenting to someone, said, "Hey. You know, I haven't had the flu in four or five years." Well, here it came.

So, I spent the entire week pretty much wrapped up with a flu. Couldn't get my head out of bed, and you know, I'd have my laptop with me to check in on stuff, but it was one of those weeks, just one of those crappy weeks. So, on Sunday night and Monday, I decided, "You know what? I'm just not going to do the podcast."

I didn't have a lot to say and you know, some weeks I don't have a lot to say, and but I still will think of things and I'll come on and say it. And somebody had asked me on Twitter, "Where were you?" I said, "You know, I was always told, 'If you don't have a lot to say, don't say it'"

And that's one of the things I've learned about doing a podcast and then in the last year doing the newsletter. You know, when you're on these routines, you want to come out and deliver content for people.

You know, because it's on a podcast, I get a ton of inbound email that's mostly very complimentary. Some tell me to go eat crow. But for the most part, you listeners, you look forward to it.

The hard part, though, is, as a professional investor for my entire career, one of the biggest things I learned to do sometimes, is nothing, is sometimes you just let things evolve. Sometimes you don't have a new idea. Sometimes you don't have anything that's interesting to say. Sometimes there are things that you're not sure of. And sometimes, just doing nothing is the best course of action. When you're doing a podcast on a weekly basis, or every month you're putting out something in a newsletter, you've got to come up with content.

So, that's new for me in this past year, and I'm evolving as I go, so to speak. So, anyway, the body feels better. Nothing was broken. My toes move. My fingers move. My back is still a little sore, but ah, that's okay. At my age, I've got a little something going on anywhere, and I figure ...

And needless to say, my buddy, I'll give a shout out to Mike. Could not stop laughing as though I was just busting his chops and I should be going to his house to do his Christmas lights and here I am falling off the ladder.

So, aside from that, a big week for me this weekend. Not only it was my daughter's 15th birthday, and had family over for a party for her, and so that was nice. It was great to see everyone. But we had a Jets win. Yep. They had lost six straight, and those of you who listen to the podcast know I am in search of a new NFL team, because I have officially given up on the Jets.

But even though I've given up on them, I still feel good when they win. It's so rare, right? So, it's that rare feeling. And to show you, like you think about like being a contrarian as I am, as I'm in my search for new teams, right, so you can go different directions. So, who's hot this year that hasn't ... You know, who's really starting to excel.

Obviously, the Texans have been playing well. The Rams are playing great, except last night they got rocked by the Bears, but you know. The Saints have been doing well. I'd say, what team is re-emerging, or doing really well? I don't go that way.

I've got to tell you, I'm leaning towards the Browns. One win, two years, all of a sudden they drafted Baker. Baker's coming back. Baker comes in. He's kind of gun-slinger. He's brash, says what's on his mind, doesn't stand on ceremony, doesn't give a crap what people think about him, just says it as he sees it, and here they are. I think they've won five games this year.

Now, it's not official yet, so I'm still going back and forth, but that's where it was. And another big sports thing in the world was, the Islanders played at the coliseum. I know. I got a lot of email because the Islanders, I mentioned that they were in first place early in the season. They're not now, of course.

And I knew that would happen, but you know, I think I have mentioned they've been playing at the Barclay's Center, which has just been dreadful. It's this grotesque arena for hockey. It's atrocious. Not only is it not five minutes from my house, like the Nassau Coliseum is, but it's in Brooklyn, which is great. Brooklyn's great, no slam on Brooklyn, but the Barclay's Center was made for concerts and basketball, not hockey. Looks like a minor-league hockey facility.

And the old barn, which was where they played for 40 years, the Nassau Veterans Memorial Coliseum, an absolute disaster of a modern-day athletic facility, of an arena, but it's where they won four Stanley Cups. It's where, in the end of the first and second period, you have to wait the entire period just to get into the

bathroom, or you're smushed trying to go get a hotdog. But it's the old barn.

And they hadn't been playing there the last three years. They went into Brooklyn. Attendance was 7,000, 8,000 a game. But what they decided to do this year is, they finally got approval to build a new arena here on Long Island, is they're playing half their home games at the coliseum.

And so, they played the Columbus Blue Jackets last weekend at the coliseum for their first regular-season game, back in three years. And for me, it was huge. You know, growing up as I did in the early 80s when the Islanders were winning all their Stanley Cups, I mean it was everything, right? Especially Canadians who were listening, you could appreciate the hockey, right?

We're such a small group, but when you're young, your hockey team is so much. It's so important. It was so much nostalgia, so much history, and when they went to the ... I felt like I lost a part of me when they went into Brooklyn and I went into the first game there. I thought, "Oh, my God."

So, they came back and the place was going absolutely bananas, and they were tailgating all day in the parking lot, and it was just a great experience. I didn't go to the game, but I watched it on TV, but I really felt ... I was like a kid. It was like, there's something about hockey, there's something about watching it, and the joy of it, and bringing back memories of youth, and you know, I'm a pretty nostalgic guy. I do. It's just me. I love nostalgia, and so it was a great time. They all just won, came back, played well. So, it was a lot of fun.

And then, speaking of nostalgia, if you are a fan of nostalgia, if you get like teary-eyed at joys of nostalgia, at memories, there was a commercial that I saw this weekend. It's on YouTube. You may have seen it, but it absolutely ... I can't stop playing it. It's a French telecom company. I'm going to destroy the pronunciation, called Bouygues. The spelling is B-O-U-Y-G-U-E-S, so for my French-Canadian friends, for my French friends, I apologize.

But it's called, Bouygues Christmas 2018. You can find it on YouTube. And it is just ... It's probably one of the top two or three commercials I've ever seen. It's about a ... especially being a father, and growing up without a father, this really hit me. But it's about a Dad, and it shows him putting in a cassette tape, so it takes you back to when his son was young. And he puts in

by Redbone, Come and Get Your Love, this song, and it was just fantastic.

And he puts the cassette in, and his little son is maybe a year, year and a half, sitting there, and there's the dad dancing to him. It's around Christmas time and he puts the tape in and he starts walking towards him and doing a dance. And then they fast-forward and they show the boy at maybe three or four years old, and he's out walking with his dad, and they go look at a storefront around Christmas time. In the storefront, coming out, is that same music, and on the street he starts dancing to the same music.

And then they fast-forward to ... the boy's maybe 13 or 14, in the car with his dad, and the music comes on, and the dad's dancing in the car. And the son, and now he's 13, he's looking at him like, "Okay, dad."

Then they fast-forward one more time and the boy's probably 19 or 20, and he and his dad are in a coffee shop, and it's around Christmas time. And in the coffee shop, the music comes on, and right in the middle of the coffee shop, the dad starts doing the exact same dance that he always does when that song comes on. And you can see the boy looking, and he goes, "Oh my God," like just looking down, like, "Stop, Dad."

Now, I can experience that now with my kids who are 13 and 15, where, you know, I'll do little things to embarrass them out in public, because I know ... It's just fun.

And then it fast-forwards to many years later, and they show the dad and the mom sitting on a couch, and it's Christmas time, and the phone starts ringing. And the dad walks over to the Christmas tree, and he picks up the package, and he opens it, and it's an iPhone or something from ... and it's his son calling.

And he answers it, and he says in French, "Hello, Dad. Merry Christmas," but the son has his own son in his hands, in his arms, and he starts playing the music, and the son starts dancing. And now they show the dad having the FaceTime talk with his son, who's much older now, but doing the same dance.

And it was just fabulous. So, if you get a chance, go take a look at it on YouTube, and I think you'll really enjoy it ... if you're nostalgic. If you're not, you'll say, "Mike, who cares?"

So, anyway, I've got my papers shuffling. Garrett, my sound

engineer, is probably going to say, "Mike, you're shuffling papers," but we're going to go with that.

So, anyway, let's talk about the markets. Tough sledding out there, right? So, if you're a listener of mine on the podcast, you know that I've been cautious, to say the least, from the beginning of the year, and at times I'll look smart for being cautious. At other times I've looked not so smart for being cautious.

But my message has been pretty much very steady throughout the year, which is, "We've had a heck of a run. It's been a nine-year bull market. Take some chips off the table. Know what you own. Batten down the hatches. Look at the valuation in your portfolio. Be prepared for things not to be so good."

And you know, I mentioned a number of the reasons why I thought that was happening. You know, we're starting to see the markets really start to get hit pretty hard, so you know, last week, I mean the S&P was down four and a half percent, and what was weighing on it was global growth concerns, right?

So, people are worried about growth and you know, earnings growth this coming year, 2019, is forecasted to be much lower than it has been, especially what it was in 2018, over 20%, and here you're going to be in the high single digits for next year.

And you've heard me talk about rate of change. People don't like the rate of change. They focus on a rate of change. So, rate of change, and it's going down, and so people are concerned about growth.

Obviously, US/China trade negotiations are weighing on the markets quite a bit, and you're seeing the yield curve flatten on the US Treasury yield curve, which we'll talk about in a minute.

But those are all weighed on stocks, the S&P down four and a half, the Dow was down four and a half, the Nasdaq was down five. The Russell 2000, the broader index, was down, oh, five and a half percent or so.

So, you know, you got a little reprieve when you had President Trump and Xi meet in Buenos Aires, where they said that they would take some time out on the trade wars. They set a March 1st deadline to resolve some major trading issues.

But, you know, the market had a relief rally on that. It was excited,

but then we said, "Wait a bit." People stepped back a bit and said, "You know, that's not too far. That's 90 days. It's not that big a deal." In the specter of increasing the tariff rate to 25% from 10% on $200 billion dollars' worth of Chinese goods if they can't reach a deal, that kind of weighed on investors' minds.

So, that last week was weighing on it, and then you had December 1st. Huawei Technologies' CFO, Meng Wanzhou, right, heightened those issues when she was arrested in Canada amid allegations that the company violated US trade sanctions on Iran. So, the Americans asked the Canadians to arrest her and extradite her, which created quite a bit of tension in the markets, and also amongst the Chinese population.

I mean, there was a real nationalism that came about, really, people very upset with what's going on right there. So, you know, it's pretty tricky right now. It's a very tricky time in the markets, and I think you've got to really be careful and focus on those things that are in your portfolio, and again, know what you own.

If you think about the worst performing sectors last week, financials were down seven percent. The Industrial stocks were off six. Material companies were down five percent. Really, the only two sectors that had any positive action, were the utilities ... Safe haven, right? ... and real estate.

But the rate-sensitive financial sectors really was undermined by the flattening yield curve, and that really started to weigh on investors in those sectors, because a flattening yield curve is seen to hurt a bank's profit margin, or the difference between the interest that they earned on the loans they make and the interest that they pay out.

So, that really started to weigh on investors segment, and the flattening yield curve means people see that growth is starting to slow, so that scared people. And with slowing economic growth concerns, you saw the transportation sector get hammered.

The Dow Jones Transportation Average was down eight percent on the week. American Airlines was down like, 15%, 16%, right, and it spread over to consumer. People are thinking about consumer space. Apple. Apple's down 20% since it released its numbers in October.

So, you're seeing the bigger cap tech stocks getting hammered, and so people are trying to reduce exposure there. Energy, which had

been pounded, right? I mean, some of these stocks have been down 30% or so, over the last month and a half or so. You know, they did a little bit better later in the week, right, because he saw OPEC and the producers agree to a production cut of 1.2 million barrels to address these weakening oil prices. And Russia was party to those production cuts, a major oil and gas producer.

But, tough sledding out there. So, I think you need to be really careful in your portfolio and start to think about, you know, how you're going to position yourself. If you haven't done so already, you know, it's never too late to start to review what you own. You don't want to panic and sell everything, but you want to really review what's going on there.

So, you know, back to the Trump trade deal, they're playing hardball. Trump appointed US Trade Representative, Robert Lighthizer, to lead the negotiations, and he's a China hardliner. And he's going to be leading these negotiations with Beijing, and he basically said, "Look," yesterday on the Sunday shows, "... if we don't get a satisfactory solution by the end of the 90-day period, we're slapping tariffs on $200 billion dollars' worth of goods. They're going to rise to 25%.

And so, that reaffirmed people and today it hit the markets, and the markets, as we speak, now are off one and a half percent or so. But, really, you know, China has ... You know, they've come out and said in the coming weeks they're going to be buying some soybeans, they're going to be buying some natural gas purchases, and they're trying to do what they think is in their best interest, but also trying to cooperate.

But, I mean, really, the heart of negotiations with what's going on right now, the real thorny issues, it's broader access for US companies to Chinese markets. The US wants prohibitions on intellectual property theft, which is a huge deal that the US companies are concerned with. And the US wants the Chinese to stop pressuring US firms to share their technology when doing business there, right, because their IP isn't protected.

So, you want to go there and do business, yet you worry about your secret sauce being stolen. So, it's a real big issue, and I don't know how they're going to work through that. We're going to see where that goes, but something to keep an eye on.

You know, you go overseas, it's tough sledding right now. I mean, just this morning, Theresa May, the British prime minister, she

aborted the planned vote on the Brexit deal, saying that it would be rejected by a big margin. So, she confirmed that this morning in a statement to the House of Commons, so a lot of uncertainty there.

The British pound got hammered on the news. It was down one and a half percent, or so, to an 18-month low of out one-spot-two-five to the dollar. So, there's more uncertainty there.

You're seeing uncertainty in France. You're seeing riots in France over the population, wanting higher minimum wages, wanting them to lower the fuel surcharges. Cost of living, it's tough, and you're seeing Macron really face a lot of unhappy citizens out taking to the streets with the yellow vests and it's really starting to spread.

So, it's something else to see your eye on, all right? Because we're all kind of interlinked right now. So, you know, you've got the UK economy really in tatters, or people really concerned about what's going to happen with Brexit. You have uncertainty about Brexit. You have the French revolting and wanting economic change.

So, tough sledding, fears of slowing growth here in the US. Wage pressure in the US wasn't as bad as people thought. It was up only modestly, and that's one of the things the Fed has been focused on.

So, just again, more signs for caution. And then, I mean, what can I say? Elon Musk on 60 Minutes last night. I don't even know where you go with this guy. I can't even get my head around the visionary, the genius, again, enough of that, please. He didn't find Tesla. He didn't invent space travel. He didn't invent the electric car. He used his pocketbook to get there. He used his checkbook to get there. He didn't name Tesla, right? The founders did. The laws don't apply to him. He believes he's above everything else, unlike anything I have ever seen.

Leslie Stahl interviewed him last night on 60 minutes and he basically gave the big middle finger to the SEC, and he said, "Let me be perfectly clear. I want to be clear. I do not respect the SEC." He just settled with them. They're supposed to be censoring or monitoring his tweets before he sent out, and he told Leslie, "No. No one's done that," and then he went on to talk about his First Amendment right. Hello, First Amendment. The only tweets, he said, would be reviewed, would be if a tweet had a probability of causing a movement in the stock. Well, what does he know? He could say whatever he wants. He doesn't know what's going to move the stock.

But he basically gave a big middle finger to the SEC, who had really treated him with kid gloves, and it's just staggering to me, and for me, again, I feel like he just thinks he's above the law. He's above decorum, and I understand he's a new-wave CEO. He's got all the cool things. He doesn't like titles. He's working on the factory floor. He's got all this stuff going on, right?

But at the end of the day ... You know, I live in a community ... You know my thesis on it, and for my newsletter subscribers, we got out before the last quarter was announced, made some money on the downside with the puts that we had purchased, and got out because I thought that the third quarter would be ... However they got there, they would make the numbers look good, and that's what they did.

But at the end of the day, you know, without getting into all the details, my thesis is, it's a niche car company that made a pretty cool SNX in the model 3, and yet ... I've driven in them, so I don't want to hear it. "Yeah, but have you ever driven one?" Yeah. I have, and I've been in them, so yeah. I know they go really fast and a lot of people who've never driven an electric car, you first get in there, and you're like, "Oh my God. This is unbelievable."

But, I don't think the Model 3 will be a major car. I think these are for upper middle class folks who can afford to the Model X and the Model S, and I think Model 3 will face its competitive threats down the road as we go. And yes, I know all bulls are going to say, "Okay, but Elon is going to make sure it works," and the Porsche and the Jaguar aren't competition at all, and Elon doesn't view them as that. I get it.

We won't get into the whole reason, but at the end of the day, I live in a pretty affluent community here on Long Island, and it's about 20,000 people in our village, and you know, I'm dad who's driving kids all over all the time. I'm shuffling them from Point A to Point B and in a couple of years, I've seen probably four or five Teslas. None of my peers in my community, I don't see them. Sorry, folks. I see ICE's everywhere. Some people get it. You know, they want a car, but I see a handful of them. And I think the S and the X are great cars, but it's not mainstream. It's niche vehicles for wealthy folks, and when those subsidies go away, good luck.

But that is what it is, right? It's bullish and bearish, and bullish and bearish, and you could have your point of view, but the arrogance, the way this guy comports himself, is unlike any leader I've ever seen. The numbers don't matter. The rules don't matter.

He'll make it up as he goes. He'll say whatever he wants to say. He's okay to be protected by the First Amendment. It's okay for him to say whatever he wants with a tweet, but for those who follow on Twitter ... It wasn't okay for Montana skeptic to come out and be skeptical of him, and do analysis. He had to go call his boss, right?

He didn't like the guy making fun of his cave vehicles, so he had to go call him a pedo. If anyone has anything critical to say, he's got to go try and dox them and out them and have people going out and doing this stuff for him. But, he's protected under the First Amendment.

Interesting to see. It was an interesting interview. If you haven't seen it, go look at the 60 Minutes interview. Enough about him. I've wasted enough breath on him. We'll see how that plays out over time. He's had it going for a long time, and we'll see how long it could go, but I am just quite skeptical.

So, I get asked a lot. Everyone knows me as like, Mr. Uranium. So, I'm not Mr. Uranium. I have an investment vehicle that invests in uranium companies, a firm that does that. However, I like deeply cyclical industries. I like industries that are highly dependent, where supply and demand can swing, and I love opaque industries, where information isn't readily available.

And I get asked a lot, "What else do you like?" And when I focus on something, I'm really pretty deeply focused, right? So, in the world of deeply cyclicals, uranium's had my heart for the last period of time, and it will for quite some time.

But I also look at some other things, and one of the things that ... Some of the stuff I read, I like reading Peter Sainsbury's Material Risks website. I've had Peter on the podcast a couple of times. I think he does really nice work on deeply cyclical industries. He's looking for things that are either at extreme lows or at extreme highs.

You need a contrarian approach in those industries and he wrote a story back in July that caught my attention. In this past week, with my laying in bed, and I was going through some stuff, I read another thing he had put out and I don't have a view on it, but people ask, "What else are you looking at?"

So, one of the industries that has caught my attention, that I think is intriguing and worthy of more investigation, is the potash

industry. So, again, it's fallen out of favor, and Peter's brought it to light, and I think it's worth the read. You know, phosphorus, nitrogen, and potash. Those are really the three nutrients which are used in the production of fertilizers, and they're used in different proportions according to the nature of the crops and the soil types.

And gosh, going back a handful of years now, my team and I spent a good portion of our summer out in the Midwest in the farm belt, visiting with farmers all over the Midwest, really understanding the farm cycle, the crop cycle, understanding the phosphorus, nitrogen, potash, understanding the seeds that they were using, and it was really just a tremendous education for the amount of time that we spent there.

And so, I've always kept a little eye on it, but you know, things come and go. But potash is interesting. It really is used to strengthen the plant roots, and it boosts drought resistance.

Now, it has an interesting backstory, though. If you go back, prices started to really rip higher in early 2007. They were in the 170-ish dollar-per-ton range, and by the end of '07, they had hit almost $900 a ton. And really, for them it was a perfect storm. I mean, there was a huge imbalance between really tight supply and at the time, really expanding demand.

You had demand for biofuels in the US, Brazil, and Europe, and then you had much higher livestock production, which created more demand for grains, and thus more demand for fertilizers, and grain reserves at that time were really historically low. So, prices rose really sharply.

And then, you had what really created this perfect storm and worsened the situation, was China imposed high tariffs on fertilizer exports. And then you had the devaluation of the US dollar in '07 and '08. So, it really created an environment for really high fertilizer prices.

And then the recession came, and you saw just huge demand destruction, and phosphorus and nitrogen reacted quickly. Prices imploded. But potash prices still were pretty strong, because you still had somewhat of a shortage, and there was difficulties in transporting some Russian potash, because there was a giant sinkhole near one of its silva net mines. So, you had unusual circumstances that kept prices higher.

But in any commodity industry, high prices attract new businesses, and it did in potash. I mean, you had mining companies like BHP, and other entrants, developing new projects to bring on new supplies of potash, while ... and it takes a while to bring these online, right? But while demand was waning, you had the global financial crisis, so you saw prices that were up at, approaching $900 bucks a ton. Two years later, it was sitting at about $300 bucks a ton.

Had a little bit of a rebound, but then they kind of gradually settled into about $200 bucks a ton, while all this new production was coming online, right? So, you had weak crop prices playing a big part in the fertilizer price and potash price going down. Weather conditions at the time were pretty benign. You had genetic engineering of crops resulting in record yields, causing huge global grain inventories.

So, you've got weak agricultural commodity prices, which reduces the need and the ability of farmers to pay for it, right, because it's a big input for them. And then you had the exchange rate of these large agricultural producers versus the US dollar, exacerbate that impact. You saw the drop in the Brazilian Real, which made it more expensive for farmers to import fertilizer.

And so, that started this downward spiral in prices. So, now you're in like, '09 time period, and they've remained weak because you've had this breakdown of this long-standing supply agreement.

And the potash industry is really interesting, very interesting, because it's really been characterized over the years by cartel arrangements between major producing and exporting countries. The Germans at one point had a monopoly on the export market, and they restricted production along with France.

And recently, in more recent times, the market's been dominated by a production agreement between Russia and Belarus. Now the Belarusian company, which was called, Belaruskali, and the Russian group, Uralkali, they had a cartel known as the Belarusian Potash Company, BPC.

And then in mid '13, that ended, and the Russians said they were leaving the cartel to increase its market share, and as you would expect, the Belarusians responded and said, "Well, we're going to do the same, and we're going to go on a very aggressive pricing strategy," and they signed deals with China and the US at levels that would really hurt competition.

So, you had pricing competition, excess supply, all the things that lead to prices staying low. And then on the buying side, India, a huge consumer, they had to import all their potash from China, all their potash. I'm sorry. And China imports about half its requirements.

So, China has 20% of the world's population, but only 10% of its arable land, right, so they want to keep potash prices down. And as prices were falling for potash, it became a buyer's market, right? So, China used to have power to keep getting better pricing and pounding for discounts, and you saw a lot of that happening.

So, as typically what happens, what's the old saying? Cure for low prices is what? Low prices. What's attracted me to uranium? What attracts me to uranium is when production costs are higher than selling costs. What attracted me to uranium was the opaqueness of the market. The potash market is incredibly opaque.

So, steepening production cost curves, opaque markets, and then the things I really like, are supply discipline, right? So, when you think about the longer-term story outlook ... You've heard forever people say, "Well, you've got this growing rural population increasing demand for protein-based food, right, structural factors why grain prices should go higher," right?

And so, the demand side, absent another financial crisis, is pretty solid. But on the supply side, my favorite thing to look at in these cyclical industries, is looking for supply discipline, which attracted me to uranium, right?

I knew ... Not knew, but I speculated ... Excuse me ... back a year and a half ago when I started speaking publicly about it, that if it costs $40 to $50 bucks to pull something out of the ground, and you're selling it for half of that, well, eventually, supply discipline's got to come into play, or else you're going to get a whole new set of management teams.

And fast-forward, that's what we've seen. So, one of the best signs of commodity market that close to finding a floor, is supply discipline. You moth-ball mines. You want to take supply out of the market.

Glencore did that in zinc back in 2015. They took a third of its zinc out of the market. We've seen it with Cameco, right? Shut down the McArthur River and Key Lake uranium mines.

You're starting to see that now in potash, and Peter brings that point out. In late 2017, Canada idled two of its mines for about two months, while also reducing production at one of the most profitable mines. So, you're starting to see that.

Now, one of the things that needs more investigation is new supply. What new capacity is coming online? Now, one of the things I like about uranium is the price sitting in the high 20s now. You know, those who are cautious will say, "Well, at $40 or $45 dollars, all this new supply is going to be coming back online that's been curtailed and moth-balled."

I'm not in that camp, but some will. Some will. But when you lay out the supply/demand numbers, there's a big gap that's going to be needed with future new projects coming online, and may coming online, unless prices get well north of $50 a pound. Again, we were in the high 20s today.

In the world of potash, there is potentially some new supply coming online later this year in Canada and Russia, although Peter points out, there's a history of these big greenfield projects taking much longer to commission and ramp up.

And then you have these sudden supply shocks that occur in these industries and in potash, it happened. In 2006, Uralkali, the Russian potash company, they lost a mine after a sinkhole wider than a hundred meters opened above the site. And then in 2014, there was a flood that boosted prices. So, some of these things come out of nowhere. It's what happens in these things.

But when supply is being curtailed, you can't have accidents like this. You get these supply shocks.

So, Peter points out that Goldman Sachs was saying that the removal of just one of Belaruskali's mines would take four percent of global production out. He then goes on to highlight that you're seeing a steepening production cost curve.

So, you've got supply discipline coming in. You have a steepening production cost curve. You have an opaque market. The reason I like the opaque markets is, if you dive down and do deep due-diligence on it, don't assume that it's an efficient market in the equity markets, that these things get priced in. Because when you've gone through a really elongated bear market, you start to lose interest amongst investors. You start to lose interest amongst bankers. You start to lose interest amongst the research analysts

who are covering the industry. And you start to see these changes occur underneath the surface, if you're looking.

And when the information isn't easy to obtain, you've got to go dig, and go through reports, and read hundreds and hundreds, and thousands of pages, and try and get your head around it. You know what? A lot of times institutional investors, they'll go find something else that's not as complicated. And that's where sometimes things are really taking place.

So, you know, the potash market is one that I think is worthy of further investigation for those of you that are inclined. Typically, I know my listeners are more of those who are natural resource, and/or deep cyclical value investors, because if you're looking for other information from me, you don't get it, so you wouldn't be listening.

So, it is one to take a look at. It's starting to exhibit some of the signs of a market that's been in a long bear market, starting to cure, and starting to heal, and I think it's worth us spending some time taking a look at.

And again, you can go to Peter. Peter's done a really nice job. Peter Sainsbury, materials-risk.com, materials-dash-risk.com. And I didn't tell Peter I was going to be talking about this, so he'll probably why he's getting a lot of hits on the website.

One other thing that has really caught my attention this past week while I was catching up on some reading was ... and stuff I've known about, but I think I kind of didn't really pay as much attention to this ... was the ... Back in October when Connecticut Democratic Senator Chris Murphy, and Republican Wisconsin Senator Ron Johnson, introduced a bill, The European Energy, Security, and Diversification Act, to provide new tools for the United States to combat Russian influence and create economic opportunities at home and abroad.

And it went on to talk about Russia using its dominance of the energy markets along with ... according to the press release from both senators, their quote, not mine ... Bribery, corruption, propaganda to undermine western institutions and install pliant governments that are unable or unwilling to counter Russia or its president, Vladimir Putin. European Energy, Security, and Diversification Act will authorize a billion in US financing for European energy projects, paired with increased diplomatic and technical support to help diversify Europe's energy supply and decrease Russia's hold on the region.

They go on to say that Russia has the means to coerce political behavior in nations that are dependent upon its energy. It has demonstrated its will to do so. And they have, right? You know it's gone on in Ukraine, and it's really where they've pulled that lever, but they can in other parts of Europe, because so much natural gas goes from them.

Now, that's fascinating, right? I don't think anyone listening here will be surprised that Russia is using their political influence, their energy, to influence geopolitics.

Funny. Kind of sounds like uranium, doesn't it? Those who are not sick of hearing me talk about it, the Russians, the Cossacks, and the Uzbeks, provide anywhere from 35% to over 40%, depending on the year, of the uranium that powers the nuclear power fleet in the US, which comprises 20% of the US electric grid.

And there is a Section 232 filing that was brought upon by Energy Fuels and Ur-Energy, the two producing US miners, who petitioned the Department of Commerce on the grounds of national security, to institute quotas on how much the US utilities should be buying uranium from US miners. For those not familiar with it, nuclear power in the United States, as I said, is 20% of the electric grid, so it lights one out of every five homes and businesses.

It consumes about 50 million pounds of uranium in those reactors every year to do that. The US produces a little over a million pounds per year, so the US imports over 98% of its uranium from foreign sources, and 35% to 40% of those are those that would be considered not having the US's best interest at heart.

So, it's fascinating that Senators Murphy and Johnson co-sponsored bill that's bipartisan to aid European energy security, yet the United States, until Section 232 was filed by those two companies, I don't think more than a handful of people would've known A, that nuclear power is one-fifth of the electric grid, or B, even gave it a second thought where that uranium was coming in to power those nuclear power plants.

So, I think it's fascinating we are concerned about our friends in Europe and that Russians don't get too much of an influence over them, but see, uranium is even more exciting. Because not only did the US have to worry about the Russians having influence over their uranium supplies, but add another political power, or another geopolitical power, add China to that mix.

Both China and Russia have leap-frogged the United States in its nuclear power development. They use nuclear power as a tool to exert political influence over countries. Now those of us in the western world, those of us in the US, or Canada, or Australia, they don't want it. In Europe, nuclear power is not in a really growth phase. But in the emerging world, it's quite a grower and net-net. When you add out closures and you add back the new constructions, and the new reactors hitting the grid, it's a growing industry, nuclear power. It's clean. It's carbon free, and it's safe. Yep. I said it. It's safe. Deal with that.

But, the United States basically has no nuclear fuel cycle. And why does that matter? Because if you think about nuclear technology, the ability to extract uranium from the ground is one thing, but then you have the ability to enrich uranium, that's where you worry about proliferation. That's where you worry about the bad guys getting their hands on enriched uranium.

Now, uranium coming out of the ground isn't fissile. It's got to go through an enrichment process, and you enrich it up to about three percent, four percent for nuclear power, and for bombs you need it 85% plus.

But, if you are Russia or China, they have a very interesting strategy. So, the US has let their nuclear power, their nuclear fuel cycle, implode. We import 98% of our uranium. We only have one conversion plant that's now shuttered temporarily because of pricing. We don't have any domestically-owned enrichment capabilities in the United States. Urenco, which is owned by the Dutch and English, have a plant in New Mexico, but the United States doesn't own it.

And so, when you think about why nuclear power is one thing, but when you are a country that wants to get nuclear power, that can lead to other things. It can lead to research and development and enrichment for nuclear weaponry.

Now, as the world leader nuclear power supplier, the US, it's 30% of the global electricity, of global nuclear power, 20% of the US grid. By not being a significant player in the nuclear fuel cycle, it allows other countries to exert their nuclear technology influence over those countries that want to use nuclear power, either to power their homes and businesses, or for another agenda to maybe get a nuclear weapon.

So, the Russians and Chinese have stepped up and they have used

nuclear power as a tool. And what do I mean by that? They will go to countries that want to put in nuclear power, and they will offer to finance the reactors.

"We'll give you the six, eight, ten billion dollars, charge you a reasonable rate of interest. We'll provide the uranium that comes out of the ground. We'll provide all the services that go along with it. We'll convert it to UF6." It's a liquid gas. It's a gas. "Then we'll provide you the enrichment services. And then we will help you operate them for a period of time, if you'd like."

So, we will ... They, Russia and China ... are vertically integrating the nuclear fuel cycle. So, whether it's the Saudis, the UAE, or the other emerging economies, Bangladesh, or India, that wants these reactors, they will go and offer to finance these.

So now, they don't have to buy their technology from the United States. They don't have to buy the uranium. They can't buy the enrichment. So, why not finance the whole kit and caboodle with them, and oh, by the way. In the course of doing so, they exert tremendous influence over these countries.

You bring countries into ... You bring hundreds of thousands and millions of people onto the electric grid because of nuclear power, you're going to be somewhat beholden to those countries that are providing you all of the financing and all of the supply of all the materials that you need to do it.

And the US doesn't have it. They don't. So, the US miners are asking the Department of Commerce to recommend to President Trump that he make US nuclear power plants buy 25% of their uranium from miners to keep them in business. And their argument is, "Hey, look. Kazakhstan, which is 40% of world production, has much lower costs. They don't have the remediation concerns. They use tremendously low-cost labor. The environmental concerns aren't a big deal to them. So, they're flooding the market with cheap uranium."

So, here we are, concerned about our friends in Europe and making sure they're not dependent on Russia, when in our own backyard, guess what? Now, you could say Kazakhstan is independent of Russia. Well, no, they are not part of the Soviet Union anymore, which does not exist, but there certainly is cooperation and influence from Moscow there.

So, just something that I thought was interesting and to keep

your eye on. Section 232. You know, I've been investing for many decades, and I know that you can't rely on a government to do what you think is the right thing. There is a camp that says it is a 100% no-brainer. The Department of Commerce will recommend that Section 232 is instituted. 25% gets bought.

Well, on paper you can make that argument. But who knows what happens with the back-room horse trading and what takes place. I think something gets done. I think something gets done to some degree. But, I think there's not enough outrage. There's not enough concern. Obviously, the utilities don't want higher prices. And the utilities have been very smart. The utilities have not bought uranium on any meaningful size long-term contracts for many years now. They buy seven, ten-year contracts, and they bought at the peak last time in '06, '07. They were loading up when pricing was going through the roof, up to $137 bucks a pound. Remember today, it sits at 29.

But those contracts are running off now. The contracts are running off at a period of time where the cost to produce it is much higher than the cost a uranium mining company can sell it, and there you've seen supply destruction take place, right?

I think it is something ... There's not enough in the US. There's not enough awareness about A, how big nuclear power is, and B, what a precarious position we're in.

But, let's go help the Europeans to make sure they're not dependent on Russia. So, let's see how that works out.

Anyway, that's my little bit on uranium today. So, that's about it from me. Been one hour. That's a record. No interviews today. I just wanted to ramble a little bit. I'll have pretty interesting guests for next week.

Hope you have a good week. Stay cautious out there. I'm not seeing anything that's ... but who knows? Things come out of left field, but I continue my theme of, just be cautious and make sure that you know what you own.

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