Marin Katusa: Everyone's focused on Gold, but the real buy is in Oil!

June 27th 2019

Erik: Joining me now is Katusa Research founder, Marin Katusa.

Marin, the last few times we've had you on the program, you made some really bold calls and you got lucky with one of them which was Nevsun.

I shouldn't say you completely got lucky. It was a good call and it was good analysis. But you got lucky on the timing. It just broke out crazy about two or three days after you recommended it on this program. So I think the timing on that was luck.

The next one that you described on a subsequent interview, you couldn't tell us at the time the name of the company because it only for your subscribers. But we can now tell them that was Uranium Royalty Corporation. You got your subscribers in on a financing on that one.

How has that performed since we talked to you about it, I can't remember how many months ago?

Marin: It's done very well, actually. Uranium Royalty Corp has done two rounds higher. So for all of our subscribers, myself included, which I was the largest investor in the deal, we're up over 50% at this date. So It's worked out well, specifically in a uranium market that's performed horrible.

So a 50% gain may not sound like a big win for a lot of speculators. But, relatively speaking, it's a significant outlier and probably the top gainer in that sector of that market cap size. It's not like a penny stock. So it's done very well.

Erik: And how do you feel at this point about the uranium sector? Because, as you say, the sector overall hasn't really done as well as we might have hoped, even though Uranium Royalty Corp has done very well.

Marin: Well that was my whole thesis. So I'm probably the most hated guy in the uranium rah-rah fan club sector, yet I'm probably one of the largest financiers in the sector.

I've always said that – look, this Section 232, which was started by a couple of friends of mine, and they openly stated that they got the concept from my book. Jeff Klenda said that onstage.

These are good guys that are fighting and they've built producing assets in the US. So these are good guys and they're doing the right thing for their shareholders.

But I always said, look, I don't see a tariff system coming. And I publicly stated over a year ago that what would happen in this situation – and I talked about this in 2015 when I gave the keynote at the world nuclear fuels market in 2015 – the elephant in the room is Kazatomprom. And what no one's really talking about is their cut-to-kill strategy.

So what I said was what I see happening – and I said this publicly at my conference in January, it's video-taped and recorded – I see a quota system coming somewhere between 5% and 7% of domestic demand starting. And then every year about 10, 15, 20 – 25% it probably caps out at for multiple reasons.

It's about permitting built. And I said, look, you don't need to go to strange areas that have political risk, lack of infrastructure that need $90 uranium when you could just drive down in Texas or Wyoming to permitted built. And my focus was stay on unobligated – so unhedged – uranium production. And that strategy has served me very well and I see it continuing.

Like, there is no reason for uranium to go at the spot price $75 in a month the way so many people expect. Because people forget to understand that Kazakhstan, which is 40% of the world's primary uranium production, even though uranium has been slaughtered, their currency has been slaughtered even more.

So it comes down to it's an FX play also. So there's multiple angles here to play it. So that's how I'm playing it and it's worked out very well.

Erik: And I think the last time that we had you on the program, you again described a few deals. You didn't list the names out of courtesy to your subscribers. But we can now say it was Sun Metals was the long and EQT, the natural gas company, was the short.

How have those performed since we last had you on the program?

Marin: Sun Metals worked out fantastic. So that's over a 200% gain for our subscribers. And they've made a true world-class discovery. So that's an interesting one. And it's in a politically stable jurisdiction. Now, there's still risks obviously. Anything in the mining world has risks. So Sun Metals has been a real good player. That's now a Katusa Free Ride for our subscribers.

And then the EQT, we published that in May. You're a subscriber. You saw the alert go out in the newsletter. And in less than, what, 40 days we were up 190%. So we closed that positon fully and decided that, you know what, this happened faster than we expected. It's time to lock in those gains. And it worked out fantastic.

So we've had a fantastic 12 months. It's been a great, great year for our portfolio.

Erik: Well I've got to hand it to you. And I do want to ask you a couple of questions about Universal mCloud, which is a new one. And I should mention, too, in the interest of full disclosure that I am a subscriber to your newsletter and have sent my documents in on one of these financings. So I'll come back to that.

But, frankly, I want to first talk about an area where maybe you and I turned out to be wrong. We both thought that gold had further to go down before – and I think we both have felt ultimately there's a lot of good reasons to think gold goes up dramatically – but we thought it wasn't time yet. And maybe it's still not time yet, but, boy, the tape is sure looking pretty strong.

What do you make of this apparent breakout in gold? And what does that mean, considering that you and I both thought maybe that there was a little bit more downside before this happened?

Marin: Well, we've been in the industry long enough that we've seen every head fake in the last 10 years, right. So it feels (number one) emotionally – let's talk about that – it feels good knowing we've got five gold positions in our portfolio.

Again, because of my situation in the resource market, I'm a major financier of these gold companies. The two largest financings ever on the TSX venture were actually from me and my subscribers. We broke the record. And then we broke the record again. So number one and two are ours.

What I see happening here is that this is a fantastic price. Our picks, we're up over 33, 34, 35% year-to-date on just our five gold stocks. And we don't need higher prices to do very well because the stocks we're in make money at under $1,000 gold.

So what I was getting at was, look, there's a lot of reasons where I believe the US dollar has significant strength within the next 12-18 months. And if you look at what's going on globally, I think there's three main factors that are really pushing gold here in the near term.

The China/US tensions – and I would include Hong Kong in that.

Number two, what's going on between Iran and the US right now.

And you see these factors in Vancouver. There's a flee for cash, for example, in West Vancouver. In Vancouver, it's a very high-end area of real estate, probably one of the highest-priced real esates in all of Canada. You're seeing waterfront houses being sold for less than 50%.

Now that area is about 40% Persians, specifically from Iran over the last 25-30 years. And, because they have such capital restraints and inflation domestically, they can't get their money out. So they're hitting the bid on local real estate.

We're seeing that factor. And you're also seeing them buy quite a bit of gold.

And I think just the global political – what's going on is causing gold to attract some more attention. We just published a chart on my Twitter handle that showed the low on the interest for the S&P for the percentage in gold investments was about 0.07. Historically, the average is 0.23.

Still insignificant when you compare it to biotech or the banking sector. So gold is a very niche market. And if we just – right now we're at 0.1. So we've gone from 0.08 to 0.1 and that's caused a $200 move in gold. If we just go to 0.2, Erik, you're going to see a massive move in the gold price.

But, specifically speaking, the price in gold in Canadian dollars – so if you're a Canadian producer – is at all-time highs. If you look at Australian producers, all-time high. If you look at Russia, all-time high. And these are countries that are major gold producers. So this is a great price for gold.

Could I see some pullback? I'm just naturally a contrarian; expect the worst. So I'm very conservative in my price models. I still use $1,200, $1,250 in my NAV models. Right now our picks are looking fantastic. And that's why we're seeing such big moves in them.

Do I hope gold pulls higher? Of course I do. I've got a major percent of my net worth in these gold companies. But it sure feels good – but don't be surprised if you see a pullback here also.

Erik: Okay. I want to move on to the main topic today, which is going to be crude oil. But before we get into strategies for how to buy low oil prices, I think we need to first discuss what's going on in the market.

Because we had fairly low oil prices and I thought there was a lot of indication a couple weeks ago that they were still headed lower. As I looked at the series of inventory reports, the other supply and demand data, the signs that we're seeing of an oncoming recession in 2020 – looked to me like we were headed much lower still in prices.

Then we had the whole tanker attack thing. At first people said Iran did it. Iran said they didn't do it. Some people believed Iran didn't do it.

And then as soon as that happened, Iran did something else that they didn't try to hide and shot down a US drone, proudly proclaiming that they had done so.

So, needless to say, that has created just a straight-up spike in energy prices.

I observe two things. One is, given that we're talking about real honest-to-God war threats here, the price hasn't gone up that much. And it tells me that the fundamentals really are pointing toward lower prices if and when the geopolitics blow over.

And I guess the other thing that I've seen is I think that probably, even if we have these geopolitics, I don't see the geopolitical situation playing out to really affect energy that much. Yeah, Iran is getting in big trouble with the United States. Iranian oil was already discounted out of production, really. It's in the grey market but it's not really affecting thigs.

So what do you make of the current situation with oil prices, before we get into the details of what the strategy would be for buying the bottom when that comes?

Marin: A couple of things we should look at from the canary in the coal mine – things that I look at from a mass psychology standpoint.

It's been over 100 years when Shell first increased the size of their tankers and the safety to go through the straits like Hormuz.

And you look at what's going on and the biggest winner of all this isn't the oil speculators. It's actually the insurance companies because the price to insure a tanker is up over 1000%. So it's 10 times more than it was just 60 days ago.

And if you look at – okay let's think about – if you go back to over 100 years, if everyone thought that if something happened in the Strait of Hormuz, would Iran ever bomb an oil tanker or a boat or even threaten to do so, historically speaking, Erik, I think everyone would agree if you go back 10, 15, 20 years, that the price of oil should shoot up $10, $20, $30 dollars or have a big significant move.

The day it happened it moved up $1. And I've got to say, I sat back and went, wow, that was a true signal that there's just a lot of contentment in the market.

Then you pull back to say okay let's focus on the US, guys, and you look at what's happening there with the infrastructure. By the end of this year you're going to have a major infrastructure project with the pipeline capacity finished in the Permian. That's going to unlock about 8 or 900 thousand barrels. So the velocity of oil movement is going to increase.

Then because I'm Canadian, and naturally you're always focused on things that are happening in your own country, the backwardation of the infrastructure, the resource sector in Canada under the current administration really is shocking.

We're the third largest endowment of oil in the world and we've actually been decreasing production. Why? Because we're relying on getting it out by rail which is much riskier than the pipelines. And we just can't get these pipelines built.

Even if they're permitted and they go through 10 years and spend a billion dollars to get there, the local courts move it around. So it's churned no bid in Canada. But yet there's a lot of oil waiting to get out.

So I think the oil markets have figured out that there's no shortage of oil. This peak oil thesis, which for 15 years I've been writing about is false, because technology will change it. You're seeing – and I think you and I are in the same boat in the near term – I see significant downward pressure in the near term on the price of oil.

Now, then you've got to look at what's OPEC doing? And then you look at Iran rattling the sabers with their comment last night, with their retaliation to Trump's new sanctions. So there's a lot of reasons to be bullish politically – the political risk in the oil markets.

But i think the market has come to the realization that the supply side will be there. It's just the price of getting it to the market, whether via rail or more tankers. And then paying 1,000% more insurance to insure it through the Strait.

So that's kind of where I'm at with the sector right now.

And then you look at the producers and you look at their debt balance sheet and how can they handle – okay, at $60 oil, everybody extends and pretends their debt. At $50 how do they do? What about at $40 or $35?

So these are the stress tests that you have to do to do the financial analysis of these producers because the whole "drill baby drill" – well, the reality is that, even though the Fed may cut the rates – I've been publishing a lot of data showing, well, the real market. And, because they've gone through this and they've seen that these companies aren't exactly the most disciplined overturners of capital, the real rate of lending to the companies is significantly higher.

And it's actually no longer linked to the Fed rate. This is where a lot of people disagree with me. But if you look at what's going on in the bond market, or even in the junk bonds in the oil patch, – and the reality is that most of the debt in the intermediates and the mid-tiers and juniors is junk debt – I see high single digits to the low teens.

And the reality is that at $40 very few of these guys – you know if you use $35, $40, very few of these guys survive.

Erik: Marin, do you have a downside target number where you're saying, okay, I'm waiting for oil to get to price X and that is where we start really buying? Or are you looking at this more as something where you just scale in over time and figure that you're going to accept the averages?

Marin: I've been doing this long enough that I've never quite been able to pick a bottom. And I've never sold on the top. So I am a big believer in scaling in and scaling out, Erik.

In my newsletter, as you see, I do this tranche buying system. I have this matrix: Buy your first tranche at 25% and then you kind of ease in. And as you start getting in, you start getting comfortable with the position. And then you can get in through a financing.

That's something I do a lot of in my newsletter. Because of the size I buy in, it's hard for me to get a position in the open market for a lot of these mid-tiers or juniors, so I structure a lot of these private placements.

And then, because of the size of my list and my following, I say, hey, you're a subscriber, you can get in at the same price and the same terms if you like it. If not, no big deal. And then the subscribers get out two days in advance.

So, where I'm at personally right now is I believe that we'll see more downward pressure on the price of oil. And I believe right now is not the time to jump in full throttle.

I think it's time – I've got my two or three favorite Canadian producers, I've got my two favorite US producers, and my international guys. That's what I'm going to be publishing about.

And I've got a real big interesting angle that for my subscribers that I'm publishing next week on a really interesting angle that nobody has published in the institutional world yet about. But I think in two or three years it will be the hottest play in the oil patch.

And people forget about, for every barrel of oil that gets moved, what other liquid is required? And what do you do with that? And there is a big value add to this whole oil game in North America. So it's an interesting angle on it.

And I think patience.

It's funny, Erik. Everybody wants to be a contrarian. But very few people actually have the testicular fortitude to be a contrarian. Right now, when I publish something on gold, it literally gets 10 times the reaction in the market than something I publish on uranium or oil or whatever. That tells me that the market is hot for gold.

But three or four months ago, when I published on gold nobody cared. It was this interesting dilemma of what we see going on in the market. So right now with oil it's time to roll up your sleeves and do your deep-dive analysis and stress tests.

And I also believe there is no reason to take any risks in this market. Things are getting so cheap in the oil patch that I can get a senior producer valued at 15 to 35 year lows on financial metrics. Why bother with the development story or something that is in a risky jurisdiction? You just don't need to do that.

That's the beauty of being a true contrarian. Just like in gold, look at the move we've had. But you know, you mentioned Nevsun. That it was a lucky pick, or on your show it sounded lucky, but I was there five years, six years at the site. I financed the company for years. I published one year before I came on your show.

So it looked like, oh wow, this guy just talked about it and a week or two, and then it got bought out five months later. But I was there for two years before it happened in a big way as one of the largest investors in the deal.

So to be a contrarian is a lonely trade. And that's what makes me excited about oil, because people are starting to really hate it. And that's when I like getting into things.

Erik: Let's talk a little bit more about why you like it, why some people hate it, and so forth. Because I think we have some very similar ideas. But in many ways they may be a little different.

For as long as I've known you, you've been a peak oil disbeliever. And I've looked at it a little bit differently. I think of it as peak cheap oil. We're not going to run out of oil. What's going to happen is the amount of technological complexity that's required to extract it from the ground is going to keep getting more. And therefore the cost of extraction is going to keep getting higher. And over time the cost of energy as a percentage of GDP is going to get higher.

Now we've just for the last 10 years been on this amazing, amazing ride, thanks to, I think, central bank largess making so much money available to the shale patch. That all of a sudden we've got over-production of US shale oil.

What I'm starting to see is the rig count has been declining even when prices were reasonably economic. And we're starting to see a plateauing maybe of that US production growth. I'm not sure it's over yet, but maybe it's slowing down.

The way that look at this, Marin, is I don't think the world ever comes to an end. We always find a new technology that's going to produce more oil if we run out of the last one.

But when we run out of the ability to produce oil using the fracturing and horizontal drilling technologies that have made shale oil possible, when that technology is not enough anymore, then we're really moving to higher prices. Because the next choices are deep-water offshore and Arctic offshore and all these things that are all possible but they cost a lot of money.

So the real question in my mind is how much longer does shale have left in it before the shale plays are played out and the industry has to start looking to other sources? And it seems to me like you want to be ahead of that. Before we get to that point, you want to have done all your buying. So how close are we?

Marin: Great point. And your comment kind of reminded of the big debate my friend Rick Rule and I had at a big conference in New Orleans in October-November of 2014. It's on YouTube. And his thesis was exactly what you're saying. It's expensive, it's cheap money, and oil will never go under %75. Oil was about $90 at the time. And I said, not only will oil go under $40, we will see certain producers be able to make money at $30 oil.

Let me explain. You talked about the decrease in drill rigs. That number is absolutely irrelevant. People use, for example – and I used the example of, historically speaking, guys used, in the industry they used to use – the dollar value of gas used to have a 6:1 ratio with oil. Especially when they do BOE (barrel of oil equivalent), because it is, on an energy equivalent, basis 6:1, just under 6:1.

And I said that is irrelevant in fracking because – it got to 20:1 and people were like, oh, gas has to go higher to match that historical average. And this was over 12, 13 years ago I wrote it. I said no, no. That is absolutely irrelevant. The price of oil and gas are no longer tied to that conventional BOE.

And I think the whole concept of BOEs is ridiculous because – it's kind of like gold equivalent: It's absolutely ridiculous because recovery rates are different. And the price the smelters pay for you are different. That's a side point.

But what I'm trying to get at is the number of rigs used just five years ago. A rig that is designed today, like a fifth generation rig, will do the trips –

For example, when you drill, then you pull up the drill bit to change the bit. The bits are getting 4-5-600% better utilization rate because the composition is increasing. It's getting more specialized to the specific type of shale.

Then they realized with more examples, oh, we're going through this formation, let's use this type of bit. And then when we're through it, let's specialize it to the different bit. They type of fluids they're using. It's getting down to a science. So that we all agree that, rather than taking down your rig, they're walking them. And they're doing all these factors.

Just six years ago it would take 45 to 60 days to complete a serious major fracking, complete it – drill fracking, complete tie-in. Now you're looking at less than 20 days. And you're doing multiple more fracks. And the intensity, the sand, and all of those factors.

So, now, I believe the technology is getting to a point that is significantly increasing. You and I agree there. Where I think we disagree, I think we still in North America have 10 years, a decade of major running room. And stabilizing. And even in the near term, in certain areas, increasing production.

You look at factors like the flaring the gas in the Bakken and certain areas in the Permian. If the government just gave credits to the companies, carbon credit or some sort of financial benefit not to flare that gas, you would look at two BCFs of gas that could be imported and now the US guys could actually be competitive to the Russian gas sector in Europe on the LNG side.

So there's a whole geopolitical angle that the Americans can really rattle the Russians there too.

Now, that's just North America. Because we have existing infrastructure, the technology, the industry is built there. But what about Europe?

Now, you look at the infrastructure in Europe. The Russians haven't even started fracking. The Chinese started in the Sichuan Basin. But they're still a couple of decades behind to getting to where the North Americans are.

Europe is more of a political basket case, so, even though areas in France have significant potential for fracking, for shale, as does Spain, the UK –

The Bowland Shales with Cuadrilla, which I financed and was the largest shareholder before. Lord Browne, who used to run BP and Centric Energy and Riverstone, bought us out. Incredible potential.

South America, same thing. In Argentina and the Vaca Muerta shale.

But the infrastructure lacks.

So, in the near term, it's going to be all North America for the next 10 years.

Mexico has a significant potential.

And the key thing is to remember shale is the source rock for the major conventional deposits. What about the Saudis? They are just starting to explore the potential there. And they have incredible infrastructure. And the other OPEC nations are doing the same.

So I think in North America, you've got 8 to 10 years of legroom. Don't bet against the innovation and technology of the sector. And that's my beliefs.

And then I'm kind of risk-off in the developments. You know 10 years ago I did Cuadrilla and other things. But you realize we got out and did well there. But it's a much harder play than in North America.

Erik: Okay, Marin, so your outlook is that for at least the next 8 to 10 years shale will continue to be a viable source of oil. And we're certainly going to need it. And I think that who's to say how low prices could go?

But, at least before this Iran kerfuffle came up, and I do think it will eventually blow over, we're probably going to get back down to some prices in the 40s.

Is that kind of where you get excited and start buying? Or do you really get excited and start buying in the 30s? Or is your process disciplined in a way where you never get excited and you're just methodical about doing a certain thing at a certain time?.

Marin: Unfortunately, my family and friends put me in the latter group, that I never get excited because I just stick to the numbers. I think once it touches that 40s, look at the metrics on the financial balance sheet of these companies. And, just because the WTI price or the Brent price may be $44 or 4$5, that doesn't necessarily mean what your company you're looking at produces.

So you've got to look backwards from their financial statements. What are they getting at the wellhead before? What are their costs in the pipeline? So you've got to look at every company's balance sheet. And I think that's a big mistake is the generalization going on: It's $50 oil, this is great.

And then you look at the differentials to ship by rail or the pipeline, tariffs. You look at it and go, wow, this company is only getting $28 a barrel. So you have to look at the balance sheet. But definitely I see, I kind of –

My friend Raoul is a ultra-bear on oil. He thinks it's going down to maybe even break $20 or in the low 20s. I don't know if we get that low because the reality is that very few – that's the lowest cost quartile.

When I went to Kuwait in the Middle East, a fantastic well in Kuwait, the top-tier in Kuwait works at you know $20 oil. But I don't see any unconventional in North America breaking even at $20 oil.

So would I get excited at that price? Almost definitely. Do I see that? I just don't. I think we see maybe the 30s, low 30s, mid 30s, high 30s, low 40s. That's kind of where I'm getting, where I see the sector going. I wish I had a number for you, Erik. I just don't. It's more of a range that I see.

Erik: And tell us your strategy as you get into these ranges that are attractive to you. Is it entirely looking at small producers where you can get in on financings and early equity terms? Or are you looking at more established firms? Is it a combination? Tell us how you approach the field.

Marin: Great question. So in this cycle where we are right now in the shale, you do not need to take that, you know, a private placement in a startup that has high risk and execution risk. Because the intermediates, the guys producing anywhere from 50,000 barrels a day to 200,000 barrels a day .are priced like a junior. And they also – because of what's happened in the sector with the selloff.

For example, the Canadian Pension Plan is the largest fund in Canada and it has essentially zero exposure to the Canadian oil patch.

These oil companies are very – they're like cockroaches. They survive. They know how to survive multiple cycles. But in this sector, a family office or a smart accredited investor gets his broker or he does the extra work himself. Or what I'm doing.

I go to these bigger companies with cash flow, with dividends. And they will also, as they expand their infrastructure, or build a pipeline, they will need financing or debt or a combination thereof. And that's my process.

And once I – in Canada I've narrowed it down to stocks I really want in my portfolio. And now it's be patient, let's wait for our first tranche. You buy your first 25%. Let's see how it happens. Let's see where the market develops. And sometimes, it takes off.

You know, for example one of our gold stocks, we bought only our first tranche, we're up 35%, and that's it. Now I'm going to wait to buy my second tranche and we don't have our fill , so I have my quarter position in that one stock that I've wanted.

But you've got to stay disciplined. You can't chase these stocks. These are very volatile sectors, Erik. And patience, you've got to play the long game. Don't expect to become a Warren Buffett within a year.

I've been doing this for almost 20 years and my strategy has worked. At times it's boring. Because people, the biggest mistake a subscriber makes is they subscribe today and they say, okay, I've got $200,000. Now I want to invest it all on Tuesday.

That is the process of failure. The process of winning is saying, okay, how much of my portfolio do I want towards energy? And then within the energy, how much do I want towards oil? How much do I want towards uranium? You break it down. How much of my portfolio do I want in precious metals?

So, for me, I broke it down in our newsletter saying 25% of my portfolio, my net worth, is in the precious metals sector. And that's across physical gold, producers, explorers type of thing.

And then the oil patch right now, I'm very underweight. I have almost no exposure to the energy sector. I have one position that I'm waiting out on. And I'm looking to add to it. Well, I'm going to publish my favorite stocks on that. Subscribers get two days to buy before I do.

And the beauty is that these are big, liquid companies that are paying dividends. They're going to survive at $35 oil, that's the stress test. And that's where I kind of see the market pulling back. I don't see $75 oil any time soon. I see $40 oil before $75.

That's kind of my process, Erik.

Erik: Well, Marin, that's one place you and I definitely agree is that, assuming that the geopolitical situation blows over, which I think it most likely will, that we head back toward lower oil prices. When we do, let's talk a little bit more about your strategy.

Because you tend to invest in some smaller companies. And, quite frankly, there has been some fraud and some outright misdirection that has occurred in the shale patch. How do you know that you're not getting suckered in terms of getting into a deal with maybe a company that really doesn't have all the resources it claims to?

Marin: That's a fantastic question and a big issue I see in the markets. It's not just in the oil patch. You see fraud in all of these juniors. I know I'm known as a junior guy, but over 50% of our portfolio is actually dividend-paying big stocks. But the market loves that 10-bagger story, so that's what I've been famous for in our sector.

Regardless of that, you have to go and get to know the management team. You've got to go to the site. And the reality is, I get it. A teacher, a doctor, a construction guy, a realtor, a businessman, he's busy with his family and his workday life. He can't go and do that. And, sadly, they are at a disadvantage. Believe it or not, most fund managers –

I'll tell you a great story.

In 2014 I took about 65 guys in the industry, who are well known guys in the mining sector. And we got on a bus as an invite only thing. We took them out to my copper mine that I was one of the founders of. It's the third largest producer in the country.

And as we go up, we had a microphone. And I said, look, I want every guy to come up in front of this audience of 65 on the bus – it's a three-hour bus ride from Vancouver to Princeton – and let's talk about it.

The first thing I said, okay, guys, this is the story of Copper Mountain. We started it in '06, blah, blah, blah.

And I asked, how many of you guys have actually been to a producing mine? And it shocked me. Less than 10 of the 65 guys – and these are some of the biggest names in the business and fund managers in the business and brokers – less than 10 put up their hand, of 65, that had been to a producing asset.

So it really signified that difference of going to the site. We've got a team of geologists and engineers here. You go out and you've got to use independent research and know the management team. Go to their office. Get to know these guys' lifestyles. And it's not that hard to figure out what the hell is going on in the game if you just put that extra factor.

You know, the most famous scam in the industry was Bre-X. Well, interestingly enough, my partner was on site and he said, wait a second. Bre-X isn't producing and they're the same market cap as Freeport?

So you've got to use a little bit of street sense. So, hence, that's when Doug Casey sold Bre-X. He got in at 25 cents, he sold it out over $200 because it was just, wait a second, this makes no sense. How can you be priced the same price as the world's largest copper producer?

So it comes down to doing your true due diligence. You've got to be street smart and you've got to be financial savvy. You've got to have the geos and the engineers that know what they're doing.

And a big scam that nobody talks about in the industry, Erik, is so many analysts and fund managers in the business depend on the technical reports written by these companies. And I say, guys, this is a 400-page document that everybody thinks should be a pure document, a true technical document.

But I do it differently. I have a database of every single one of these companies. I have a database of all the engineering firms that do this. And the engineering firms, you have to remember are paid by the company. So they work with the company to publish a result.

And, generally speaking, whoever pays your check is your boss. So these engineers, even though they're trying to be independent, they're paid by these companies. And they have to sign off on people.

And I believe in Pareto's law. It's a pure mathematics thing that I apply to all of my financial investments. A winner is a winner and a loser is a loser.

And so many times these engineers at these different firms, they bounce around from one engineering firm to another. But they can't change their name. So I track – before I go down to a 43-101 or a pre-feasibility study or a bankable feasibility study, I break down all the names.

I search back to their last 10 projects they've worked on. And I see, wait a second, this geologist said this. Oh, the deposit had 40% less gold when they put into production. And you see that this is a pattern in this individual's behavior and his technical ability.

Or an engineer who did the metallurgy and said, oh yeah, it's a 90% recovery. When they put the project into production, you realize that it had 70%. Well that's a big difference. And that's a difference between being economic and uneconomic.

Generally speaking, you have to follow not just the money but the people. That's another aspect that we do. Before I even start into the technical, I look into who signed off on this technical report and how good was their past work.

Because there's no guy who is a loser, loser, loser, loser, completely wrong in all his projects before, is all of a sudden going to become a great geologist or a metallurgist or an engineer. There's patterns to success and there's patterns to failure, Erik.

Erik: Let me understand, then, how we came to what I think is really your first oil-focused deal that you've described in your newsletter. Because I've been watching the newsletter. And I know from talking to you off the air that you've been thinking that it's time to start focusing on these oil deals.

I was expecting to see some kind of shale producer, some small company. You're very good at getting in on the ground floor with small companies, somebody producing oil.

And of course, the deal that has been presented to your subscribers, which we can talk about now because it's closed already, is Universal mCloud. And when I first heart about this, I thought, okay, it must be cloudy skies in Canada someplace where there's an oil producer if it's called mCloud.

No, this is like cloud computing. This is an "internet of things" company that Marin Katusa is involved in. And I'm thinking, wait a minute. Marin is the commodities guy, this is like a high tech thing. I don't get it.

I do now get it, but please explain for our listeners where the connection is between oil and Universal mCloud and what they're doing with their sensors and so forth.

Marin: For sure. I got a lot of feedback on that one. I've known the management team for over a year. And when they came and pitched I said, okay, let's see what they do. And essentially where I thought was incredible potential was what they were doing in the oil patch.

And, like I said, nothing creates innovation more than a downward price in the price of oil, specifically in Canada. And that creates innovation.

So at the oil head, they now have sensors where every second you could analyze 500 different data points between your sulfur level, your water level, your pressure, your different aspects. You know your API.

So many of these independent things that three or four years ago they didn't have. And the technology now has gone to the point where it's readily available.

Now the question is, what does the company do with all this data? So Universal mCloud, one of their subsidiaries is called Autopro. And they really are a massively growing innovative company that has over $30 million in revenue, just off of what I call the FitBit for the wellhead.

It tells exactly what's going on every second with hundreds of data points. Therefore, if the price of oil or your well pressure head or your sand level, it will be able to optimize each of these wellheads.

And that's just one aspect.

Then you look at all of these existing – take the oil sands or a battery for the oil where all the oil goes to be held before it goes into the pipelines. Or just your gasification plants. All of these factors, it comes down to – you've got to send a crew to innovate.

And how do you get enough guys where, you're in the middle of nowhere. You've got to send a welding crew. You're looking at a couple of thousand bucks an hour to replace a valve or whatever goes down.

And you've created this ability where they've already pre-scanned – think of blueprints for a house. They make it 3-D and each point has a sensor that is telling and it's predictive on how much of the valve is still existing, or the pressures, you should take this out.

Or, more importantly, when it does go out now, you don't need a senior guy because now you put on a headset and it walks you through in 3-D what to do. And it's proven to improve the speed by over 30%, which reduces the costs of maintenance. And that's a huge thing, is about utilization rates and downtime.

So this company is cash flowing. They make money. The way I structured it was they went to do another deal and they were going to raise $10 million. The management team were going to take 5, and a bunch of bankers were wanting them to go on tour.

And I just told Russ, who is the president of the company, going, look, I will do half of it personally but I need these terms. And it was a convertible debenture. And the convertible debenture feature pays me and all my subscribers 10% cash quarterly for three years. But if we convert the stock, we get a unit at 50 cents and a full five-year warrant at 75.

And you look at what's going on. They haven't even started in the US, which they will.

And then there are other aspects like the HVAC business. They did a deal with Bank of America, Tim Hortons, Starbucks. And they're just about cash flowing and just smart business. I expect much larger funds in Canada, REITs coming in. And it's just smart business.

So I structured it where we get paid 10% for three years. And if the stock takes off, fantastic, we convert and we're going to make a lot of money. And if the stock just stays where it is in revenues, they're able to pay the debt and it's a nice pass is the way I see it.

I actually believe in this management team who I've gone and spent time – and you go to their office, you go to their assets. You realize they own 43% of the company themselves, post- the financing we did. They've got skin in the game. They've done it before. I'm willing to back these type of right people.

So that's where that was.

Erik: Now, when I sent my subscription form in, they promptly sent it back and said you only get 80% of what you're asking for. And it's good to see that there is plenty of demand for this. But does all that demand potentially put pressure on the terms that investors are getting in terms of where these conversion prices will actually occur?

What is actually guaranteed in this debenture? Is there a specific conversion price and time?

Marin: Correct. So for three years, every single – this debenture is going to be publically listed and traded. So it's like a stock. I believe it's going to trade – we did like a 30-page report for all the subscribers and we showed the true value of that debenture.

We think it's going to trade at a big premium. It's going to be listed at $100. We think it's going to trade out of the gates north of $110. So you can sit there and say, well, I've already made 10%. Do I want to wait a year? Or do I want to sell it to someone who wants interest or income or a dividend?

And then for three years, it's only a three-year term, for three years every debenture holder has the right to convert into a unit at 50 cents. So if you put $10,000 into the debenture, if you can collect $1,000 a year, or – you get the right to $10,000 in, you can convert to two $20,000 units at 50 cents. And, with that, you get $20,000 more and it's at 75 cents. The stocks goes to 80 cents or a buck, you've got a nice win there in a debenture.

That's how we've structured it.

Erik: Now, is this representative of what we should expect – I mean this is kind of out of character for Marin Katusa to be doing – sensors and "internet of things" and high- tech stuff, which is really cool. It's bringing automation and sophistication of technology to the oil patch. It's great.

But it's out of the usual norm of producing resource companies that you usually invest in.

What should we subscribers expect? Is this the new direction that you're headed? Is technologies where it's at? Or is this kind of a one-off?

Marin: Remember, I personally backed the financing. So it's about where I'm putting my own money. And I'm looking at aspects and it's just about valuation.

This company trades at less than a 0.4 NAV compared to its peers. It's just a cheap deal.

And, look, we have this thing called alligator investing that I kind of talk about all the time. A lot of people don't know that an alligator can go over a year without eating. It controls its metabolism. I just find that species just incredible. I'm just fascinated by them.

And when you take that predator approach, going, you know what? I don't need to buy a stock every month. I don't need to trade in and out. If I can just wait and be patient – it's kind of like Warren Buffett's philosophy of waiting for the fat pitch. Remember, you don't have to swing.

When I became one of the largest shareholders of Altera Power –this is perhaps before I was on your shows – but people were like, what the hell is Marin Katusa doing investing in green energy? I thought he hated green energy.

Well, in 2009, I publically said this stuff is so expensive, it's priced to perfection. And, interestingly enough, the chairman and the largest shareholder of Altera at the time was on a panel with me where I said his company will go down between 50% to 75%. I don't know when. It could be six months. It could be 12 months. I don't know. But right now if you analyze the company, it's priced to perfection. At that time it was priced at $25 a share.

That was September of 2009. It's on YouTube. Ross wasn't too impressed with me at the time.

By 2014, I phoned him up. So you're talking almost five years later. And I said, Ross, your stock is $3 now. I would like to become the second largest shareholder. He owned 30%. I ended up buying just under 10%.

And the market was shocked, going what the hell is Marin doing? How could he like green energy? We're mining people.

And I said, it's got nothing to do with what your belief or my belief is. It's about making money. And Altera was so cheap at $3.50 that I just – For two-and-a-half years, Erik, I wrote about it and pounded the table on it.

And people were like, ah, green energy doesn't work. And I said, well, in 2009 it didn't make sense. But the innovation in solar panels, the cost reduced by 90%. You look at the credits that the company are going to get. This is now – the company has actually built these assets, they're cash flowing and paying a dividend. And it's 80% cheaper than it was just five years ago.

What about this does the market not get? But because there was so much fatigue – people just sold it and didn't care. You know. And then in late 2017 we got an $8.25 bid by Energex and it was a great score for our investors.

So I will go wherever I see things that are cheap with significant value upside. And I'm kind of off-risk right now because the resource sector has gotten so cheap, I don't need to put on body armor like I used to do in 2010 and '11 and '12 and 2005 to go to parts of the world that may not want you and you need to have private security.

That's bull market stuff. We're in the bear market.

Now I can just drive up to a site that pays me 8% dividend. I can see the stock tripling in a decent market. Why do I need to go somewhere where the person looks at me as a pirate or a predator? I don't need that. So that's where I'm in the market.

So I don't know when I'll be able to buy these oil stocks that I'm all excited about. It could be in three weeks, it could be in three months. But I really don't care because I've done my analysis. I'm just going to wait for the price to come to me, like an alligator, and then pounce.

Will I continue in the "internet of things"? I don't think so. But if the opportunity is so incredibly valued and it's a right structure and I'm going to get paid to hold my stock, I'll definitely look at it. But right now, I think I've nailed the best one in the sector, the cheapest one. I don't need more of it in my portfolio.

Hopefully that answers your question.

Erik: Okay, well it sounds like what we should expect, then, to watch for in your newsletter in coming months is the plays on the actual resource producing companies. And it sounds like it's just not time yet to buy them. And I'll look forward to seeing that when it comes.

I do want to stress for any newer listeners that Marin's newsletter is really not for beginners or small investors. It's an expensive letter. It's one of the best ones around. But it's not cheap. What is it $3,500 normally?

And Patrick has beaten your guys down again. So the offer for MacroVoices listeners is $1,999 ($2,000 basically). I should stress – it's a great newsletter, I'm a subscriber myself – this is not for somebody whose total portfolio is $10,000. You've got to have some significant assets in the resources space.

Do you have a guideline, Marin, of how much money somebody should have in the natural resource sector?

Marin: You have that angle where, obviously, you don't want to spend 20% of your fund on research. That doesn't make sense. But I created this – it's kind of an interesting story. I didn't go to school to become what people call a newsletter writer. I don't even see myself as a newsletter writer.

In fact, I'm probably the largest financier, bigger than most firms in the sector because of the size of my following. And we take no fees off of this. And one thing I want to emphasize, we've raised 100s of millions of dollars for these companies we believe in. And not a penny has come to me. Zero, zilch. Because I believe that the market has changed.

Why do I need some analyst when I've got 10 of them and they're all better than any of the firms out there. We have our skin in the game. We ae the largest investors in any deal we do. And it's about learning and the education, my framework, my process.

When I first met Doug Casey and all these guys back 18 years ago, Doug was fascinated with my process. He's like, wait a second, you went to the site on your own? I go, yeah, why not? I was a young guy. I was a hustler. I did quite well in the markets. I started structuring these deals.

And then I started writing for Doug. Then I took over managing all his money. And I kind of find it funny that he's the chair of a competitor of mine and he's one of the largest newsletters in the business but yet I manage all of his money. It's almost ironic.

So many of these other newsletter writers are not allowed to buy stock that they talk about. Now, why would you ever want to take advice from someone that has no skin in the game?

Number two, I do this – people go, why do you bother writing a newsletter? What the hell is the point? Arent't newsletter writers cheesy? Yeah, you're right. Most of them are total knobs. They're paid-for pundits. Stay the fuck away from all those morons. Okay? That's the number one rule.

Now, guys who – there are certain good guys that do the style, but they don't write flashy. They're not guaranteeing – if you listen to their way of saying, look, be conservative, use $35 oil in your numbers. I don't use $100 oil. If anyone's talking about 100% oil, stay the hell away from those guys. Or guys talking about $3,000 oil in their analysis. Stay away from those guys.

It's about deal flow. So you look at mCloud. How did I get those terms that no one else in the market could get? He knows that, number one, that meeting, he doesn't have to go across Canada and spend two weeks trying to raise the money form all these brokers and guys that want 8% finder's fees and all this bullshit like that. I said, look, if you do 5 I'll do 5. Here are the terms that work for me. Let's roll. And he knew that I would get it done.

Secondly, I said, and I'll bring my subscribers in and we take zero fees. So I do this for deal flow because companies need access to the markets. And because now I've built up the largest resource newsletter, I've got thousands of people – I call them my alligator club – that are all looking to be predators like me to gobble up stock at the best price in the best companies that have the biggest upside.

That is why I do it. Because I am much stronger with my alligator pack than if I was just a fund manager noodling away on my own. That's why I do what I do, Erik.

Erik: Well, Marin, I could go on for hours and hours talking about this stuff, but we're going to have to leave it there in the interest of time.

Listeners, again, the Universal mloud deal that we've been discussing, which is just fascinating to me – internet of things, sensors in oil fields communicating wirelessly over the internet, it's cool stuff – that deal is already closed so it's too late for that one.

But information about Marin's newsletters for future opportunities is at katusaresearch.com/macrovoices. That's also linked in you Research Roundup email.

Don't forget the "/macrovoices" because that's the part that gets you the $1,500 dollar discount. And that is a 30-day money-back trial, so by all means feel free to try it. And if you don’t like it, by all means you can cancel with no penalty whatsoever.

We are going to have to leave it there. Marin, thanks so much for a fantastic interview.

Patrick Ceresna and I will be back as MacroVoices continues, right here at macrovoices.com.