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 sits 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: It's Monday, January 28th, 2019. Thanks for listening. Hope your weekend was as relaxing as mine was. Started off at my Friday night hockey game at a 11:15 to 1:15. Had a buddy of mine who came and joined in. I played open hockey, so it's not part of a league, this is just 11:15 to 1:15. Just a bunch of guys, 15-20 guys, hopefully more sometimes. We always have a couple of goalies at an old indoor rink that we play and it's 90 minutes running time and the first half hour just skating around, just a bunch of 40 to 55 year old guys trying to get loose.

With the occasional 20-30 year old that comes down in place. But stopped playing in the house leagues and all that stuff for a while ago. But it might came down who plays twice a week. He plays at a ... it's a country club for hockey that's out here and I don't belong here. He plays and organize leagues with the uniforms and everything. But a good hockey player, a good buddy of mine.

He came down and played and he texted me at about 9:45. He said "Hey, I want to come stake.", I said "Great, see you there." And at that time, when he texted, I was stretching so I was watching I think, the skills competition of the NHL All-Star game. And so I leave my house at about 10:40 because it's a 10 minute ride, 15 minute ride. And what I've noticed going back now for a while is it reminds me of the movie Top Gun when Maverick went out and saved Iceman, I'm sorry, who was it in the very beginning.

Maverick, in the first, in the opening he went out ... His buddy freaked out and he went out and brought him back onto the carrier. I just can't remember what his call signal was, and then Maverick and Goose get called into the commander's office. And he says "Your mind is writing checks your body can't cash." Well, I

realized not a long time ago that my body and my mind is writing checks playing hockey that my body can't cash.

So what I do now is couple hours before I'm going to go play, I'm stretching and my back, my legs, I'm doing everything and my wife looks at me and says "What do you think? You're playing in the NHL? You spend two hours on the floor stretching while you're watching hockey or something? Well, what am I going to do?" So played the usual game and by the end when you're playing there's not a lot of guys on the bench so you're just constantly in and it's 90 minutes running time is just brutal.

By the end, my body is just shot, but it feels great though, you're like you're on that high because you're just so wiped out. So by the time I get home, and by the time I unwind, it's 3:30 and 4 o'clock and I'm going to bed. I get home at 1:45 and maybe 2 if you stuck around and talked to the guys for a little bit, and then you're all jacked up. So you're just playing, I'm just trying to unwind. So by the time I get up Saturday, it's I don't know, 10 o'clock or so, and then I just did my normal puttering and it was a nice relaxing weekend.

Anyway, my cousin who lives in Tucson texted me Saturday and she said "Have you seen the new Sebastian Maniscalco comedy show on Netflix?", I said "No." And so Sebastian Maniscalco was born and raised in Chicago, I think Arlington Heights, Illinois. Chicago and New York, very similar. You have your bunch of characters and stuff, and he's Italian and he's a very funny comedian. And I've been watching him for years now.

But I didn't even know he had a new show out, and so my cousin said "You should watch it." So last night my wife and I watched it. It's one of these where once I get going with the laugh, it's done, and it's very funny because Sebastian Maniscalco is a ... he was raised in an Italian household and with his parents and his grandparents and he talks about his childhood, how it was so funny that he was ... everything in their household was yelling.

It was about there was no conversation, there's no touchy-feely. It was about food, and it was about yelling. A very close-minded childhood, his parents were in, and for those of you who have listened, and if you haven't listened. I was raised by my Italian grandparents. My mom and I, my dad I didn't really know. My mom and I for a time I was up until about seven lived with my grandparents when my mom passed away.

So I was raised by my grandparents who were salt of the earth people. Not educated, I think they only have up to 7th grade, and my grandfather was longshoreman, my grandmother was a seamstress. Most important thing was having clean clothes and food. That was topic of everything, and my grandmother is a phenomenal Italian cook. But there was no discussion. There were no conversations. There was no talk of the world and current events. I didn't even know that stuff existed.

And the way things were happening was yelling. It wasn't ... it was like yelling out of love. It was just everything and if you watch Sebastian Maniscalco. He tells the story, and as I'm watching it. It was just like his childhood was very similar to mine. But not a lot of open-mindedness and as I have progressed throughout my adult years and in my profession throughout the years as a hedge fund analyst, later on a PM, and then a partner, and all that stuff.

Hidden in my somewhere and I never knew it, but was this voracious appetite for understanding the world and understanding geopolitics and it really was something that just resonated with me, and I became a voracious reader and watcher of documentaries, just trying to educate myself for all the stuff I didn't do when I was a student just getting by throughout all my years of education until towards the end of my college years, my second go round.

But it was something that I've always followed and I think you've heard me say I'm a big John Batchelor fan on WABC radio out of New York, but he syndicated and I've been listening to him since 2001 and for me it was like a master's in geopolitics, it's still is. I don't think I've missed a part of his, I missed parts but not a day that goes by that I don't listen to a John Batchelor radio program either live or in podcast form because he has a podcast.

But it's just been something that's been a very important part of my education over the last 18 years I guess now. And he has several guests on it that I liked and one of them is professor Stephen Cohen who was a professor at Princeton and NYU and on Russian studies. He's just really a fascinating figure and I actually went to go see him. My friend, Mark, called me up. Said he had some tickets and I went and saw him this week and I'm going to talk about that in a minute.

He just wrote a book called War with Russia: From Putin and Ukraine to Trump and Russiagate. That I think is very interesting so we'll talk about that in a minute. But he had a guest on this week that I was listening to called Gregory Copley and he's the

editor and publisher of Defense and Foreign Affairs and he has a new book called out Sovereignty. And the topic, was fascinating. It was about short-termism and long-termism.

About strategically thinking short-term versus long-term for governments and nations and how they think about things, and it's as I equate that to investing, I think about the such short-term nature of everything and I understand, look, you have to change and adapt. But in the US financial markets, or financial markets around the world but specifically the US, you have the quarterly reporting and the game is beat estimates and try and raise estimates.

But everything is focused on the short-term. If you think about how complicated it is to run your life or run your business or run your ... if you own your own business or you work as part of a bigger organization, nothing is down to the penny every three months. Things change, they happen all the time, and I don't know where this all started. This just focus on every quarter. I think back when I started in the middle-ish, latter part of the '90s in the investing world.

Information moved slower. Didn't have the Internet at your fingertips like you do, you didn't have the emails. They were there but it wasn't as prevalent. We used to use Fax machines and stuff. I'd have to go to the New York library and get copies of annual reports. I'd have to call companies and ask them to email me annual reports and I'd get them in the mail and it was exciting. I'd spend my weekend reading those annual reports. Hard copy, quarterly reports, hard copy. Everything wasn't right there.

While you could say wow that was like the horse and buggy days. Information wasn't just so there and people processing it so quickly, and I'm not a big fan of the financial media on TV. In my office, I have a TV in front of me. I rarely turn it on except when I want to see, just say okay what are they saying about a certain topic. I have a Bloomberg Terminal, I see what's going on in the world. I'm reading the news and stuff like that.

But I stay current reading my own stuff. My own, the source of information that I use to help me out. But I had it on this morning. I wanted to see because I was listening to Gregory and John talk last night. I don't know if it was recorded last night, but on a podcast about short-termism versus long-termism. I set out short-termism, let's see what CNBC is saying. And I turn it on, and there they are, the anchors, breaking news.

Talking about Caterpillar's earnings, and I get such a, breaking news. Company reports earnings, it's breaking news, and the anchors are reading it on the fly, right there, reading about Caterpillar, and they're talking about it, and they're looking at it and someone fed them I'm sure what the estimates were, they're reading some site that told them what the estimates were.

As they go and they're reading through it. I think Caterpillar, I don't know about market cap, but tens of billions of dollars. A global machinery company, and here are folks who are not expert at Caterpillar. They would be onto the next company in 62 seconds whenever the next segment is, and they're talking about it, and they're [inaudible] on it.

They're telling you about what it is. They're trying to tell you the importance of it, and then they bring out another expert who says this. This another guy who says I don't own it, but it's a cheap stock. It's a cheap stock. Straining at 11 times earnings. Got eight billion in cash, free cash flow yield. What value that does that add? It's cheap stock. Because its PE ratio is low?

First of all, it's a deeply cyclical company. This isn't about Caterpillar. That adds value by saying it's a cheap stock. Everyone could see what the valuation is. The next person comes up and says well, the risk reward is not as attractive because the stocks rallied 20%, so there's not, it's not attractive here or as attractive as it could be. Well, what does that mean? That's the price. Price is what you pay. Value is what you get.

So here you are in this little vignette, this little 60 seconds. You have a couple anchors, who don't follow the company, giving you up to date information or breaking news and maybe what it means, and you have another guy who doesn't own it but it's cheap, and then you have someone else saying, well that's not a really great risk reward. That was a complete waste of time. It was a waste of breath. But it feeds into what this market has become short-term.

So all about the short-term. That's what's so important. And I talk a fair amount about geopolitics and I spent a lot of time with my subscriber's on a podcast I did for them about the role of geopolitics in investing. And I think there are a lot of parallels that you could draw between geopolitical strategy and investing. There is a distinction between the short-termism and long-termism when it comes to really questions of strategy and the strength for the great powers of the world.

We think about the US, it's all about short-termism. And if you think about just how things change so quickly and the short-term nature and immediate gratification, it influences policies. Over time, you could say well that kind of puts you in a weak position thinking short-term. It's really when you're thinking about strategy and I know how companies think about strategy. It's about the long-term and companies are trying to balance what's best for the long-term with having to meet earnings to the penny over three month period with anything could have happened.

A few customers pushed out in order. The cost of goods went up near-term. That's get influenced dramatically. It could dramatically influence stock price. But when you think about what strategy, you have to think long-term. Where do you want to take your country? Where do you want to take your company? You had to find goals into this indefinite future. Strategy, it's more than short-term trends. It's more than short-term issues. It's more than short-term problems.

And when you have a longer term strategy, you then become active. You control the narrative when you're focused just on the short-term, you're really focusing on reactiveness. You're reacting towards taking place because you've got to serve a different God in this world. It's the investing gods. But companies need to try and look beyond really what the immediate short-term issues are for what's the greater good. It's hard to do. There are some companies that can do it.

Right, you think about what countries want to do. Countries want to take the narrative, create the narrative, control the events. Short-term where you control the events, you don't necessarily know where it's going to go on the short-term. But it helps you come up with the strategic plan. And as you see, as people become more and more short-term in your thinking then you're guided by all these day to day activities, quarterly reports, how did we do this quarter?

Now it's hard because in the US, and it's starting to happen elsewhere. Shareholders don't want to wait. No one's really looking at the future. They're worried about the immediate time. Corporate managers. How's it going to affect my bonus? Am I going to get my raise? Am I going to get my next job promotion? Now when you think about it though. So we think the US, other Western countries think about the next fiscal quarter.

Think about who our global competitor is. China, they think in

terms of the next century. The next 50, the next 100 years. That's how they're thinking. I think about the world of uranium. They're not thinking about 20, there's a great debate, all the Chinese is going to start their reactors, and they haven't done it in 18 months right. But they've got tens of them that have come online recently and under construction, and they've got a lot of uranium stockpiles. Because they're not thinking about the average US utility or Western utility holds two to three years.

They want to hold decades of it. They're thinking about where are we going to be 50 to 100 years from now. And if you think about the great powers, they're built on this long-term sense of who we are? Where we want to go? What's our vision? Based on who they are, what's their identity? Based on their belief in their own culture, their history, their ability to trade.

If you think about global economies, who are globalists? Globalists typically are urban in the US and Europe, and then who are the nationalists? Close the walls, protect the border, who? They're more rural, driven more by this identity. You've heard me talk a lot about populism and the rise of populism around the world. Globalists think in terms of no borders, it's one big planet.

But as the world becomes, especially in investing world, because the series of short-term events. As Greg Copley says, globalists is a concept that's really viable in times of peace and plenty. And then when you don't have peace and plenty, then you don't really think in terms of being global. You tend to see a rise in nationalism, and he talks about realities, history, it's cyclical. And in all stages, there are dislocations.

Where there's an adverse power, the economy collapses. And when you tend to see those things, people will become defensive and they scramble for their own interest, and you see time and again through history, and there's this divisiveness. You can look all around. Look around western Europe. You're seeing it here in the US. You're seeing this rise in nationalism.

So when you think about globalism. You have to ask yourself. That is it sustained indefinitely? [John Paltrow 00:21:50] threw in a great line. He said yeah, the kind of trees grow to the heaven type of thinking. He talked about being in for nasty surprise. Talked about the late 19th and 20th century. You had this big rise in populism and this industrial revolution, and all this stuff happened, but people weren't prepared for what was next, World War One.

And so when you think about investing. You think about companies that you're investing in. How are they preparing themselves as if it were, they have a Chinese mentality. We're thinking of the next 50 to 100 years. Even the Chinese have been caught up in this short-termism lately. Deng Xiaoping, he recognize that the utopianism of Maoism is a complete and utter failure and then they've moved it along. Moved onto still communist, but they needed to generate an economy that was a market economy.

Once that happen, it became like a drug. And then as that started to evolve, the communist party had to give freedom to the Chinese population to trade, to go buy stuff, they became enormous consumers and producers and then they just became like a Western market economy. But they started to build this huge economy growing really fast because that's how you get to become a global power. But now what's going on there is President Xi is trying to ran that all in. Because it's kind of hurting them strategically.

They're under attacked, with what's going on with the US trade wars. They don't want to lose control of population. They don't want to lose control of the economy. He's trying to keep the economy viable. But what he's trying to do really is reverse this short-termism that came along with becoming addicted to consumption and production just like all these western economies.

It's bringing them back to the sense of identity, and bringing a communist party back to it, a sense of nationalism. If you think of what's going on in Russia, there's a huge move towards nationalism. Russia is really from strategic standpoint doing quite well, the economy is better, and agriculturally world-class technology, defense capabilities very, very good. They really reduced their dependency on just natural resources, in oil and gas.

It's interesting from a standpoint of who does Russia align themselves with and that right because they've got the US and China. If you think about to the first Cold War, you have this Chinese-Soviet split. Not now, now the anti-Russian sentiment here in the US is driving the Russians into China's arms, and they're stepping back and waiting to see if the US or China dominate globally, who's going to come out?

Russia's strategy is to be the last man standing. They want to be a great power again and they're very, very smart, very shrewd strategic thinkers, they overcome a lot in the last couple of decades. I think about it in the world of uranium. I've said this, when I spoke publicly in June of '17, I talked about the geopolitical

tool of energy that both China and Russia use, but Russia in particular in the world of nuclear power and how they are using their dominance in reactor building and financing reactors in all stages of field cycle, buying mines globally.

Their affiliation, their natural affiliation with Kazakhstan, the largest producer of uranium in the world. Strategically, talk about thinking long-term. In the United States, the larger consumer of nuclear power in the world, about 30% of nuclear power is consumed here, it's 20% of the US electric grid. The US has gone from producing almost all of its own needs for its 50 million pounds of uranium to fill the nuclear reactors, to fill the nuclear navy, to make the bombs.

We're self-sufficient. They could mine it. They could convert it. They could enrich it. So take you need, it needs to be enriched. Fabricated, and then put it into reactors. Today, they're producing million pounds. They use 50. What kind of strategic thinking was that? Which short-term narrow-mindedness went into letting your entire nuclear fuel cycle, something so critical to national security fall by the wayside, how'd that happen?

They want to play the long game. Not by any stretch of the imagination. So, look as investors, you're looking at your portfolio every day, every week, every month. One of the things I really try and do is not pay that much attention to the prices every day because the prices will move based on sentiment. The prices will move based on near-term events. But what you're looking for is companies, industries, where there's inflection points or companies where they have a long-term strategy, and occasionally you're going to have a hiccup there.

So as when you're thinking from an investment standpoint, and again this podcast is not for institutional investors, this is for retail investors. So just like long-term or short-term strategic thinking plays a role in countries and their fortunes or not. Think about the companies you're investing in and what role, and strategically how they're positioning themselves. It's important. Listen, read the manual, report.

Listen to some conference calls. It depends on what your investing style is. Are you a trader? You want to be in and out? Then that's not of interest to you. The short-term stuff. That's fine. Some people do that. If you're putting together your own portfolio to own for a long period of time. Understand when what the company strategy is, that gives you the opportunity. When the short-

termism of an earnings miss, the stocks down 20% or 15%. Is it a better buy or not? Have they held true to what they're trying to do? Have the fundamentals change that over a period of time are going to get them to where they want to be, and does it make sense where they want to go? Or was this just a knee-jerk reaction to the market?

Because if you don't have those ideas and the answer is you're going to be reactionary. If you do understand and you think it's temporary and a hiccup, we can be very active in the management of your portfolio. So I equate a lot of what you think, what you see in the world of geopolitics and how countries evolve. Same with companies. How did they have strategically think? It's very important to understand that.

You're seeing a lot of in UK. You're seeing, it's a mess with Brexit. A plan can't get through parliament, they're going to go to a second round of referendum. It's going to be a hard Brexit or something in between. If you think about the UK, Europe is sinking. Europe is a mess. Western Europe is a mess. Demographic rapport loaded with debt. I love going there. It's wonderful, beautiful, the history is great, but the UK needs to get out of there.

European economy is a mess. The IMF just came out and lower the estimates. France and Germany's economies are disaster for 2019. When the UK leaves, it's more of an issue for the Germans than the French but still bad for both of them. But for the UK, they have to become more of a global trader, not just a EU trader. They have to go back to what they were, they were a global power, economically, they're a maritime state.

They could still do deals with the EU, but they got to set about doing all sorts of trade agreements with Canada and New Zealand, the US, and [inaudible 00:32:30] and try and get away as much as they can from the EU. It's not to say they can't do business with the EU. They can negotiate all sorts of bilateral deals. Those are bigger companies. But you got to take the short-term pain. A month, six months, a year, 18 months of that uncertainty that comes along with it.

If you want to build a long-term economy, a strong economy. Getting back to what you do. Opening up your possibilities. You've got, years ago, they were a much greater proportion of the world economy than they are now. So what happens though, the stocks selloff on all this fear. As a contrarian investor, to me, that fear creates opportunity. So thinking maybe the UK, it's a mess, I don't

want to be anything to do with that. My God, they don't know what they're doing.

Well, what are they trying to accomplish? So why does it matter to understand the geopolitical role in history. Maybe it's not such a bad thing. You're going to get hammered for a little bit. But at the end of the day, it's going to open up more possibilities to them and ultimately that's good, that's a more long-term strategy but the short-term pain is not picked up in that.

So I mentioned I went to see Stephen Cohen with my buddy, Mark. Really interesting guy. He has incredibly bright. He's often vilified in the press for being a Putin apologist. He's a guy who's raised in Kentucky and Indiana, and went to live sometime. He went to college, lived in Russia. And he's a Russian studies scholar. And his view is listen, the humanization of Vladimir Putin. It's really almost at like the McCarthy era and how dangerous that is for the US, and how Washington has made a lot of policies that are influenced by demonizing him.

Now again this isn't my opinion. This is somebody I went to go see, and I go back to the Sebastian Maniscalco. Having a closed minded, things doesn't ... you know one way. But thinking about the world 360 is pretty interesting and hearing people with a different viewpoint is very interesting. Cohen talks about the demonization of Putin. It not being a policy. But an alibi for not having one.

If you think about the narrative, Putin is an imperialist. He's a Russian imperialist. He's really just a KGB [inaudible 00:36:12]. He's a brute. Controls a cynical place. He had to prevent the darkness of Putin's world from befalling more of humanity is the rhetoric you hear coming out of Washington, and he goes on to talk about how the mainstream media have played this prosecutorial role in the demonization of him.

He talks about the Washington Post and the fear that Putin exerts over the people, and it makes the point that vilifying Putin has become a canon in the orthodox US narrative of the new Cold War. It's by parts ... Obama, Clinton, Bushes, McCain was a huge, not a huge fan. His point is that this is Stephen Cohen's point is most of the allegations against him are substantially uninformed based on unverified sources, motivated by political grievances including those of Yeltsin era oligarchs and their people in the west.

The way he approaches it is by identifying and examining the

pluses and minuses and understanding who he isn't. He talks about it. He gives you the background of the democratization really began and developed in Soviet Russia under Gorbachev from '87 to '91 and he goes on. Cohen's point, he goes on to say that Yeltsin is the one who's repeatedly dealt that whole Russian experiment with the wall falling.

A lot of really bad flows. He goes on to say that he used tanks in '93 to destroy their, really what was Russia's freely elected parliament. The whole constitutional order that made Yeltsin president. He had a couple of really bloody wars against the little tiny breakaway province known as Chechnya, enabled a really small group of Kremlin connected oligarchs to just go in and plunder Russia's richest assets that really just plowed two-thirds of the people hit the poverty, misery.

They really destroyed the Soviet middle class. He points out that Yeltsin rigged the election in '96 and what he's trying to say is a lot of the groundwork was laid. He goes on to say that he doesn't think Putin made himself the Tsar or Soviet-like autocrat. This wild [inaudible 00:39:56] with absolute power to turn his will into policy.

He points out the last guy who did that was Stalin and that was 1953 when he died after a 20 year reign of terror. He points out that if he really is this cold blooded ruthless autocrat, the worst dictator on the planet as he's called by some in the west. Then why were there tens of thousands of protestors repeatedly in Moscow streets. You wouldn't have that if that were the case, you wouldn't have the right to protest. He points out that he agrees like other political scientist have, or he says other political scientists have agreed, that is a soft authoritarian. Governing his system that has some authoritarian and some democratic components that were inherited.

He strongly disbelieves that Putin revere Stalin. That he's a gangster in his shadow. He points out that Stalin's Russia was as close to un-freedom as imaginable. He points out that in today's Russia, apart from varying political liberties, most citizens are free to live, study, work, write, speak, travel than they've ever been. He didn't create, according to Cohen the post-Soviet Russia's kleptocratic economic system with its oligarchs and all that widespread corruption.

He points out that this took shape under Yeltsin during the shock therapy privatization, schemes of the '90s. That's when the

swindlers that the [DMC 00:42:10] calls them started to emerge. Points out that he's adopted a number of anti-corruption policies over the years and they've been successful, as his subject of legitimate debate. So there are different ways to think about this. It's just another viewpoint from somebody born, raised here, spent time there in Russia.

Looks at the mainstream press and tries to filter it, whether or not his views are correct, who knows? But it's a different point of view. And he talks about how this Cold War, Cold War 2.0 is more dangerous than the prior Cold War with Russia. You think about what I was saying earlier. While Russia was so dependent on oil and gas, they've improved their agricultural sector enormously, they've improved technology, defense development, it's not just an oil and gas economy anymore.

They're waiting on the sideline, who are they going to align more with, the Chinese, the Americans. It's hard for the Americans, and his point is the fact that there's this McCarthy-esque type feel makes it difficult for anyone like Russiagate now, collusion, the elections. You can't even mention the word that if Trump were to show any propensity to do anything, to foster positive relations with Russia, he's accused of being a puppet. He's accused of being an agent, a spy. Think about that.

His view is nothing can be worse than having a sitting US president not developing relations with Moscow. That it's an incredibly dangerous thing to do. All sitting presidents have had meetings and discussions whether they like them or not, but at least there was discussions whereas now, it can't happen. If Trump has them, he runs the risk of being called his puppet, Putin's puppet.

Cohen thinks that's incredibly dangerous. I was noticing right in the press in the last month or two. Venezuela is a disaster, it's in turmoil but the Russians have agreed to several billion dollar deals with them. They're going to be locating bombers there. Talks of a permanent military base. Not too far from our shores, the US. Remember last time that happen, a little bit closer to home, when it was in Cuba, but still this hemisphere. What are the implications for that? The way I study it is I studied the geopolitics of Russia and energy policy, that's how I express the views to you.

You can't look at everything, but trying to understand stuff. Understand it as it unfolds. What's the relationship between Russia and China and the nuclear power world? The two dominated. What

are the implications for that? A little conclusion to this. But it was a fascinating talk. Dan Rather was there. He's friends with Dan Rather. It was at the 92nd street Y in New York city with his wife, Katrina vanden Heuvel.

I'm sure I got the name botched but she's the editor of The Nation, and she moderated it, and it was Steve Cohen and Dan Rather on stage, 150 people maybe in the room. It's fantastic. A different view. My buddy, Mark walked down here and he sit, just like I. There's so many things you don't really think about. It's true. So think about all these different things. Short-termism, long-termism. What's the impact on a portfolio? Does it create investment opportunities? Does it create, cause you to want to sell something? Understand the context of things.

Talk about understanding the context of things. My guest today is Jamie Keech and Jamie is a friend of mine and for full disclosure, Jamie and his partner, Chris MacIntosh who runs Capitalist Exploits and their other newsletter, Resource Insider. Personally made an investment and setup an investment vehicle to invest in my investment vehicle on uranium. Full disclosure on that.

But Jamie. Jamie and Chris run a natural resource newsletter in addition to Capitalist Exploits called Resource Insider, that is fascinating. Jamie is a mining engineer, so he brings industry perspective, and we're going to talk about natural resource investing and how to put context around what you think you know, and then give you some ideas about what you should know. So with that said, I'll bring Jamie on and we can talk about natural resources. Jamie Keech, welcome to the podcast. Thanks for coming on.

Jamie Keech: Thanks for having me today, Mike.

Mike Alkin: So you and I have been speaking for a while but we actually met for the first time last week in Vancouver. We had a beer by the Cactus Club.

Jamie Keech: Yeah. I've been trying to do the math on that and I think it's been the better part of the year now that we've been working together and we're talking about working together in one form or another.

Mike Alkin: Exactly, and full disclosure for listeners. Jamie and his partner, Chris MacIntosh put together a separate investment vehicle that invest in my uranium investment vehicle, so just full disclosure so you know that from the outset. But Jamie, when you and I met,

I had met Chris before I met you and your partner Chris who is a great background, he's a venture capitalist, he's a fund manager, he's a newsletter writer with Capitalist Exploits and a great thinker, big macro thinker, long-term strategy thinker too, many years into the future, and cynical which I like.

But cynical in a great way because I'm cynical and I'm skeptical and I love speaking with him. He and I could talk for hours about stuff, and then you and I met and when I saw Chris's work and I started reading it, and we started talking, did some resource stuff, and then he really wanted to expand that and open it up and go deeper, and that's when you and he joined forces and launched the Resource Insider.

And as I started talking to you and learning about your background, I thought wow this is great. This is what retail investors really need. Somebody who comes from industry. Somebody who's been there, done that, and not a journalist, newsletter writer who's just going to listen to management and going to take what they say at face value because that's so often happens, and I think I was saying it on a podcast last week.

But you and I were in Vancouver. You live there but I was there for the Vancouver Resource Investment Conference which you and I both spoke at, and I was saying it's a great venue. I think they got 8,000 or 9,000 people that come to this convention hall and companies are there, and it's wonderful because retail investors get to get access to company management teams that we as institutional investors get access to on a regular basis so it's nice.

The flip side of that is of all the industries I could think of with the exception of probably biotech, it is a showcase and not just at that venue, but these companies. Most of these junior mining companies are in the business of finding and exploring and developing projects, but to do that they need capital. I was talking, hosted a panel, and I talked about, in the uranium space in the last decade. The four big discoveries and between exploration and advancement of the projects, 50 million was spent on average, which was more than the market cap of those companies.

So they had to go out and raise capital. And as you and I know, most exploration doesn't lead to anything so there's a need for capital though so that's where investors can get run over, and I love the fact that your background, you're a mining engineer and you've been there, done that, seen it, have lived in far fun places. I know you have fondness for Mongolia and other places.

And other places. But talk about, and you gave a talk about what to look for, so talk about your experience as an industry professional now on the other side, on the investing side. But talk about as you first give listeners your background but then walk us through life as a mining engineer in these far off places, and what you see actually happening versus maybe what investors get told sometimes so tell us your background.

Jamie Keech: Yeah. So I think you raise a very good point, Mike. And I think people need to be cognizant of and very rarely are that many of these companies are looking for capital. They're not looking for mines. And the majority of their energy is spent on raising money and acquiring more money. And spending it in convincing ways, and very few are actively are really, really motivated to make a discovery or to develop a mine or you'll build out a mining company way, way less than you think.

It's very disconcerting and you say this is an industry that's probably more opaque and investors have a higher chance of getting run over than anything you've seen. And I come from the mining industry. I've spent my entire career there, and this is not something I realized early on in my career. And to your point, most people in the mining industry don't realize it either.

The average person in the mining industry is not a promoter. They're not the CEO of a junior company. They are an engineer, a geologist, an accountant. Some sort of technical trade, and they're working on a mining project. They're working for big consulting groups that work in an exploration project in the field. They are quite hardworking noble people, they spend a lot of time away from their families and friends and everywhere else they'd want to be, in often remote and very hostile places that are hard to work.

And it's too bad because those are not the people most investors or people familiar with the industry from the outside ever get to see or ever get any exposure to and those people of which I was one for a very long time have very little concept in general of the investment side of the industry and how it's often promoted. So I spent the first 10 years of my career working in the industry.

As you said I'm a mining engineer by training. I have an undergrad from the University of Toronto. Big university here in Canada. I did a master's at the Camborne School of Mines off in the UK and over the course of 10 years, I've worked in exploration. I've worked in development so building new mines and I've worked in operating mines, and I've spent time in Albania, in Mexico, in the United

States, in Canada, in Hong Kong, in Mongolia, throughout Latin America, Colombia, Peru.

Mike Alkin: Don't forget Albania.

Jamie Keech: And Albania. I spent better part of the year there living in what could generously be described as a tent with walls with hard walls on the side of a remote mountain there. Most of what you're doing is depending on what stage you're at, but you're in the field every day, and you're looking for a mine, or you're building a mine, or you're operating a mine and that's your focus, and it's like any other [inaudible] or craft or profession.

You're looking to do the best you can on that, and it's totally different world from what is happening at these conferences here in Vancouver or Toronto or what have you. There's such a disconnect between the people that work on one end and the people that work on the other end, and I was totally unaware of it. I always worked on these projects, many of which were for earlier stage companies.

And I kind of figured, if you do a good job, if everyone in the field is doing good work and providing good information and data, what would obviously happen would be a good company would be created. Great company and that company would then of course go on to create tremendous amounts of shareholder value, the stock would go up, everyone would make money, we'd get bonuses and we'd all be happy.

And as you probably no doubt no, that was very rarely the case, and it wasn't until I, so about 10 years in, I decided I wanted to move more to the business side and start building these companies and working in the startup sort of stage, and I moved to Vancouver and I had the chance to work with a variety of groups. Some very, very good ones, and some less good ones.

And I got to see first-hand how a management team structure as a company and how they've set it up can really determine whether it has a chance of being successful and creating value for shareholders or quite the opposite, whether it can completely swindle people in terms of just sucking capital out of the company and making management rich, and it's very easy to do.

One looks very much like the other in the early stage. If you don't know what to look for, and that's probably whether management realizes they're doing it or not, what the vast majority of these small TSXV listed companies end up doing.

Mike Alkin: You just said something that's so interesting, and I brought this up on my podcast last week when I was talking about the management teams. I said I don't think most go into this as liars, as cheats, as swindlers. I think most believe they have a project or two or three and that they believe that by putting the drill in the ground, they're going to find something.

And I think more often than not, that's probably the case, I don't think people are inherently bad. However, there's a fine line between they know the chances of discovery are very low, and yet they've got to put, make glossy presentation together to talk about why this project is so terrific. So can you talk about what you just said the distinctions because they look alike, how does one look versus the other?

Jamie Keech: Yeah, so I think in life in general but definitely in mining, you should be careful not to confuse incompetence for malice and they often look a lot [crosstalk 00:58:33] from the outside, and you need to think of it from the perspective of the average mining CEO. They're typically and entrepreneurial type. Maybe they're from a technical background or a business background, maybe they just got into this from being a broker or something.

There's all sorts of people in mining and how they get there. I never seem to be able to figure it out, but even if they're trying to do the right thing. What they've typically done is they've gotten this project, and it might have looked very good and especially if they're non-technical. They have probably relied on the judgment of a geologist or other technical people to say look at this project.

Let's call it this gold project in Mexico. It looks great. It's got these great geophysical anomalies and there's soil samples and chip samples, and everything is indicative of their potentially being a deposit there. So what they do is they raise a bunch of money on the back of this. They put their own money in hopefully, they've probably convinced some of their friends and family to put money in, and then they go out and do some work.

They drill it, and it doesn't quite get the results that they hope that they get. And what you typically going to get, and I mean if it's a complete failure, if there's nothing there, that's one thing. It's like done, and onto the next. But what normally happens is people get these, it wasn't the 10 out of 10 they were hoping for, but it was a 7 out of 10, or a 6 out of 10 and at that point, if you were going to go into it fresh from that point, you probably wouldn't choose that project.

But at this point, you've taken a lot of people's money, your career is dependent on this. Your friends and family are looking at you to make that money back. You feel a lot of obligation to your shareholders, so what you're going to go out and do is promote this project with the probably the rosiest picture that is legally possible because you will convince yourself that if we just get a bit more money and we'll do a bit more work and it'll prove to be better, this is just a slow patch.

This is, it's like you get this scope creep where people start to think like we just do a little bit more or okay, it's not quite what we thought it was but if we re-jig it a little like this, it'll actually work, maybe it can be a mine, and it's you get these people who's their incentives are so skewed to making that project work, that they can believe whatever they need to believe to push it forward.

And the problem is you build it up and build it up and build it up and then finally it hits that wall and then you have a catastrophic failure as opposed to an easy exit, and it's a really hard position for management teams to be in because what do you do in that position. Everyone likes to think that they would take the high road and bow out gracefully or shift the focus of the company. But there's a tremendous amount of pressure on these people. There are often very powerful investors that they're relying on and yeah, it's a really complicated situation.

Mike Alkin: I hosted a panel, one we had at the conference with exploration companies. And I asked about how you find the capital and how do you allocate the capital and then the third question was at what point do you decide I might not be onto something here, and you just said that. That's the hardest part because you feel like if you just keep drilling. I've heard so many stories of big discoveries where somebody bought a project from somebody else because somebody else couldn't find it, they stopped drilling yet a few meters away, they put the drill on the ground and there it was.

So it's as a geologist, as a mining engineer, it's got to be so difficult to, or as a geologist, or as a CEO of a company, or a mining engineer company later, but when do we stop?

Jamie Keech: Yeah.

Mike Alkin: Right. Because we're close, we could feel it.

Jamie Keech: The thing is discoveries are so hard. It's so unlikely, so it's something like one in 400 to 500 very prospective targets ever

becomes a mine. One in 400 to 500. So most geologist never find one. Most geologist never even get close to finding one and the problem is for people to survive in this industry, they have to be pretty much ridiculous optimists.

They're really fighting the odd, so the personality type that it attracts is the ones that are extremely self-convinced and despite all odds are able to convince themselves it's just around the corner, just that next drill hole.

Mike Alkin: It's funny you say that I've never met him but the legendary mining, Lukas Lundin, the legendary miner was being interviewed by Grant Williams on Real Vision. And Grant, I've not met Grant but I love his program and he was talking about it, and he said I am the eternal optimist. If this project doesn't work, the next one likely will basically is what he said.

He said you have to be like that when you're in this business. And you're right, if you're a skeptic, you'll be pulling the plug right away I suppose [crosstalk 01:04:14] what you're doing. I often equate mining to biotech companies. A cousin of mine who I grew up with is a PhD something, but a lot smarter than me. But he works at a major pharmaceutical company, and he's in drug discovery in the central nervous system stuff, and we talk and he tells me what he's working on and of course we joke because I have no idea what he's really saying because it's so complicated.

But I talked to him. I say why? You've been working on that for years, and he'll say look guys go their whole career, brilliant, brilliant scientists and never have a discovery, and it could be years later or nothing. But you're in the business of exploring for cures. But he's optimistic most of the time, and he has to be, feels like he's always onto something so it's very similar. By the way, biotech companies rose up looking for money because their research and development expense is just like a miner's drilling expenses, they're exploring.

Jamie Keech: Yeah, and I actually think that's a very good way of thinking about the mining industry especially the early stage, especially the exploration stage and this is something I talk about with our subscribers, with our members is that you really need to remember that these people are scientists and typically in exploration what they're trying to do is they develop a hypothesis, a thesis, and they're trying to prove that thesis, and if it works, if they prove the thesis, they can make hundreds of millions of dollars for their investment, billions of dollars.

The problem is it's very expensive to test the thesis and most of them never work. So it's not like being in a lab where you have some chemicals and mix it together or you perform an experiment. It's going to cost typically millions, if not, tens of millions of dollars in drilling and then only then do you know you're wrong. And that is a successful exploration project. That's how most of them are supposed to go.

Mike Alkin: So let's talk about we mentioned biotech and we talk about the tools that scientists have to aid in drug discovery and those tools, and I don't follow the industry closely but enough to be dangerous to know that you've had great advancements. Could you talk about in the mining industry over the years what has changed from a tool in your toolbox point of view that can help geologists improve their rate of discovery?

Jamie Keech: Well, I actually don't think the rate of discovery has improved over the last several or the last decades. [crosstalk 01:07:12] in a lot of ways it has slowed down because we've really gotten the low hanging fruit, so someone I think of ... I've had the experience and the pleasure of working with the gentleman over the last few years named Dave Lowell.

Now Dave Lowell, he's a geologist. He is probably the most successful mine finder in history. He's 90 years old. He's found something like 14 plus mines. One of them, La Escondida in Chile, it still produces something on the order of 4% of the GPD of all of Chile, so this guy has been working, he's still working. He's 90 years old. He's still flying around Latin America, Europe, all over the place, looking at projects.

So as someone who has developed a system for discovery, he's a very good example, and this is the kind of person investor should be looking for. So he became an expert in what's called the porphyry copper deposits, and these are these big, big copper mines that you see especially in Chile and Latin America and this is where really the vast majority of the world's copper come from.

He developed a model which is incidentally named after him called the Lowell-Gilbert Model which basically demonstrated the type of environments that we would typically find these things. And what he did is he went around the world and he identified them, and these were there but people didn't quite have the tools to find them and more importantly at time, prior to the mid-1900s, no one had the technology to properly mine and process them.

They were lower grade, they needed a heap leach technology and a variety of other processing techniques to effectively extract the copper from the ore at a profit, and so he really hit in a lot of ways like the right place at the right time, it was the perfect storm. He came up with this model. He identified these things that were at surface relatively easy to find once you had the model and at the same time the mining techniques that were required to make money out of these things came along.

And that's an example of technology colliding to make discovery easy, but with each generation, more and more mines are found. The lower hanging fruit is plucked from the tree and it gets harder. And now we are drilling deeper and deeper than we ever have. We're mining deeper and deeper than we ever have, and so it's going to be a combination of advanced exploration techniques and satellite imagine, geophysics. All of this is playing more and more of a role of finding these.

But at the end of the day, so many of these things are deep and the only real way to find deep mines is to drill for them and drilling is expensive and it is time consuming and it is arduous and the deeper you go, the harder it gets, so I would say in a lot of ways, I don't think we're speeding up. I feel like technology is advancing and it's allowing us to keep pace, but it's a very difficult game, and it's not easy to be done, it's impossible to do cheaply, really.

Mike Alkin: The drill is the ultimate truth teller, isn't it?

Jamie Keech: It's the only way. You can look at any number of satellites and remote sensing and geophysical data but until you get down there, until you basically use that drill to reach into the earth and take a sample, a physical sample of it and you take it into a lab and you assay it and you say there's this amount of gold or copper or what have you. There's no way to know or at least there's not yet.

Mike Alkin: So we talk about investors needing to just be cautious and understanding when they're looking at a mining, junior miner. When we think about the landscape, there's exploration stage companies, there's near-term development and then there's producing companies. How do you think about the world when you're thinking about allocating capital or you're thinking about making an investment in a company. What's your preference for amongst those different categories?

Jamie Keech: Well, personally I am invested in all of these types of companies. In Resource Insider, our product that we provide where we provide

research on the mining and metals industry, where Chris and I invest our own money in our picks and then our investors are able to come in invest alongside us at the same price, at the same terms.

We've looked at exploration stage, we've looked at producing, we've looked at developing stages, and it's a matter of having both depth and breadth. Today the mining and metals market is so depressed that you're able to find very cheap producing mining companies. They're trading at what exploration companies would have traded at five years ago and so we're focused a bit more on that than I typically would have been.

Because we're able to get these things so cheap and by that point, 90% of the risk is gone. If an exploration company is proving a scientific hypothesis which is hard and will probably fail, running a mine is it's a problem of optimization. It's a matter of getting the machine well-oiled and running as smoothly as possible. So mining, it's a very unique industry in that you do not control the price of your product and you've often only have a relative idea of how much of that product you actually have.

And the only area for a company to compete really is in cost, so the companies that do the best are the ones that are able to mine as cheaply as possible, and there are two main aspects in that. There's operational efficiency which a company can control and then there's the deposit type, and given the shape and size and depth of a different deposit, these projects land themselves to different costs.

So going back to your question. I want [inaudible 01:14:00], so the best explorers in the mining industry, the people that have made tons of money so these are the Robert Friedlands, these are the Ross Beatys, these are the Lukas Lundins who you mentioned earlier. A trait that I have seen in all of them is that they always, always have many things on the go. Not one of them is ever involved in one project and I think this is a trap that mining professionals fall into and of course investors fall into.

They fall in love with a project and idea and the problem is the possibility of any individual project working out the way you want it to is not only low, it's next to nothing and the way we look at this is we really do spread our risk across a variety of projects and a variety of commodities, so I look at a lot of gold, a lot of copper, a lot of nickel, obviously we're looking at a lot of uranium with you, and we're looking at different stages of the mining lifecycle.

And in uranium obviously super suppressed right now but generally metals and commodities right now are very suppressed right now. They're going to pop at different times and we want to arrange our exposure so that we can take advantage of that. What I really look for is companies that are well managed by people whose incentives are aligned with my own and have the ability to stick around until there is a recovery in this market without diluting the hell out of me and other investors.

Mike Alkin: So as a mining engineer, you bring a unique insight into being able to analyze a company and so we pick a company and it's made a discovery and now they're going to put a preliminary economic assessment around it, and you're going, and they get a pre-feasibility study which is going to lay out the economics, and the mining methodology and the payback period. The internal rate of return that investors can expect of the project financiers.

What do you do, are there any tricks of the trade from a mining engineer's perspective? Is there a checklist that you're looking out when you're reading one of these economic assessments or feasibility studies that you're looking for, the nuances that you're looking for where you think the company can be overly optimistic.

Jamie Keech: Yeah. Okay, so when I look at something, the first thing I do comes back to something I just mentioned is costs. So I looked at where if it's a producing mine, or if it's going to be a producing mine, I'll look at where it's going to sit in the cost curve, and that basically means where does it sit next to its competitors and how much it's going to cost you.

We'll look at gold for example. So to pull an ounce of gold out of the ground what is the cost going to be next to one, other gold companies and two, other gold companies in that region. So if we're an open pit gold mine in Nevada, how much money is it going to cost compared to the one down the road? What you typically want to see is that this company is in the top 20% of that cost curve, that they're a tier one or tier two asset. That it is able to be mined cheaper than anybody else.

Now going to more detail, what we want to do is go through these feasibility studies and understand if the assumptions being made are reasonable and I caution a lot of investors that I talk to on this because I think it's very easy to fall into the trap that you can do that very well and to give you an example. When I look at a company, what I typically do is I talk to people who are expert at that exact type of deposit and type of mine, so I'll talk to a

geologist that that really understands these type of projects.

Say it's a epithermal gold deposit, a guy who has worked with these companies who has explored for these and I go through the geology with him or her and we talk about whether the assumptions that are being made are reasonable. I look at mining cost, a lot, again not to beat a dead horse here, but are the assumptions there being made reasonable? There are a lot of comparables out there.

If you look at similar mines and for some reason it's costing these guys, these guys are estimating it's going to cost them 25% less to mine a ton of rock than the guy down the road. You really want to understand why they're making that assumption and what that's based on. Again there's a big issue with the way feasibility studies are done, and Mike you probably know this, no doubt but a company has a mine or rather a prospective mine.

They don't do most of the feasibility study themselves, they bring in a consultant, a third-party consultant that will do the engineering study. They will sign off on the validity of this and they will make resource estimates for the company so they'll have a third-party will estimate how much material is there, how much gold is there, how much copper is there, and this seems like a great third-party system but the problem is these people are paid by the mining companies, and their whole business is working for the mining company. And so if they get a reputation of "not being willing to play ball and to give a reasonably optimistic estimate", they're not going to get hired.

Mike Alkin: Jamie, I'm a fan of stupid comedies. If you ask me what genre of movie I like, it's the stupid comedy. Probably my favorite of all time or top three is My Cousin Vinny. And there's a scene in My Cousin Vinny where Vinny is a lawyer from New York who has to go down into the deep south and represent his cousin and his friend who are driving through the deep south to get to a law school in California.

And they got arrested and it was a mistake but they're on trial for their life and Vinny couldn't find his suit. His suit got messed up and it fell in some mud and he had to wear a colonel Sanders suit, an old southern suit, and he's having a tough go with its acting the first week that he's down there, and he's got his head down. They're in court and the prosecutor is laying out the case, and he's laying out why these two boys committed a murder which they didn't.

But Vinny, poor Vinny, he's like a fish out of water. A New York guy down in deep south Alabama. The judge hates him, everyone hates him. He's considered a Yankee. He's wearing a southerner's suit and they think that he's mocking them, and he hadn't slept in a couple of nights, so he's got his head down on a table, on the defense table while the prosecutor is laying out, and then the prosecutor is done.

He lays out why these two boys have committed the murder, and Vinny wakes up from his deep slumber after his cousin kicked him and he looked up and he said everything that he just said is bullshit. It reminds sometimes you're reading these things and you're right, they're put together by third-parties. It's similar to as my background for most of my hedge fund career has been as a short-seller and one of the things I always chuckle at is when a bull will turn around and say when I think a company has funky accounting.

They'll say well the auditor signed off on it. I'm like okay, right, in the history of accounting. The auditors, you think that's neutral and independent, okay. Good luck with that. But in this case, yeah, they are paid for. Kazatomprom IPO, the largest uranium producer in the world out of Kazakhstan came public, and in their IPO prospectives, they have pages and pages of industry insights.

But it's not theirs. They're coming from all these other sources and other sources of information. You said it earlier, the power of incentives or the methodology that goes into assumptions and so what I find often happens is people fall into this great trap of "experts" and when I look at a lot of the data, you have to look at the source, and okay, what is the source's motivation? What is the source's methodology for calculating that data? Who is paying the bills of sources?

In the particular case of these studies, the companies are paying them so I actually, I spoke recently at the end of October to a bunch of fuel buyers, uranium nuclear fuel buyers at the nuclear energy institute in Boston. My topic was basically the costs of miners and I said look you guys have had a great run for quite some time now. As a fuel buyers, you've stayed out of the market, you've done a wonderful job, and the mining companies should be ashamed as they were producing during a downturn.

I said, but if you look at their actual costs that they show you in those glossy presentations their cost to mine, they're bullshit because they're not including their all in sustaining cost, and I

walk them through. I said if somebody says they're producing for X a pound and they're selling it for Y per pound and there's a big gap yet they're not making money, they're not including all their cost.

But then I said as far as these studies go, they're dramatically understated. They're much higher than what they're telling you because they're not putting their worst foot forward in those reports, and that's I think where people sometimes can really get pegged is by relying on these, and like you, we also talk to people, you are an expert in the mining engineer.

But it is so critical because I think people get a false sense of security. They use these as a security blanket, but that's just the first step. It's laying out the, like I like to see how much they can produce, the methodology in which they're doing it. But then when you get into nitty-gritty. That's where you're really got to peel the onion back and understand and compare, like you're saying comparison is so important. If you're 50 kilometers down the road while your cost is so much dramatically lower than the next [crosstalk 01:25:05].

Jamie Keech: Well, it's interesting for me now because on the investment side because previously I've been on the company side and we'd spend a lot of time presenting to investors and you always think that it's going to be very hard to convince these guys of this and they're looking to say no, and it's only in hindsight that I realized that most people are looking to say yes.

Their job is to allocate capital or they have money, they want to invest and they're looking for a dream to buy into and it's very easy to accept these things on face value because wouldn't that be nice if they're true. Make my job easier and look I can go to sleep thinking I'm going to make a ton of money and everything is easier. So the title of the talk that I gave at the conference was it's a bit tongue and cheek.

But I said how you got screwed in 2018? Inside the rigged game you didn't know you were playing. A lot of what we do talk about, or what I did talk about is motives and incentives, and it's understanding the motives of the people you're investing in and aligning or ensuring that their incentives are aligned with you. The motive one seems a bit, I spent some time thinking about this as I was writing it because it seems a bit light at first and I really went back and forth on thinking should I keep it in there.

But I think it's probably the most important thing, and it's something that I think about considerably in that most people assume that the companies they're investing in are trying to find a mine, or trying to build a mine, or they're trying to create a mining company, but that is a really, really hard task to do. And again, as we discussed earlier, the odds are very much stocked against you.

And what most people are trying to do is make money, and that is not a hard task to do, it's not that hard to raise a bit of money into a shell or into a company, and then to pay yourself an egregious salary, and to give yourself a bonus every year, and to issue yourself so many stock options, and that's so much easier than it is to go out there and spend like your, what's it, your brother-in-law, spend decades searching for something that you may never find without rewarding yourself.

You have to find these people. Like David Lowell, the guy I mentioned earlier, who's found 14 mines. He's 90 years old. He's still flying around the mine sites all over the world. He's involved in a company called Solaris right now with a great copper project in Ecuador. This is a guy who could retire as a very rich man 40 years ago, but he's gone and he's gone and he's gone, and in the meantime, he's making himself very rich. If you ever have the opportunity to go down to the university of Arizona, you'll see that pretty much every damn building there has the name Lowell on the side of it.

Mike Alkin: That's where I went to school, and by the way, I am not a mining engineer. I was not anything related to that, but yes, yeah, it is. We're back there with my family for every couple years so yeah. By the way, I didn't graduate from there. I went my first few years there but I graduate from a different school but yeah, it is. He's everywhere.

Jamie Keech: Yeah. He's donated I have no idea how much but a lot. That is a small amount to the billions he's created for different clients, for different shareholders, and then you have the polar opposite of that. Have you been, I don't know if you guys would have seen this much in the US. But have you been hearing a little about this fraud that's been going on here? On the CSE, the Canadian Stock Exchange, with the check swaps?

Mike Alkin: No.

Jamie Keech: Okay, man. We got to talk about this. Okay, so okay how should I explain this? I got this actually in front of me. I'll read the

headlines that have been coming out. So the BCSC, the British Columbia Security Commission investigates alleged scheme run by consultants or convicted fraud artists at center of crypto, cannabis share scheme. So what was happening here? It's a group here in Vancouver of "entrepreneurs", were starting a series of companies.

They started companies in mining space, exploration companies. They started company in crypto space. They started company in the cannabis marijuana space. All of these venture stage companies where you raise money and they're high risk high reward, and no one really expects them to necessary workout, and so they churned out a series of these companies and what they did is what's called a check swap which is not illegal but it needs to be disclosed and it's designed for specific purpose.

A check swap works that if I have a company and say Mike, you're a consultant of some sort, maybe a geologist, maybe a market, maybe a finance guy, whatever and I want to get you working with me, and I want to align you with the company incentivize you. You will buy stock from us probably at a good deal, a good price, earlier stage. You'll send me that check for whatever it is, $20,000.

I will write you back another check for whatever it might be, $19,000, $20,000 and you'll basically get that stock for free, and the money back, paid back, will be paid back in consulting. What these guys did was took that to a scale that has in my view never before been seen. They raised millions of dollars on this. Something like seven or eight millions of dollars across these companies and they paid back something like 80 or 90% of the money to these consultants who allegedly have not done anything.

So say you're my friend and I say hey, Mike, you want to come on as a marketing consultant? Write me a check for $5 million into this company and I'll write you back a check for $4 million. So all of a sudden you put a million dollars in but you've gotten $4 million of cheap stock which is essentially free at that point so what do you do with free stock because you can sell it at any price, and they sold it, and drove these companies into the ground.

And now you have a bunch of poor shareholders left holding the bag for these things and obviously the stock is worthless. There's no money left in the company, and probably they never had any idea what they were going to do with that money in the first place except take it, so it's worthless, and this happened across numerous companies. There were bunch of people involved and now they're all, they're under investigation but it's just.

Mike Alkin: It's sleazy. Unbelievably sleazy.

Jamie Keech: Yeah. It's an extreme case but it's a good representation of what can happen and some of these people had very good long standing reputations and were known as leaders in the mining space, and it's really too bad for the industry, it's too bad for investors. But it's good that this has been investigated, it's good that this is actually come to light.

Mike Alkin: So what do you, tell us more about Resource Insider and as subscribers, what do they get? How do you communicate with them? What's the premise of it? What's the purpose of it? Share some more.

Jamie Keech: Yeah. Resource Insider, the premise is very simple. I look for things that I want to invest in. I invest in them, and I invite our subscribers to invest alongside me at the same price on the same terms with all the information that I can give them. This really came about, and this came about a year ago, or just over a year ago we started putting it together and Chris MacIntosh, my partner who you had mentioned earlier.

He's a macro investor. He's managed a fund. He's been in the VC space for some time. He decided for a variety of reasons that where he wanted to be putting his money over the next 5 to 10 years was in mining, natural resources, and commodities. And he did not know how to do that as effectively as he wanted to. He told us I could buy a major mining company but I don't understand how to evaluate these smaller companies, these startup companies where you really see the biggest returns on your capital where you can see these 10, 100 time returns if you choose the right one.

So he wanted to partner with someone that had the right relationships, and the right technical background and that was me, so we got put in touch through mutual friend. We spent probably the better part of six months discussing what we wanted to do and how we wanted to put it together and what we wanted to go after, and we decided on what became Resource Insider was that we were going to focus on private placements.

And if your listeners don't know what private placements are, these are essentially participating in equity financings, so when a company is trying to raise money, they'll issue shares and they will sell that to investors who want to come in as shareholders. And so it's very different than buying stock on the stock market, you're not buying it from another investors. You're buying it

from the company directly, and the big advantage of this is that the company can, with some limitations but set the price of a bad stock.

So to incentivize their investors, they will often set it at a discount to what they're currently trading at if they're already publicly listed or you'll be able to participate in an IPO or pre-IPO stage so you get in earlier than other people or they can add on other perks such as a warrant. So a warranty is another security that will convert to a share at a set price and add that little bonus on. So we wanted to go into, we wanted to focus on private placements because we believe that it really gives us the most bang for our buck.

It really gives us the most leverage for what we consider risk capital, and in my experience, this is where people in the industry actually make their money. They invest in their friends and their colleagues and co-worker's companies. They get in very early. They get these, the cheap stock, the warrants that really give them that torque that they need to make cash because they're taking on a tremendous amount of risk.

Anyone who invest in mining and natural resource companies needs to be cognizant that these are high risk deals and if you're going to take on that risk, you want to have those out-sized returns at the end of the rainbow. So that's what we decided to focus on, we setup a subscription service and people can join, become members. What a member gets is they get access to all the deals that we're doing.

We just did, I can go into details on this now. We just closed it last week. We just invested into a company called Northern Vertex. It's at early stage producing mine. They just started up, that had been hammered by the market. They did an equity financing, it's based in Arizona. We got in there at a discount to what they were trading at. We got a full warrant for two years on that and what we've provided our subscribers is first of all detailed site visits and interviews of managements.

So I went down to sites, I put together videos. I explained what was happening each stage of the mining process. I talked to the guys who are actually running those stages. Ask them what they were doing. So people get to see clearly what's happening there. I sat down with CEO and the key technical people explaining how the company was structured. What the plans were technically and financially going forward.

I sat down with key investors. There were a couple of big hedge funds and financial institutions that were investing into this company. We did interviews of them. We provided that information to our subscribers, so they're really getting. They're getting the kind of look that people who work in the industry. People like [inaudible 01:37:36] get to have all the time.

Where I can call up the CEO of a company and say, listen we're thinking about your project, we're thinking about your company. Tell me why. And then I get to grill them and say well what about this, what about that? This doesn't look right, and it's a really unique. I think we provide a really unique product. We provide a lot of information. We also provide of course a detailed report with every investment that we cover explaining what we like about it. What we don't like about it, sort of a detailed risk and opportunity profile.

And then I say I'm investing X percent of my capital. If you want to do it, this is how you can do it. We don't tell people what to do. We don't take any money from the companies that we cover. So I don't get paid by any companies. I don't get finder's fees or any of that nonsense. So we only make our money from subscriptions. If our subscribers don't want to invest in a deal, that's fine for me. It doesn't affect my bottom line. All I want to do is provide them with deals that they will find interesting and let them choose the ones that suit their portfolio, that's it.

Mike Alkin: That's great. Funny you were saying about grill the CEOs. I had dinner last week with the management team and after about two hours, they were thinking why they take this dinner.

Jamie Keech: Well, Mike. Because even the best CEOs have a fine veneer of bullshit you have to get under before, to get to the.

Mike Alkin: Exactly. I want to touch on this for a moment. So when you're talking with the management team and I will say the junior mining space is unlike many where they court the retail investors, and I think it's great that retail investors get access. But especially in depressed markets. Depressed parts of the metals and mining markets where they need capital so they'll court institutional retail investors.

They know they're going to get grilled more when they speak to an institutional investor, and when often times a, and I see it on Twitter a lot. I called XYZ or I emailed XYZ and they got right back to me in five minutes. That was great. I don't, as an institutional

investor, I'm not sure I want CEO to get back to me in five minutes. I want them to be busy doing something.

Jamie Keech: Yeah. Like running the company for example.

Mike Alkin: Right. Sometimes I have to keep perspective because I am public in uranium and I'm called upon a lot to speak and so they reach out to me. So a lot of times I'm not reaching out to them but then we get a back and forth going but there's a confusion sometimes companies will see me or you, you'll see you speak publicly, and you might host a management team on a conference panel or something like that, and think you're buddies with these guys.

You're cordial and you're friendly, and some people you like more than others the whole thing, but my job isn't to be their friend. My job is to make investors' money. My investors' money, and when I'm speaking with them of course always polite and cordial. But it is ... they're in the business, you don't get to that level whether a junior miner or a big company. You don't get to be in the C-suite by not being somewhat of a political animal by not being someone who can tell a convincing story.

And when I'm talking to a management team. If I sense, I ask my questions, I drill down and at the first moment, I get a sign of bullshit, I call it. I think it's important and so I do that and I'm very frank, and I tell them my view of where I think things should be and they could take it or not, listen to it or not, and the way I could vote is with by selling my stock or buying stock. That's how I vote.

But I think when investors get a hold of, the retail investor gets a hold of a management team of a company. They're going to control the narrative because it's their narrative and I think it's important for people to recognize that that when you're talking to these guys, they're controlling your narrative and it's best to go in prepared.

It's best to go in with some questions and I talk about this a lot. When you're doing a call with the management team. When you are doing it, what are some insights you could give to investors? If you could just give them a few who may talk to management teams but a lot of times they're more impressed and I'll tell you it's funny because I was walking around the conference floor and I can't walk 50 feet without people coming out to me and wanted to talk to me, and I made a joke of this last time on last week's podcast.

I had a few people asked to take selfies, so my wife and kids were like what are you, serious? You, like why? My wife, [inaudible 01:42:57]. Are you kidding me? No, but in all seriousness, when you're in these environments and you could meet an investor or you meet somebody you see or somebody who's management team and if you're not familiar with dealing with them all the time, you can get mesmerized by what they're saying and you shouldn't be.

Jamie Keech: Yeah.

Mike Alkin: I shouldn't be mesmerized when talking to you or me, we're just regular people who make mistakes every day. We just have a framework. This is what we do so it's our vocation. So you're a retail investors, you're kind of following the star. One of the things I noticed by walking the floor and getting approached by a lot of people who are attending is they all want to know what stocks I like, and I'm not going to tell them. I don't talk about that.

If I hear them saying things about companies they really like that I just think are complete bullshit, I steer them in a direction and tell them things they should ask. But what do you, if for that person who is studying and learning and getting up to speed. What are few of the things when you get that guy on the phone or you're at that booth? What are the things, like if you could, are there a couple, or three things, or five things?

Jamie Keech: I actually have three that I can think of that would be great that anyone can do and will add a tremendous amount of value. So what are the incentives? What is their background and what are they're doing? When you talk about their incentives, it's very simple. Ask them what their average cost is for the stock that they own. That's the number one thing.

Let's look at an example. A very typical example. So a lot of people that participate in private places that I was talking about earlier. A lot of the more serious retail investors in the mining space. They want to get in early. They want to get in the IPO stage, and that is great, and there's a lot of advantages to that. However, it's not always as good as it seems.

The company may be IPO-ing at a dollar but six months before, they did a round for friends and family at 50 cents and six months before that, they did a round for the founders at five cents, so you're already. That CEO is getting in at 20 times less than. This is not uncommon. This is pretty much part of the course. You're basically, it's like a simple Pareto's distribution, like the 80-20 rule.

It's like these guys are putting in 20% of the capital and getting 80% of the return and those shareholders are putting in 80% of the money and getting less than 20% of the potential returns. I am all for the management teams being incentivized to hit it big. There's got to be that pot of gold at the end of the rainbow. If you want good people to give up high paying jobs, to focus on a startup company. There should be that big win for them.

But it has to be within reason. These guys are going to make 20 times their money right out of the gate. If that company drops the half of its value, they still made 10 times their money and you've lost everything. So look at their incentives. Look at their average price. The next thing I would say is what are they doing? Say what are you up to this month? Are you traveling a lot?

You really want to hear that they're traveling to site. That they're spending time in country. If they're just going conference to conference to conference to conference to conference. That is fine in a small context. If they're actively trying to raise money at that money. But there has to be more than just marketing and you need to get a feel that they're interested in operating a company whether that'd be exploration or mining.

They want to get, you get a lot of great promoters in this industry, and it's an important part of it because it's so capital intensive, because it's so venture intensive, but it cannot be all of it, and you want to see that they have an interest in the operational aspects. That they're able to talk. Not all CEOs are technical although as an engineer I have a very strong disposition to technical CEOs to be honest.

But they should be knowledgeable. If you're going to run a mining company. You really do want to know the details of the technical aspects of your project. And then the last one I said was what is their background? Are they the kind of person that is jumping company to company to company to company to company and never had a success for shareholders because that would be most mining CEOs.

It's like probably 90% of the wealth in this industry is generated by 10% of the people. These people are not hard to find and find the people that have done it before, that have had successes before and done that exact same thing before. If they've had a lot of success as an exploration VP at a company. It doesn't mean they're going to make a successful CEO.

If they've had a lot of success in epithermal gold projects in Mexico. It doesn't mean they're going to be able to be successful running a porphyry copper project in British Columbia. Find people that have done this before because they're out there. Typically the smart guys, once they figure out their methodology, they just do the same thing again. That's no guarantee of success. But it is a far, far higher guarantee than just someone who used to be a broker. Got interested in mining, raised a bunch of money from his broker buddies, hired a geologist. That doesn't typically workout too well.

Mike Alkin: That's great stuff. That really is. Three really important points and they are so critical. So you're going to hear Jamie sound a little bit, like he's in an echo chamber because we had a, it was fuzzy for a few minutes, I'm sure you heard it, and so something maybe on his end happened. So we called him back and he is on a different apparatus so it might sound a little bit different. So anyway, Jamie, those were great points. Really important. So how do people get a hold of you and Chris?

Jamie Keech: Yeah. Our website is called CapitalistExploits.at or dot com now. And you can find more information about Resource Insider, about myself and Chris and there's a ton of free content there both articles under mining and metal space, as well as macroeconomics and big themes we're looking at, and there's also a variety of podcasts with leaders in the space, and if you're interested in being a Resource Insider member, just click on the Resource Insider link and we'll provide you all the information you need.

We've got staff on hand that'll briefly call. They can give you a complete rundown of our product and we're very approachable to our members. I engage very regularly everyone on our list and yeah, we're very happy to answer any questions and provide as much information as anyone needs.

Mike Alkin: Awesome. Well, it was great seeing you last week and I really enjoyed having you on the podcast. I'm sure our listeners are going to walk away a lot smarter about resource investing. So we'll speak soon and it was great catching up.

Jamie Keech: Thank you very much for having me, guys.

Mike Alkin: All right. Jamie. Thanks, man. Take care.

Jamie Keech: Take care.

Mike Alkin: Bye bye. Well, I hope you enjoyed my discussion with Jamie. Incredibly bright guy. Very thoughtful, pragmatic, gets the joke if you will. He understands the pitfalls and hopefully he shared some of them with you. So hope you enjoyed that discussion, I know I did. I'll be back next week and in the interim I hope you have a great week and we'll talk soon. Thanks.

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