MACRO Voices
with hedge fund manager Erik Townsend

Marin Katusa: How to Play the Secular Gold Bull Market

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Erik: Joining me now is Katusa Research founder Marin Katusa. Marin, it's great to get you back on the show, it's been too long, I just had Professor Stephanie Kelton on a couple of weeks ago and it blew my mind.

We've had more reaction to that interview than anything we've ever done on Macro Voices, and what surprised me was people are angry at me. The sound money crowd is upset, they're like you had the traitor on your show, you've defected. And I'm trying to tell these guys, look, I'm not endorsing this, I'm telling you, you got to get ready for what's coming, like it or not Stephanie Kelton has really one of the most influential voices in public policy and finance right now.

How do you see this? How should gold investors be thinking about MMT? Does it make sense to dismiss it? Or should we take it seriously?

Marin: Look Erik, I think anyone who's dismissing it is absolutely overlooking the biggest framework being applied not just in the US but there's about 65 countries in the world that have independent monetary and fiscal policy. That means that they can actually apply MMT, there's 192 countries in the world or somewhere around there, so you're looking at this is the new framework.

We've gone from the Austrian world of the gold standard, which, I am one of the largest players in the gold sector for financings so I have even more pushback than you. When I talked about the swap lines all these guys are like, what are you talking about Marin, and they still want to play by the gold standard rulebook and that's just no longer the framework. Specifically, if the Democrats do take the US election here, which you know, right now, it's tilted in their favor.

Stephanie and her crew, like Warren's one of her mentors, these are highly influential people, but more importantly, not to the old crew of the Hillary or the Biden or Bernie Sanders, they're still also somewhat stuck on the old rules playbook. When Bernie Sanders said we'll give Medicare to everyone for free, Hillary responded with, how you're going to do that? How you're going to pay for it? Well, the next generation of the left, they're not going to ask those questions because under

MMT taxes this is not how you fund the government program like you do in Austrian economics, or early Keynesian economics.

Taxes are two things, they create a domestic demand for the currency, which the government is the issuer of and think of it as a tap, it controls the tap on the inflation within the sector. That's what taxes are about in the MMT framework, so for all the gold guys out there, I am a gold guy, but you have to understand that MMT is not going to be a short term. Like how QE just kind of popped up to kind of be a band aid solution, I truly believe MMT is not just here for a year or two or five, I think it's going to be decades of MMT.

And look at Japan, they've been doing it for almost 30 years and they've not been able to get the inflation going. So the demographics and all these factors, I think what Stephanie Kelton is doing needs to be specifically understood, this isn't even taught in universities yet, it's a real time experiment and it's happening now Erik.

Erik: I really want to ask you because you're a dyed in the wool gold guy and this is the part that a lot of listeners really push back on me on what I said is, I think that when they do this, it will be perceived as fabulously successful for the first several years. And a lot of people got very upset with that, they said, you're crazy it's going to blow up the system, it'll never work.

How do you see this? Because I think that it's going to have the appearance of working just fine for a while, eventually it will lead to serious problems but at first, it's going to appear to be a success. And that means it feeds on itself and they're going to spend and spend and spend, and it seems to me as you say that the key to this, if you don't have to tax anybody to spend, they're going to spend like there's no tomorrow. And it seems to me that the debasement of all fiat currencies, not just the US dollar, but all global fiat currencies, is headed into a new phase of acceleration, which has to be good for gold. Am I missing anything?

Marin: Well, what I would add first of all is I'm with you on this. Second of all, as you know the Euro goes digital, think of it as people forget that it was the US that held on to the gold standard 40 years longer than Canada, the UK, Germany, Russia, China and Japan. It was the last, Switzerland is a different story but I mean the nations that had a big military and large economy on that basis.

I also believe that the US dollar will probably be one of the last major currencies to go digital and in that shift, as you go, digital gold will be even more dominant as an off digital currency. Cash is going to be kind of pushed out but gold will still be even more and with that you're going to have a few of the cryptos and you're going to have the government cryptos.

You're an expert in that you wrote your book and when you came to my conference we really tried to explain that to people. But yeah, look, at the end of the day you're looking at gold and more specifically where are they finding gold Erik. People forget that you look at the last 30 years of gold exploration, over two thirds of the exploration dollars have been in the last decade, but they found less than 10% of the gold in the last decade versus the last 30 years.

And more importantly, where are they finding the gold? They're not finding big world class tier one deposits like they were 30 years ago and the time to develop these is getting ever longer. And more importantly, is in what jurisdictions the political risk, look, in the last 60 days, you've had over 15 nations increase taxes, royalties, ownership structures on foreign owned developed mines, that trend is going to continue.

And the governments around the world, I know this is going to piss off a lot of our viewers in this, but the US dollar still is the currency of choice. For all those people who are saying the won is going to dump, the Chinese are going to dump their dollars in the Treasury, well, that's not how it works. It's not like they're going to go to the Fed and say give me my $2 trillion back, that's not it's digits on a ledger.

And Erik, most importantly, it's they can't go and use those US dollars to buy oil from Iran, you have your sanctions list, and they can't convert it to gold. So that whole concept that they're going to dump it into the market is ridiculous and why would they do that when they're pegged to this currency, so, there's a whole issue there.

But look what happened with the Ant (Ant Group) IPO, Jack Ma got a little bit aggressive and made some comments about the banks in China and boom, they pulled the IPO. Now, what is the real reason? Who knows? But the point is why would you want to be investing in a regime that can change on a 180-dime based off of some comments. So at the end of the day, as bad as the US dollar is, it's still better than the others and slowly, gold will be much more attractive to non-US individuals.

And this is something you and I talked about a couple of years ago, if you're in Turkey, Argentina, Yugoslavia when it was still around, Russia, and any of the stans, your devaluation if you had some gold, it was an ultimate inflation hedge. Americans aren't thinking that way yet, but the rest of the world is.

Erik: Here's the thing I really don't understand, I'm reading the work of some people that have been around the gold industry for a long, long time and they're saying you got to understand this bull market is a bull market, but it's pretty well developed now. The price of gold has just about bottomed from that low that it hit a few years ago, up to the recent peak it's just about doubled.

And people are saying this is a great bull market, but maybe, to use the baseball analogy in the seventh or eighth inning at this point.

Now, I know you just wrote about this in the last episode of your newsletter, share your perspective, because I don't think we're anywhere close to the eighth inning. How do you see this baseball game?

Marin: First of all, I totally agree with you and how this all kind of came about was my good friend Ross Beaty and Tom Kaplan and I did a little bit of an online interview for this large conference to give the keynote talk. And Ross kind of said, well, I think we're in the fourth or fifth inning and Tom said, well, I think I'm in the early innings, and I kind of sat there and I went, I actually don't think we're in the big leagues yet and let me explain why.

I think we're probably in the seventh or eighth inning of AAA ball, we're in the farm leagues, we're playing in stadiums that hold 2000-3000 people, not Wrigley Field with over 50,000. You look at the large funds, the pension funds, the sovereign wealth funds, you look at that incredible amount of capital in the passive management sector and that's continuing to grow. You look at where Canada is for the number of companies listed is on the gold side as well over 450 and then you look at the gold companies on the New York, you got somewhere around 40.

So the prime time, you know, the big leagues is the New York Stock Exchange now, why? Well, look at the financing sector where the money is coming from, over 80% of it is American money or coming through America. Yes, Canada is the capital of financing for these companies because it's the industry, it's where the geologists and engineers and the companies are, but the capital is not coming from Canada or Australia, it's the fact of the matter is it's coming from the US.

So when You have the qualifications to list on the New York Stock Exchange, that's the big leagues. I'm Canadian, I'm a big fan of Canada but here's the reality of it, there's too many garbage companies that are listed that are taking up space. And the big money is not going to take US dollars converted into Canadian dollars get dinged by the brokers.

And most of the brokerage firms like the banks in the US can't even own or buy these stocks and the financing, so the mining sector has to adapt and evolve and go to where the customers are. And frankly, I know people are going to hate when I say this, but that's the US exchange, so I don't even think we're yet in the big leagues yet.

And for where I am at, I only want to own assets that are big league available, tier one category killers as Tom Caplan calls them with tier one management teams that are heavily invested. Meaning that their life is going to be much more impacted if this doesn't work than my own, meaning they got skin in the game. And these are assets that are going to track the capital of the passive management's, look at the GDXJ for example, that's the junior sector, they're not buying any juniors, meaning sub hundred million dollar market cap, they're not doing that.

A junior to them is something like equinox, which produces well over 500,000 ounces a year, that's when the juniors come to the big leagues, so that's where it's at. And a lot of guys have a hard time because the industry Erik is based off of, I call it Bs and fees, or fees and Bs.

The bankers love their fees, they charge 7-8% commission, they charge 7-8% in broker warrants, the lawyers get it, the accountants get it, it's kind of like an old boys club. The exchange charges these companies for listing, you know, the exchange is a business in itself and I'm making a lot of enemies talking about this, but it's the reality of the situation.

Erik: I want to come back to the Canada angle of this and companies that are listed in Canada because I know you've written about that recently. But first, I want to go deeper on this question of hitting the big leagues because it seems to me like look for years and years now sure there's a lot of these companies listed in Canada but there's also plenty of gold mining companies that have been listed on us exchanges for decades.

And frankly, it's stuff that gold bugs buy you know, we had Milton Friedman calling gold a barbarous relic and so forth. Really institutional investors almost as a matter of reputation risk, don't want to hold gold in an institutional portfolio because that's just not done anymore. I mean, if you look at what's going on with MMT about to change the world and in all fiat currency, on the verge of being debased.

It seems to me that when you get some kind of catalyst, where it becomes culturally acceptable for institutional money managers to have gold mining shares in their portfolios because they understand the macro argument for it. All of a sudden, the world changes and floodgates open, what is the catalyst?

What does it take to change the investment mindset to get all these institutional guys where the really big money is to say, wait a minute, we used to think of gold in gold mining shares as kind of all those kooky gold bugs, but you know, maybe there's a time and a place for everything. And the time and the place for gold is right now when Stephanie Kelton and company are counseling governments on how to debase fiat currency all around the world.

Marin: The simple answer is this, I published a report talking about the yield of over the last 150 years from the mining companies and it all kind of changed in the late 70s and 80s when MBAs and accountants took over these companies, and it no longer became a business. A business is like your business or my business or any business, you want positive cash flow, you want to make money at the end of the year. And the mining sector became about, specifically, the gold bugs started dictating the terms and it became about growth, it became about production, it was based off of higher gold prices.

So let's go down the food chain on the projects, it's got to go back to the basics and you look at Barrick run by Mark Bristow, or another great example is Agnico Eagle run by Sean Boyd. These guys have come out publicly and said, yeah, gold's 1900 bucks but we're not using 1900 dollars in our RMA we're going to use 1250 or 1300 dollars. Why? Because look what's happened in the last 20 years, massive wealth destruction, many CapEx overruns, well, everybody wants to go build a mine at the same time.

When we built Copper Mountain, when we started 14 years ago, we had to sign up three years in advance to get a crusher. You know, the big sag mills in the ball mills and we have to wait in line and we were like number 48 in line and if we didn't make our payments, we wouldn't get the crusher to site by 2010 or 2011. This is back in 2008 while the global financial crisis happened and a lot of companies just bailed on making their payments so we accelerated and got it earlier.

But my point is it's the classic boom bust setup on such a cyclical business, until it goes to a basic cash flow, paying yield, increasing yield. In that standpoint in an MMT world, where we're going negative, where the governments are going to increasingly buying their bonds, that's when the gold companies will go into the big leagues and will become primetime.

And not just the active managers, but the passive management money will start coming into the sector because people want to get paid and make money off of sound business. Not speculation, meaning gold has to go to 2400, then I get paid, that ain't gonna work for the big leagues, it's got to be a real business.

Erik: Now, for the benefit of our investor audience, let's talk about the different leagues if you will. Because on one hand you've just made a very good argument that says, look where the really big action is going to happen eventually, it has to be in US markets, which is where all the capital is, that's where the world is really going to change. But at the same time, you just wrote in your newsletter quite extensively about the culture of the Vancouver finance community and why they tend to put all these new gold companies on Canadian exchanges.

Tell us a little bit of that about that, particularly, do investors really need to be prepared to invest in Canadian dollars? Is there something you gain? Is there an advantage that you get if you're an American investor to going through that hassle of opening an account that's able to trade the TSX and converting US dollars to Canadian dollars and all that? Is there a reason to do that? Are you better off to just stick with US listed companies if you're in the US?

Marin: Look, when it comes to early stage exploration and when you do a financing, you get a warrant. The earlier stuff is listed in Canada which 99% of the time the financings are done in Canadian dollars.

Now there have been financings that they would accept US dollars because these companies do need US dollars. They fixed the exchange rate and they move forward now that we've been involved in a few of those, but the point is that, yes, you should have the account available. But what people have to understand is if you're an American, like my fund is American dollars fund, now, in 2011 when we put all that money in, the dollar was par.

By doing nothing the US dollar fund, if you're investing in the Canadian stock and let's just say it hasn't gone down, it hasn't gone up, you would have lost over 30%, just because of the currency factor. So this is something that people have to really pay attention to when you start converting dollars, you also have to focus on the currency play that will affect your regardless of your investment.

Okay, so that's number one, and I talked a lot about that, number two, this whole belief that you have to buy something really early stage. With these geologists with a box of crayons with maps who dress up and try to look like Indiana Jones and they were socially awkward in university and now they think they're studs because they're using public money at bars. And they're doing that game, like I've been there done it Erik, okay, and you don't need to play the early, super high risk to get the returns.

I've talked about this for years in my newsletter, you look at the big caps, they've actually outperformed the juniors and you're looking at way, way, orders of magnitude with less risk. Okay, everything's about what is my risk adjusted return, what type of risk am I taking for this return and I sat there a few years ago, saying the game's changing, where's the money? And the big money kind of ended at 2011-2012 when the big funds got so burnt by playing the illiquid.

Other currency playing the Canadian if you're American dollars, and this early stage stuff that they didn't quite understand and the promotion all the factors that come into the game, where they're looking at it going. Can I make four times my money on an Equinox that's now on its way to produce a million ounces? Or like in our newsletter, we made three times your money on a million-ounce producer called B2gold run by my buddy Clive Johnson.

The point is, you look at these exploration stories, taking all that risk, and they've doubled or tripled. Now, me personally, mathematically speaking, if I had a junior that went up five times but it's very risky, say a sub hundred million market cap, 50 million market cap that goes up five times or mid cap or a major that goes up two or three times. I would every day of the week, take the double a triple over that five bagger because of the risk involved.

And I can walk through hundreds of examples why, liquidity, the risk adjustment returns, the depth of the bench of assets, is this a one asset company or does it have a portfolio, all these different factors and the money. The bell that was rung that the industry ignored was when the GDXJ restructured about three four years ago and said, hey, we were created.

The GDX was supposed to be for the big companies and mid tiers that are pretty producers and the GDXJ was supposed to be, originally inception was for the discoveries that companies that are going to develop into producers. Well, you know, is V2 and Kinross a junior? Well, they're in the GDXJ, so there was a huge pivot because they significantly underperformed. The investors didn't want to own it so the manager said we either have to adapt and change, or we're going out of business, so they adapted and changed.

So in this business, you can still think that the gold standard rules apply to economics and look I get it, like you and I get the reasons why people want to go back to the gold standard, but that's not reality. So you either play with the rules ahead and the framework that we have at hand, or you live in a bubble and if you're going to live in a bubble, it's going to pop and it's going to be awful for you.

Erik: Marin, let's come back to the MMT prognostications that we started with at the top of this interview. You and I both think that we don't know yet as we're speaking on Wednesday, a day before this interview will air on our podcast, the election has not been called yet, there's still a bit of a leaning toward a democratic Biden win in the polls.

But we're not even sure of that, one way or another, regardless of who's president, I think you and I agree that governments not just in the United States but around the world are going to continue to print and spend money. That's going to mean a lot of infrastructure projects, it's going to mean, eventually, I think inflation coming into the economy.

What does it mean for natural resources? And particularly, where do we want to be investing? Is that in some ways maybe an argument for gold rather than the mining shares? How do we interpret the MMT prognostication and translate it to the market?

Marin: For sure, so regardless from a framework on economics, it's irrelevant who wins the election because the only difference is the democrats want to direct where the money is going to go and republicans want to have the free market kind of direct where the money is going to go. So that's really the only difference here, now, depending on where the Senate is the next two years is going to be a lot of gridlock if Biden wins, because it does look like the republicans will hold.

So the stimulus will still come, but it's going to be debated, and it's going to create more market volatility but regardless, we know what MMT is going to do. You have the sovereign wealth funds trying to dictate against carbon and all these factors so when you talk about inflationary, where you're going to see incredible amounts of capital come in, is the green energy sector. And this is something we talked about in March in the newsletter and in the green energy sector it comes down to one thing I wrote about this in 2015, Erik, cost of capital, that's it, that's all that matters.

It's not like you're having this geologist who's got a brilliant idea and he finds this gold deposit where no one else bothered looking with the green energy. It's, hey, what is it going to cost us to build this? What is our PPA? Our 30-year contract with the state or the government or the company's power purchase agreement? And what do we clip? What is our net gain?

It's really a financial engineering industry, the bigger you are the lower your cost of capital, the better you can grow, that's just how it goes. So a startup green energy company, its cost of capital will be anywhere between 8-17%. Well, if you take some of the big boys like Brookfield or Nextera, their cost of capital is anywhere between 1-4%, so through math, how could a startup compete, it just can't.

So my thesis is, again, stay with the big leagues, liquidity, and the market is going to be funding the big boys to continue their growth that said, what happens there? So I kind of coined this phrase called crossflation, you're going to see incredible inflation in areas like the offshore wind and the CapEx's cost overruns labor, the whole setup. And then you're going to see deflationary pressures in the coal and the natural gas sector that is going to be losing its market share to that.

So you're going to see deflationary pressures in certain areas of the energy patch and inflationary pressures. Now, here's something if you really want to get all these gold bugs thinking we're crazy Erik is I published something called the G Bo concept, green barrels of oil equivalent back in my newsletter. And I said, look, when I took on the Altera project, which got bought out by Energex, I tried to explain to the oil patch that their cost of capital was significantly lower than the green energy patch because the green energy patch went through its boom bust and echo with the first Green Revolution when Obama took over in 2009.

So what happened? You know, all these projects eventually got built but investors got bored of the reality of a utility because that's what green energy is. It's just a fancy utility that makes everyone feel good rather than burning coal or natural gas, it's windmills and sunlight and run a river and hydro right or geothermal.

Now, what happened then, all these oil companies you look at, Exxon, Chevron, I talked to directors of Suncor, all these massive big companies with hundreds of billions of dollars of market cap. And they looked at the math and they said, yeah, this is really cool, you're a nerd but we're a real energy company, Green Energy doesn't make money. And I would argue that actually guys, it does, look at the cost deflationary pressures, and they just didn't want to educate themselves.

Fast forward five years and this is where it sounds crazy, Brookfield today has a bigger market cap than Suncor. Now Brookfield is Canada's largest green energy company, Suncor is Canada's largest oil company, and Brookfield can now buyout Suncor and five years ago, that would have been a joke.

In the US Nextera is America's largest green energy company and it's got a bigger market cap than Exxon and people think that's crazy while the cost of capital for Brookfield or Nextera is lower than Suncor or Exxon. And they can now use the same math that the oil patch use where they took natural gas and converted into a barrel of oil equivalent using the formulas that I published.

And I think in the next 10 years, you're going to see all these Goldman Sachs savvy guys make the push and be funded by MMT because it's ESG, acceptable, it feels good, it creates jobs. And the only way you're going to phase out oil, which, the democrats have clearly stated they will, well is to own it.

Therefore, imagine a world where the green energy companies start buying out the oil patch and use the barrels of oil equivalent, you know, the green barrels. Where every barrel of oil is used to fund a new green barrel of oil and it's technically, mathematically, you can argue that the sun is an infinite royalty. And that changes the game for the oil patch, the cost, the capital, the recycle ratios, the return on investment, everything is in favor for the green energy companies to do it and how's it going to be fueled, MMT.

And if you think that it's not going to happen, I can guarantee you this MMT is not going to be plowing billions or trillions into the oil patch because that's not what the agenda is. So as crazy as it sounds, Erik, is it crazy that Tesla has a bigger market cap than Toyota, or GM or Ford? But that's the reality we're in.

Erik: Now along those lines, another question I wanted to ask you, I was talking to someone else the other day who's been around the gold mining industry for a long time and I was asking him about gold mining and the opportunities. He said, what I think the biggest opportunities in mining right now, despite what's going on with money printing and all this, it's not even in gold mining, it's in copper mining.

And the reason is, you've got infrastructure spend coming no matter what, regardless of who's in the White House, they're going to do a lot of infrastructure spend. And electric vehicles are huge copper consumers, there has to be a huge copper market. And this one individual at least thought that the opportunity in copper mining was even better than the gold mining opportunity. What's your reaction to that?

Marin: Well, look, what the individual is probably saying was copper porphyries and copper historically, the base metal producers have traded at a considerable discount to the gold producers. This goes back all the way down to Canada's greatest mining company, basically, the foundation of Barrick was a company called Placer.

Placer were the guys that really took copper porphyries big open pit bulk tonnage 0.5-0.7% copper, which, 35-50 years ago was considered low grade today is considered high grade. And what they did was they created considerable cash flow, like the largest mining companies base metal companies. Then when gold started rocking in the 70s, the gold companies because of gold bugs were a little bit less disciplined on the financial analysis of it all.

And they're going to hate when I say this, but here's a fact, Placer Dome eventually got bought out by Barrick in 2006. Placer was the mining guys, it was run by engineers, guys like Jim O'Rourke, Eric Scholtes. These are really smart, successful guys who built multiple mines around the world and is based off cash flow and yield.

But Dome Ventures was a gold company that was kind of cyclical and didn't really make that great of cash flow, but it had it traded at a higher multiple. So the bankers were Dome, it took over the real mining guys, that became Placer Dome and in the boardroom, the bankers were a little bit the bankers and accountants. And were a bit more savvy than the engineers who built the mines because they were actually working rather than manipulating and they took over and that's how Barrick became Barrick by taking over Placer Dome.

So today, the copper guys trade at a significant discount to the gold producers and whether you want to talk on a NAB basis, a PE multiple doesn't matter. But the big problem with the copper guys is now that the porphyries have the low hanging fruit that has been produced, the CapEx are very high and the market is very shy of that.

So, depending on where your porphyry is Erik, which jurisdiction infrastructure, do you have electricity? Is it a camp where you have to house and feed your guys with? Can they drive up from a town locally? All these costs, like labor is a big cost, electricity is a big cost, you got all the crushing which is a big cost, how hard is the rock the metallurgy? Where are you sending your concentrate? Where do I think the future is?

And I've been writing about this as copper porphyry with high gold and silver credits, not Mali. So there's different types of porphyries and you don't really want molybdenum byproduct because if you have a good gold byproduct or a silver, you can do a stream or a royalty on the on your byproduct and it'll help fund your copper. So yes, I believe that that's an interesting thing, I've been writing about it.

But again, Erik, mining is such a difficult business, just because you have a big copper deposit, will it be minable and is it realistic? And it’s so many factors that come into play, jurisdictional risk permitting where it is infrastructure risk, and all those different aspects.

Erik: Marin, let's tie this all together. Let's suppose that the hypothetical investor wants to allocate a million dollars to the natural resources sector and sees the MMT coming in everything currently has no exposure to mining, whether it be gold or base metals or anything else.

What percentage do we put into precious metals versus nonprecious metals natural resources in the precious metals space, how much of that goes into the big cap companies versus the juniors versus private placements in startups? What's the breakdown of how you would approach that for let's say, a family office or high net worth individual?

Marin: For sure, for 20 years I've seen so many booms and busts in our sector where you have the private money come in. First of all, don't make the number one mistake everyone does which is they're excited, they come in and they go, I've got a million bucks or 100 grand or 500 grand or 5 million, whatever the number is. And they go, I need to now get into the game and they start buying and buying and buying, that's the number one mistake, be an alligator.

And I use these analogies so people can visualize, an alligator can go a year without eating, it can control its metabolism. So number one thing is control your impulse, it feels good, I'm the first guy to admit it feels great to negotiate a term and be the lead order or be the big swinging dick in the room. You got to control your impulses, say super discipline, one of the biggest lessons I learned in the business is never try to compete with other financers in the game on terms because you're competing against yourself.

What you want to be doing is being the source of capital when there's no one else their number one. Number two work towards building your allocation, I do this thing called the trenches, I always talk about it, so let's separate investments versus speculations investments. Am I getting paid a dividend? Is this money as a company producing something? Are they building towards it? Or a speculation is I'm buying it because I think they're going to find a deposit or I think they're going to be bought out.

Its catalyst driven rather than cash flow and dividend and growth driven, which is investments, so right off the bat, I'm two thirds investment driven one third speculation. Now, I never put more than 10% of my whole portfolio into any one stock on an investment and on a speculation, never put more than 5% of your entire portfolio into any one stock.

And I ease into these positions, the best way to do it is private placements, you get the warrant kicker and it blows my mind all the fund managers out there and you keep saying Marin Katusa and his Katusa warrant, he's an idiot. No, you're an idiot, for those people to think that warrants are bad for the business, warrants if they're private and not listed, yes, they're an overhang but you as an investor are taking considerable amounts of risk.

And these management teams issue themselves options for five years and I sit here and go, wait a second, I'm taking all the risk. I'm putting all the capital in, you get options for five years, and you're telling me you're not going to give me a warrant? Go fuck yourself. So the whole point here is you want to invest in management teams who are writing huge checks and not abusing the options, it always starts with the people.

And what I have found is if I can get a full five year warrant out of Ross Beatty, who by the way, owns over 10% of the company himself and is invested $200 million of his own money at a price higher than our subscribers. And we got a full five-year warrant that lists and trades, Erik, that's the way to play the game is those types of deals, the private placements is the way to go.

That's how you should start specifically if you're an accredited investor, it’s a huge advantage and this is something you don't learn in the CFA program or MBA programs. Why? Because the teachers aren't investors. And look, I started out as a teacher, so I'm always fighting for the underdog guy, it's just my nature but the reality is this whole business is set up where the bankers give the best deals to their big high net worth, or big fund managers, they get the warrant, but the retail crowd doesn't.

The whole business is upside down, so I'm trying to change it, take it away from the institutions, take it away from the bankers and the brokerages and take those fees away, keep them in the company, and give us the warrants for taking the risk and list them. Because Erik, here's another thing, there are so many funds out there that are not allowed to buy mining stocks because it's against their actual articles of incorporation of their funds.

But they want exposure to the gold sector, but you see warrants are an option, it's no different than a put or a call. And these fund managers, great examples is when I did the Katusa warrant on northern dynasty, I get a phone call from the CEO and he's going “Marin, what the hell's going on, the warrants are actually trading higher than the share price that makes no sense.” And I go, well, you're not understanding that the funds that are speculating in it, they can't buy the stock so they're buying the warrant.

And here's a great example for these who invested at 45 cents and you get a full five year list of tradable warrants at 65 cents, the warrants are trading at four bucks, you could sell your warrant at four bucks and keep your stock for free. Whereas the old business was set up at the brokerages, they would sell their stock to the retail crowd and keep their warrants as an overhang. They would call it “Peel the shares and ride the warrant” as the old saying and I'm saying by listing those warrants, you could sell your warrant and keep your share.

And that's what's happened with Equinox and (inaudible). and I can walk through many examples on that. So for everyone out there that thinks warrants are bad, you wouldn't believe how many management teams saying, well, my big investor doesn't like warrants. And I'm like that big investor isn’t going to be lasting in the business that long, so you might want to think twice.

Erik: Now Marin, I'm just going to slow you down a little bit here because I personally am both a subscriber to your newsletter and I've participated in your private placements. So I know what you're talking about but just for the benefit of some of our listeners who may not be veterans of natural resource investing.

What is sometimes part of these private placements as an addition to buying shares for money, which is of course, what a private placement is, the investor also gets a warrant or more frequently a half warrant. So for every two shares you buy, you get an option to buy another share, usually, that's a long-dated option called a warrant that's good for several years.

The way most people in the business did this is, okay, you got this private company that's maybe going to go public at some point, but it's not yet. And now I've got a warrant in it in that warrant as a piece of paper that I can only exercise with the company.

You've taken a different approach of getting not just the shares listed on an exchange, but the warrants listed on an exchange so that your investors in the private placements that are receiving both shares and warrants. Not only can they sell the shares on the exchange, but they can also sell and trade the warrants on the exchange and that's what you mean by a Katusa warrant. So I just want to get that terminology clear because otherwise we're going to be inundated by people saying, what the heck is Marin talking about?

Marin: Yes, you're entirely correct but the one thing I want to phrase to everyone is, the industry uses private placement, it doesn't mean that the company's private. What's ironic about the private placement is its street code for the inside crew, private means it's not for everybody.

So you could have many of these publicly listed companies that are doing private placements, it's just another fancy term for a financing or an equity raise or whatever. The big difference of what I've been trying to push the industry to do is the bankers don't like listing the warrants because it's an inherent financing down the road.

If you list them, bankers don't get paid fees on that and more importantly, to list the warrant you need to have 100 accredited investors minimum to list the warrant with no one owning over 80% of the warrants. There's like some rules, and bankers hate handling over 100 sub forms for financing they like to go to their 10 largest funds or their 12 largest funds and they tuck in the deals they wink wink nudge nudge, let's go on a closing party.

It's really an old boys' network and I came in with my east van style saying, yeah, well, I'm not a blueblood, I'm self-made and I don't mesh with that crowd. This is how I'm going to be doing it, it's my money, I'm the lead order but to play against the big boys in the field I need my alligator pack, I'm very open about that. They come in at the same terms at the same price at the same time, so it's become a me versus them, but it's just me, I need my alligator pack which are my subscribers.

And I say rather than keeping these warrants private and overhang I'm educating the management teams and it's becoming more and more accepted. You'll see it's now becoming a, hey, this makes sense, look at these companies, they're doing well and they're liquid and they're moving forward.

So list the warrants, it's a little bit more effort on the management teams' part but it's becoming more and more mainstream with more and more time. And more importantly, I hope there becomes more volatility and liquidity because so many of these funds that aren't fighting for the basics and the in the fundamental, proper values, they're fly by night money. They're very quick money, that's the opposite of what I do, you've seen for how long I've been talking about Equinox.

I come in and I believe the Warren Buffett strategies when you buy shares, you're a partner in the company and you try to add value, like when I bought Alterra, and I became the major shareholder outside of Ross, who was the chairman and the largest. I become a partner in the company and I worked with the management team to show how the debt and all it's a complicated story. I wrote it in my newsletter, but it was me pushing on the default to the debt, how it would be accretive by defaulting on a debt.

I know that sounds crazy but that's the type of stuff that I get involved in and bring projects to the companies and merger ideas. I'm a very active positive investor, there's a whole crew out there that are activist investors that try to go against management teams, my thesis is life's too short.

Number two, why do I want to fight a management team when you know the odds are against me in the resource sector to take it on? Number three, why not just find the best management teams work with them, try to get in at their cost base or lower, make sure that they're the largest shareholders and work with them in a positive way to create shareholder wealth.

That's been my framework, and it's played out really well and that's where I'm going to continue. And I'm more leaning towards big league assets with big league management teams that have big league cashflow because after going through hundreds and hundreds of projects, the headache of building a small crappy mine is the same as building a big mine. The difference is crappy profits versus big profits, so I prefer the big profits.

Erik: Marin, we're just about out of time but before I let you go, I do want to ask you about your newsletter, which you've just been alluding to. Look, let's face it, you're kind of in a different part of this newsletter business then a lot of the newsletter writers that we talked to, they're doing these $200-$300 a year things.

Frankly, if investor has a $10,000 investable net worth it would be foolish to spend a third of it subscribing to your newsletter. So who is your newsletter for? Who's the target audience who benefits from it? And it's not cheap, it's usually $3500 a year. I know Patrick my producer has beaten your guys down to I think it's $1999 for a subscription instead of the usual $3500.

But we're still talking two grand who pays that? Who does it make sense for? And what does it include?

Marin: It's guys like you, Erik, it's guys that are serious about their portfolio. This isn't a $19 monthly membership where you feel like "I am going to go to the gym" and you don't, this is for guys that really want to educate themselves on how mining companies are built, true analysis and skin in the game.

I've never understood Erik, why anyone would subscribe to a newsletter where the author, the Guru, whatever you would call it don't buy the stock. Because I can guarantee you, Erik, when these deals go against me, and I'm the largest investor in the deal, you better believe I think about it all the time and at nighttime and how to fix it. It's not just another armchair analysis, oh, well, that didn't work, well yeah, no, I'm the lead guy on all these PPs and you've seen it yourself.

So who should be investing in it? One thing I've seen is we're seeing a huge increase in professional females, that's been the biggest growth in our newsletter, it used to be old white dudes. I've been doing this for 20 years now and it used to be that Republican, it's changing Erik, we have subscribers in over 100 countries. And the biggest growth is professional females who are looking at the sector going, hey, this makes sense, it's cheap, I want to invest in private placements.

And that's been the biggest change I've seen over the last 20 years from back when I was the main guy for Doug Casey and then when I learned my chops, and make sure if you're investing in it, it's a journey. It's the Iron Man approach, this is not a sprint and then like my report that I'm publishing today is 47 pages long with complete detailed analysis. I'm not one of these guys that write cool stories that make you laugh and like witty this and that it's about making money and nothing else.

Erik: Well when it hits my inbox I always click and open it just about instantly, it gets my attention and often there's actionable advice there. So I really appreciate the terrific interview, we look forward to getting you back on the show in a few months for another update, Patrick Ceresna and I will be back right after this message from our sponsor.