



We learn from Hesiod's *Theogony* regarding the creation of the world that...

*"there was only **Chaos in the beginning as a primeval state of existence**. It was dark, silent, stationary and without any trace of life to infinity. Then out of silent void **Gaea** (the earth) and **Tartarus** (the sunless and terrible region beneath Gaea) appeared. They were not the only ones who appeared out of the void. Hesiod also talks about the deathless gods who hold the peaks of Olympus and **Eros** (the desire to re-produce) being the fairest among them. About the same time or soon after, out of Chaos, **Erebus** (the place of unknown where the death dwells) and **Nyx** (the night) were born. Erebus and Nyx, in order to restore the balance, gave birth to their opposites, **Aether** (the upper atmosphere just below heaven) and **Hemera** (the day). Meanwhile **Gaea** gave birth to **Ourea** (the mountains), **Pontus** (the sea) and **Uranus** (the heavens), with whom she had been secretly meeting in the edge place of Aether. They became a couple and gave birth to **three Cyclopes, three Hecatoncheries and twelve Titans**.*

*-(Greek-gods.org)*

Elucidating on their imposing presence, the website adds...

*"The mighty Titans were a powerful race that ruled the world before Olympians, in a time of the Golden Age of men. **They were immortal giants of incredible strength and knowledge** of old religion rituals and magic. They are also known as the **Elder Gods** and their dwelling place was at **Mount Othrys**. In Greek culture they were interpreted as personifications of the earth (**Gaea**) and the sky or heavens (**Uranus**)."*

Strong, large, knowledgeable, immortal gods that personify the heavens and the earth! Wow! And, during the Golden Age of Man. **What better analogues for the giants that have led the modern-day stock market, elevating valuations above the heavens.** These modern-day Titans certainly seem invincible. This is, after all, the age of "winner-take-all." Ultra-large venture cap and private equity firms have employed "blitz-scaling" techniques to instantly gain significant market scale in businesses where scale is the most important factor. Once scale is garnered, the resultant large competitive advantage is intensified by some other factors that are specific to the first quarter of the 21<sup>st</sup>-century. For example, it has been just over a decade since the Supreme Court sided with Citizens United, ruling that corporations and other outside groups can spend



unlimited money on elections. There are fervent supporters on both sides of the argument as to whether the ruling was good (because the government must defend rights to free speech) or bad (because the government has an obligation to protect against excessive power and corruption). What can't be contested is the fact that the past ten years have seen a meaningful increase in PACs, Super-PACs, and in the size and power of the corporations. The current environment is increasingly being referred to as a corporatocracy. Certainly, it has been a prosperous time for the very large companies, and for lobbyists. This doesn't appear likely to change anytime soon. In his book, *21 Lessons for the 21st Century*, Yuval Noah Harari says, "In the modern era, machines and factories became more important than land, so political struggles focused on controlling these vital means of production. In the 21st century, data will eclipse both land and machinery as the most important asset, so politics will be a struggle to control data's flow." He makes a persuasive case that technologies of the 20th century allowed for the success of distributed power but the technologies of this century strongly tilt the advantage toward centralization. Whether it be governments or companies, the big will keep getting bigger and stronger.

Big corporations have many strong attributes that are resultant from current, size-favoring movements. Lately there has been a bit of rumbling about legal proceedings against the big companies, but the fact is that antitrust laws have all but disappeared into the pages of history. The change to basing antitrust decisions on consumer prices rather than on excessive concentration of power is not a new phenomenon, dating back a half-century. But the unbridled ability of market leaders to buy one's biggest competitors is relatively modern. Certainly, it has become a staple of the competitive dynamics in the technology and healthcare fields. Other very modern phenomena are government programs to make loans virtually free, primarily to very large corporations, via plans such as: QE-infinity, the "Primary Market Corporate Credit Facility," the "Secondary Market Corporate Credit Facility," the "Cares Act," the "Paycheck Protection Program," the "Term Asset-backed Securities Loan Facility," and many more. These programs have been implemented in conjunction with explicit messaging that interest rates will not be allowed to increase meaningfully in the future. People can theorize as to the reasons for these programs, but in general they have not been meant to help smaller firms. The Fed has been buying the bonds of very large, very successful firms, and doing so at the lowest rates in the history of mankind. For more on who is getting the handouts and who is not, please read the multitude of articles on the subject. Additionally, talk with a lot of people you meet, from businesses large, medium, and small. The picture will be vivid. Big companies are getting more powerful and doing so with major government assistance. Elsewhere, healthcare costs are much higher for small companies than for larger ones (we just had an enlightening discussion with our insurance broker), and increased regulation in many industries requires staffing levels that are unaffordable to many small and medium sized firms. Because of the ability of monopolistic firms to increasingly gain more power and influence, companies that had formidable scale, and provided essential goods, were broken up or regulated, usually heavily, over much of the past century and a half. Telecommunications and electricity are prime examples. The media, likewise, were once strongly regulated. Whether or not these are desirable trends is not the point. The fact is that they are trends and are heavily beneficial to mega-companies. For insight into how this trend has evolved in the healthcare industry in the U.S., please read *An American Sickness* by Elisabeth Rosenthal. Agree or disagree, you will find it informative, though undoubtedly deeply disturbing. For thoughts on the formidable power of tech and social media companies, we imagine many of you have already watched *The Social Dilemma*, which has recently received a lot of attention. So, clearly, the market isn't wrong to view these modern-day Titans as worthy of reverence.

As a complete non sequitur, our local team – the Tampa Bay Rays – made a valiant effort to show that the little guys can still compete in this era. Predictably in our modern day age of the Titans, they faced off against the three richest teams in baseball. In an effort to show that the rich can still be conquered, they vanquished the Yankees and the Astros, and were tied with the mighty Dodgers, four games into the World's Series. But alas.... Still, impressive when considering that the Rays' payroll was one quarter that of the Dodgers.

**Question of the Day: Which 5 MLB baseball teams have the highest team payroll in 2020?**

- New York Yankees: \$254.19 million.
- Los Angeles Dodgers: \$227.83 million.
- Houston Astros: \$215.39 million.
- Boston Red Sox: \$191.05 million.
- Chicago Cubs: \$190.38 million.

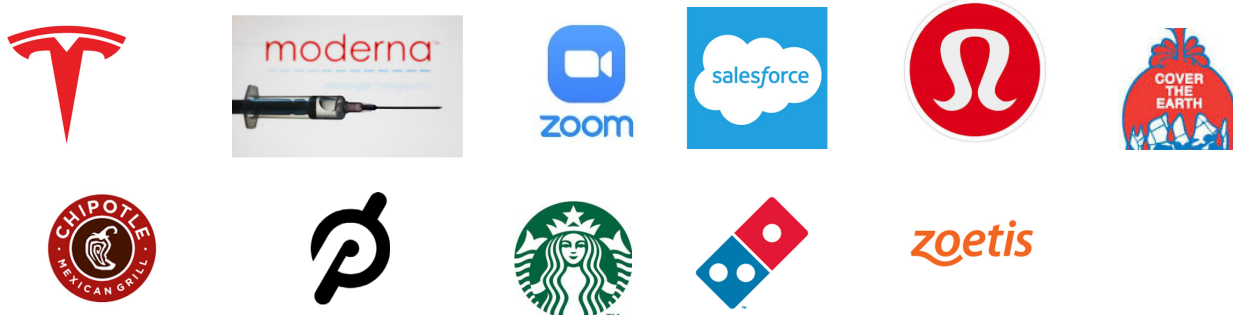


Returning to the topic at hand, what better place to start a discussion of today's Titans than with Amazon, the company named for the warriors of Greek mythology? (Admittedly, it was supposedly named after the river and chosen because it started with A, but it still works beautifully with the narrative.) It brings to mind Wonder Woman, the Amazon warrior who combines the beauty of Gal Gadot and the might of the warriors that helped bring down Troy. The beauty of lower consumer prices and ease of securing one's wants and desires and the might to bring any and all competitors to their knees! The god of monopoly perhaps?

While perhaps no other company is more impressive than Amazon, some are close. As Myrmikan Research so eloquently put it, "what began as a libertarian dream of decentralization resulted in a centralized oligarchy: Amazon dominates sales, Google dominates information, Facebook dominates opinion, and 90% of entertainment is controlled by just six companies." Is it another 2020 related quirk, or the dawning of a new era, that people prefer idling at home ordering tchotchkes from Amazon to a more social evening at the theaters watching Gadot's lovely portrayal of another kind of Amazon? Meet the Corporate Titans:



And there are many wannabe Titans in the making.





And let's not forget the mighty financial firms, perhaps as large and fearsome as those of any other industry.

## Buyout Titans Fire Up LBO Machine With \$1.6 Trillion to Spend

The biggest private equity firms in the U.S. are unleashing a flurry of new leveraged buyouts and debt-funded dividends, seeking to make up for lost time after staying on the sidelines for much of 2020. From Blackstone Group Inc. to KKR & Co., firms have been pivoting away from repairing the balance sheets of companies. The following chart gives a hint of how concentrated the 'investment' management industry has become. And yes, the bars represent trillions with a 'T'.

It is notable how much of those funds are committed to indexes, closet-indexers, and other price agnostic strategies!

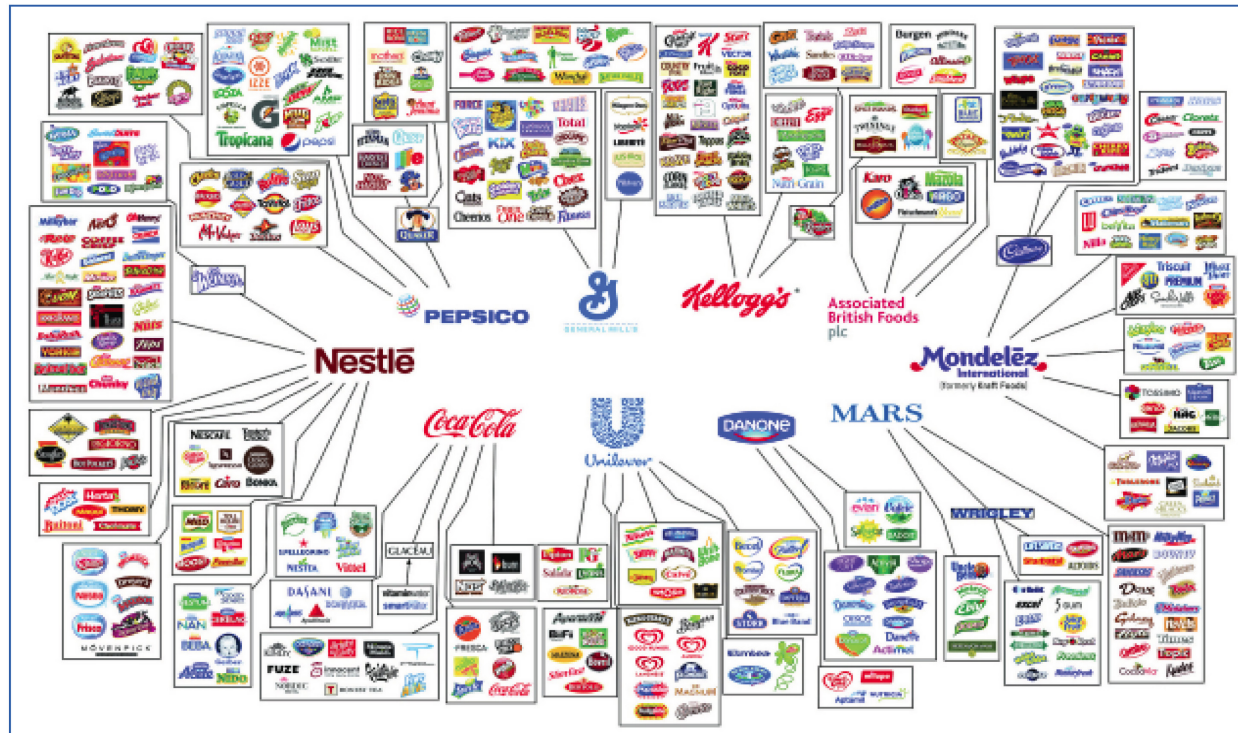
Likewise, the following chart makes clear that the major food companies have not allowed themselves to be left behind in the consolidation scourge.

### The trillion-dollar club

Global assets under management, 2019, \$trn  
Asset managers with more than \$1trn under management



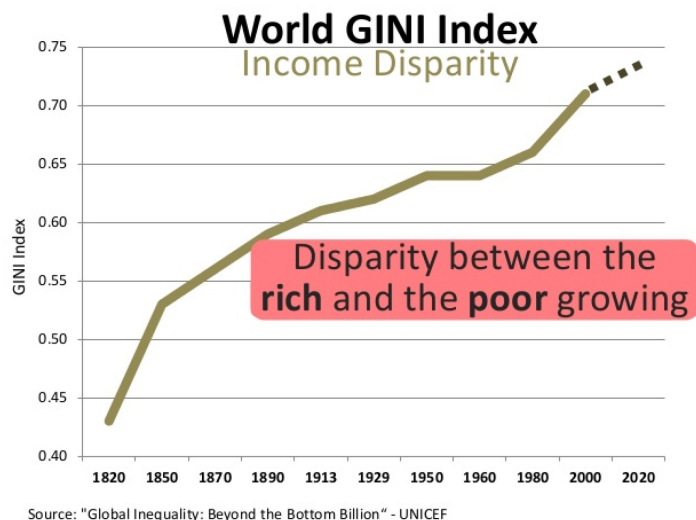
Sources: Thinking Ahead Institute; Pensions & Investments 500  
The Economist



Source: Business Insider



The next graph is not news to anyone: the concentration of wealth applies to all countries, and to individuals as well as industries. We were all warned that this would be the outcome of promiscuous monetary policy.



All of the above is not meant to be a complaint, but rather, **an acknowledgement that the market's current love affair with mega-cap Titans is not completely unfounded**. Large corporations are clearly 'sitting in the catbird seat' and their position continues to strengthen by the day. Many books and articles have been written about the sheer awesomeness of this generation's can't-fail stocks, and it is clear why 'everyone' owns them, so there's no need to continue further here. We will move forward, acknowledging that their stocks clearly deserve some sort of a premium to their disadvantaged competitors. The paramount question, of course, is - how much of a premium is warranted. Before we tackle this, let's segue once again back to the past.

What act of madness would compel an active investment manager to take on the Titans of the modern world? That would be tantamount to a son of Cronus taking on his father; to foolishly attempt to overthrow the King of the Titans, the god of time, described as a destructive, all-devouring force. Cronus ruled the cosmos during the Golden Age. But, like all tragedies, hubris doesn't just arrive at the end of the story, it heralds the fall.

Elaborating, we return to our story via quora.com...

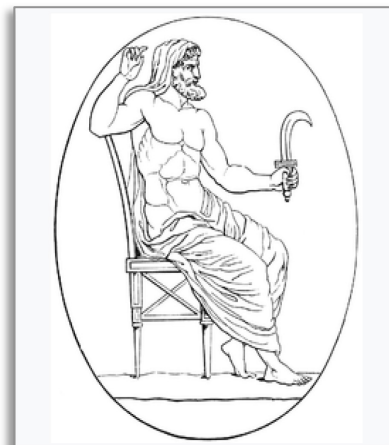
*"Now what transpired was that Ouranos, the Sky personified, cursed Kronos with his last breath that he too would be overthrown by his own children. And out of fear, he did not marry for a long time. But finally, a Titan named Rhea caught his eye, and he married her and had six children.*

*Now these children weren't standard-issue Titans. They were physically stronger and better proportioned (DI: creative destruction?), and fearing for his life, Kronos ate his own flesh-and-blood kids (DI: whereas today's corporate Titans are only figuratively eating their competition), except the last one, whom his wife (and the first member of the Down-with-Kronos club) Rhea hid away and replaced with a rock, which Kronos promptly ate. Now this child, who was named Zeus by his mother, spent his childhood on Mount Ida, being trained by the local nymphs and satyrs (the*



*nature ladies and the half-goat/donkey dudes respectively). He learnt a lot about plants and stuff there, and at last, went up to Kronos in disguise and applied (and got accepted) for the post of his cupbearer (who is a bartender/servant man basically).*

*One wild night he initiated a drinking game between the Titans, and got Kronos to drink a mixture of mustard and nectar (or wine, depending on which version you prefer). Kronos immediately retched out the five other children, who somehow emerged as full-grown adults. Taking advantage of the Titans' stoned condition, Zeus and the others (Hestia, Demeter, Hera, Hades and Posiedon) turned into eagles and flew away from Mount Othrys, the Titans' capital.*



*After a lot of plotting, the six siblings ventured down into Tartarus, freed the Cyclopes and the hundred-handed ones, killing Kampē in the process, using the supercool weapons that the Cyclopes had forged for them. Eventually, both sides got armed and went to war against each other. It was a close thing for the Gods (as the children of Kronos were known thereafter), but eventually they and their allies learned to wield weapons properly. In the dead of the night, they scaled Mount Olympus, a peak near to Mount Othrys and launched a nuclear-scale Operation Kronos Sux. Zeus bombarded the peak with lightning, the hundred-handed ones threw mountains, and everyone did their bit until the Titans (at least, the ones who sided with Kronos) were all properly trussed up at their feet.*

*Then Zeus took Kronos' scythe and cut him up into a million pieces and scattered them in Tartarus along with the rest of the Titans, albeit in a single piece. A Titan named Atlas, however, was sentenced to hold up the sky for eternity, as the Titans in charge of the four corners of the world (Krios, Koios, Hyperion and Iapetus) were 'relieved' of their duty.*

*And so, Zeus cast down Kronos and took his place as the Lord of the Universe.”*

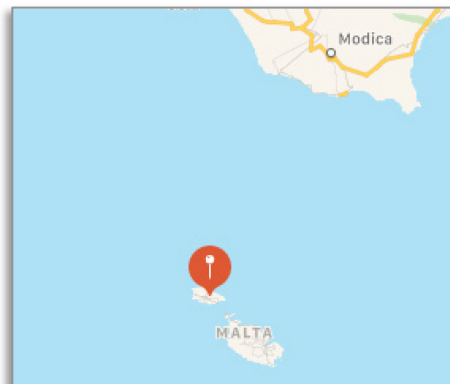
We are not suggesting that we are anywhere near the end of the reign of the modern-day gods of the stock market. However, Greek mythology also teaches us, via Icarus' lofty ambitions, that it is dangerous to fly too close to the sun. While the companies should prosper for some time, what could happen to their highflying stocks? This question merits thought.

We do know that the Greek gods were eventually supplanted by the Roman gods, who themselves handed the baton to their successors, and faded into place in the mythology of lore. And so it goes in the lessons of history. Whether one believes that art imitates life or life imitates art, certainly much can be gleaned from literature.



Understanding what may happen to the highly esteemed stocks of today requires some understanding of the psychology of the crowd that is embracing them. For this purpose, we highly recommend *Extraordinary Popular Delusions and the Madness of Crowds*, by Charles Mackay and *Devil Take the Hindmost* by Edward Chancellor. But for now, we return to the Greek Titans for insight into investors' spellbound love for the Titans of the stock market. In particular, Calypso is a very fascinating and apropos character. If they had central bankers back then, she'd have excelled.

Greeklegendsandmyths.com gives us a glimpse: "The nymph daughters of Atlas were named amongst the most beautiful of all immortal goddesses, and Calypso was no exception. Calypso though did not display her beauty as part of the retinue of one of the more famous goddesses, like many other nymphs, for Calypso had made her home upon the island of Ogygia (potentially the island of Gozo, off the coast of modern day Malta)."

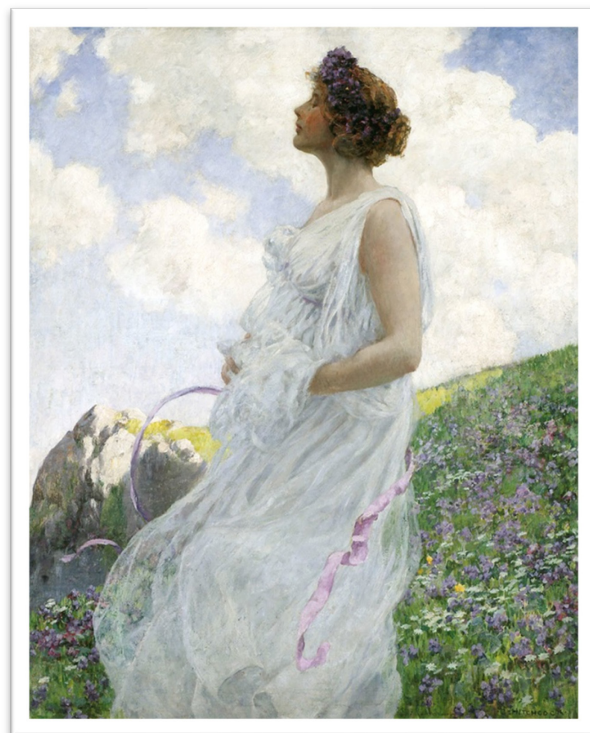


In Homer's *Odyssey*, Calypso attempts to keep the fabled Greek hero Odysseus on her island, hoping to make him her immortal husband. According to Homer, Calypso kept Odysseus prisoner at Ogygia for seven years. **Calypso enchants Odysseus with her singing as she moves to and fro, weaving on her loom with a golden shuttle.** She even offered him immortality. Perhaps she would have done better taking a page from today's central bankers. She should have offered QE-infinity. Sweetened it more with negative interest rates for perpetuity.

Some accounts refer to Odysseus as a prisoner, others suggest that he loved her. Some say that negative interest rate policy (NIRP) has forced investors to own uber-expensive stocks, but increasingly it looks as if they are doing so out of love. Greekmythology.com has this to say: "They lived together for seven years in her breath-taking cave-home, and according to Hesiod, Calypso even gave birth to two kids: Nausithous and Nausinous. Apollodorus said that Calypso bore Odysseus a son, Latinus." They ask, "If goddess Athena hadn't asked Zeus to "save" Odysseus from Ogygia and Calypso, what could have happened?"

At any rate, **entranced and seduced by the beauty of Titan goddesses – What a perfect way to describe investors in our contemporary world!** It is reasonable to say that the spell has kept investors entranced for around seven years, thus far.

How powerful must a spell be to entice people to buy super expensive stocks of perpetually money-losing companies? To buy a stock post a quick sixfold increase simply because it is being added to an index? To kite a valuation by one-quarter trillion dollars because of a stock split? (Do these same people pay a large premium to have their pizza cut into more slices?) What possesses some to invest their hard-earned money into expensive stocks merely because they are on somebody's list of ESG approved names (we know – it's generally other people's hard-earned money)? Who would invest money because it is a "risk-on" day (we know, once again: other people's money)? What causes stocks to go higher and higher on repeats of the same announcements: a new vaccine, progress on the trade front, news regarding progress or lack thereof on a stimulus



Calypso - George Hitchcock (1850-1913)



package, lockdowns/easing of lockdowns/more lockdowns? What makes people believe that for the first time in history, mankind has figured out how to buy unlimited quantities of cool stuff and never have to pay for it (modern monetary theory)? **Seemingly, we are bearing witnesses to sorcery of unparalleled strength.**

Is the witchcraft timeless or are investors in the early stages of starting to long for a return to the real world? If you were Athena, goddess of wisdom, how might you appeal to investors' reason to help set them free from their trance and get them started on their **long** journey back to the real world? Here are a few points.

She might consider explaining to them that at the top of every market mania, it is the really good companies that get extremely overvalued. People don't often pay enormous prices for stocks of companies that they don't view highly. They were right about Microsoft, Cisco, Intel, and Amazon in 1999 but, having bought the stocks at unsustainably high valuations, they lost most of their money over the subsequent three years. They were spot on regarding prospects for the Nifty Fifty of 1972. Coca-Cola, Procter & Gamble, Johnson & Johnson, et al turned out to be great companies for the next half-century but that didn't stop their stocks from falling more than 75% over the subsequent two years. As is often the case, hugely overvalued stocks eventually became deeply undervalued. GE, IBM, Exxon, Cisco, Schlumberger, and NTT (Nippon Tel) were all very highly esteemed when they each had worn the crown of the highest market capitalizations on the planet.

Speaking of NTT, some of you may remember the reputation of invincibility that Japan had when its stock market was priced at a value not far below the rest of the planet's other stock markets in aggregate. Despite a lot of world-dominant companies, the market gave back 80% of its value over the following few years. In 1929, those who believed that the US would prosper over the coming century were right beyond their wildest expectations. Assembly lines, radio, traffic lights, penicillin, television, aerosol cans, silent movies, bulldozers, liquid rocket fuel, refrigerators, and frozen food, and so much more, had a profound effect on society and sowed the seeds for decades of growth. But recessions happen and overpriced stocks often eventually become the underpriced stocks of the future. The Dow Jones plunged 90% between 1929 and 1932. Buyers of RCA (the hugely successful Radio Corporation of America) in 1929 didn't break even until the mid-1950s. The stocks of less efficacious companies obviously inflicted greater pain.



Some will counter that the current Titans are bigger and stronger and more monopolistic. Athena would likely concede that there is a grain of truth to that and agree therefore that we might find better analogues for today's bubble by going all the way back to the seventeenth century. Almost exactly three hundred years ago, the South Seas Company and the Mississippi Company were very "FAANG"-like. The South Seas Co had a monopoly on trade with the South Seas and other parts of America. In other words – the new world, the future. At the same time, the Mississippi Company held a monopoly in the French colonies in North America and the West Indies, which was quite lucrative at the time. Equally similar to the FAANGs, their monopolies existed at a time when their home countries were deeply indebted, and the central bankers were printing currency and otherwise devising elaborate schemes to deal with that debt. We highly recommend that everyone read about these



growth monopolies that controlled the important drivers of the future, their effects on society and the economy, and the all-but-inevitable aftermath of the euphoria.

Before tackling the next item, another tangential journey to ancient Greece seems in order. We found it interesting anyhow. We stumbled upon a webinar with Adrienne Mayor, author of *Gods and Robots: Myths, Machines, and Ancient Dreams of Technology*. The Stanford professor is a folklorist and historian of ancient sciences, who “teleports us back to the ancient world, connecting the dots between mythology, ancient machines, and today’s robots and other emerging technologies—and help[s] us understand our visions and anxieties about automation and what it means to be human.” There is much to glean from it. Technological advancement isn’t specific to contemporary times. Fears of change aren’t new. And, the ‘unconquerable’ are conquered. (Two quotes from this month’s CalTech interview with Charlie Munger seem appropriate here: “Technology is a killer as well as an opportunity,” and “Over the long term, the companies of America behave more like biology than they do anything else. In biology, all of the individuals die, so do all of the species. It’s just a question of time.”) Talos, a giant automaton commissioned by Zeus to be the protector of Crete, was a formidable foe for Odysseus. He was forged by Hephaestus, god of invention, and given to King Minos. We are reminded that technology often has its ‘Achilles heel’ and that ‘sorcery’ doesn’t always oppose the underdog. Medea, daughter of King Aeete and yet another witch to fall in love with Odysseus, undermines her father to help Odysseus succeed. Using technology to fight technology, they bring down Talos. Whether by using arrows or a wrench or others means, depending on which story one reads, they loosen the bolt on Talos’ ankle and thereby drain his life force. Elsewhere we learn of Prometheus, another Titan, and his theft of fire. He gave fire to mankind, the greatest ‘technology’ of the era. In response, Zeus unleashed Pandora, technology clearly used for evil. Zeus also sentenced Prometheus to a lifetime of having his liver eaten by an eagle, on a daily basis. Prometheus is known as forethought. Most value-oriented investors nowadays probably feel like the penalty for forethought and thoughtful investing is akin to having their liver ripped out on a daily basis. But, might today’s momentum investors be more akin to his brother Epimetheus? Known for his lack of forethought, he ignored his brother’s warning to never accept a gift from Zeus and accepted the gift of Pandora for his wife, thereby unwittingly becoming an accessory to the unleashing of great evil upon mankind. (Is it wise to accept the gifts that our modern-day ‘gods’ at the central banks are currently bestowing on the markets?) For what it’s worth, Epimetheus is reported to have eventually been killed by Poseidon while Hercules eventually gained Zeus’ permission to kill the eagle that was tormenting Prometheus, and set him free. Hang in there value investors; nothing lasts for eternity.

Segueing to the next point, we truly buy into the power of scale in most, but not all, businesses but are also mindful of diseconomies of scale. No one will dispute the fact that size inhibits the ability to continue growing fast. Most will agree that it becomes harder to manage a business/government/organization that becomes enormous in size. Some still believe that size and centralization make things very tough to manage. It is hard to hire, manage, lead, inspire, instill ethics, keep focused on core competencies, and be adaptable to change when size becomes a limiting factor. There is a reason that the USSR lost the cold war. There is a reason that GE evolved from a company that everyone wanted to emulate to a modern-day business school case study, highlighting a multitude of errors. There’s a reason that none of the original members of the Dow Jones Industrial Average are still there. Remember, Detroit once had almost complete dominance of the world’s auto market. Even in today’s world, there are advantages to agility, focus, purpose, etc. A size that is conducive to nimbleness is advantageous in creative fields, amongst others. We believe that a moderate size is particularly important for investor’s ability to generate alpha over time. It is increasingly hard to beat the market as one approaches ‘becoming the market.’

Another increasingly relevant factor that Athena might question is the ability of **all** Titans to prosper and grow. As we’ve heard, the Titan Zeus led a successful battle against the dominant Titans of the time. Marc Faber, in one of his always thought-provoking “Gloom Boom Doom” commentaries, recently discussed how society’s powerful players, when they’ve consolidated a large share of the world’s wealth, eventually turn on each other. Over the past few months, we’ve witnessed Facebook and Apple duke it out over rights to knowledge of our whereabouts. Certainly, the Titans are increasingly running into each other in their battles to dominate sales and apps, software, the cloud, data ownership, vaccines and other drugs, electric vehicles, cell phones, and more. **They can’t all win!**



Regulatory risk is also a worthy consideration. We previously stated that the Titans have so much power that it is hard to see the government taking that power away from them; but we could be wrong. Yuval Noel Harari states that, “in the 21st century, data will eclipse both land and machinery as the most important asset, so **politics will be a struggle to control data’s flow.**” It certainly will be center stage for some time to come. A lot of suits are being filed. Time will tell.

Moving to the next thought, while it is scary how quickly technology became better than humans at chess, and even scarier how it took AI (artificial intelligence) a mere four hours to wallop the best previously-existing computer-driven algorithms at chess, investing is not pure science. Social Sciences are different. Computers can out-calculate mankind. But economics is a social science, not a physical science. Inputs change the outcomes. Fear and greed change behavior. Too much success sows the seeds for too much supply and thus for failure. Too much size limits the opportunity set. One decade’s performance often portends just the opposite for the subsequent decade. One decade’s de rigueur fashion is the brunt of the next decade’s jokes. For many reasons, **investing is an art as well as a science.** So, while we won’t bet against computers winning in the long run, we are happy to bet against them over the next decade or two. As Charlie Munger put it, in an interview at CalTech this month, “*Obviously you have to know a lot. But partly it’s temperament. Partly it’s deferred gratification. You got to be willing to wait. Good investing requires a weird combination of patience and aggression and not many people have it. It also...requires a big amount of self-awareness about how much you know, and how much you don’t know. You have to know the edge of your own competency.*” The algos’ massive computational ability combined with their inability to think, is a major reason that the market is arguably more mispriced now than at any other point in history.

Outside of unsystematic risks, the goddess of wisdom would undoubtedly point out that another peril for investors in the high-flying stocks is the prospect of visible inflation. History and logic pronounce that meaningful inflation will be the likely outcome of QE-infinity. Richard Cantillon, influenced by his experience with John Law’s Mississippi scheme (suggested earlier to be a suitable primer for the current mania), taught way back in the early eighteenth century, that inflation often is first localized in the securities market before eventually migrating into the broader economy. The 1970’s was a demonstration of the obvious – that as inflation migrates into the broader economy it takes its toll on valuation multiples. The adverse affect it had on the ‘Nifty-Fifty’ was previously mentioned. Malinvestment accentuated the problem back then and seems destined to do so again this go around. Given the title, a little calypso music seems in order here. On the topic of inflation, Colin Lucas’ hit song “Dollar Wine” effectively captures the gist of what prices have done thus far in my lifetime:

*“Cent, five cent, ten cent, dollar”*

It is true, prices of most things are fifty to one-hundred times as expensive as they were in the 1950s. Logic suggests the process will be much faster in the future.

**The most important point** Athena would want to hammer home is that, even if concerns about the anointed stocks *du jour* are wrong, from current prices, there is strong reason to believe that **value stocks will have far superior returns over the decade.** Bonds are priced to return next to nothing, and therefore will. Popular stocks and real estate are increasingly priced as superior bond surrogates. It is reasonable to believe that their returns over the decade will be a tad superior to bonds, i.e. a little bit better than zero. Meanwhile, less popular stocks can still be purchased at a half, a third, a fourth of their intrinsic value. This portends, over the decade, annualized returns of 7.2%, 11.6%, 14.9%; even better if they reach intrinsic value faster than a decade’s time. It is reasonable to expect that it will be much faster for many.



Year	Upside Potential			Internal Rate of Return
	2X	3X	5X	
1	100%	200%	400%	
2	41%	73%	124%	
3	26%	44%	71%	
4	19%	32%	50%	
5	15%	25%	38%	
6	12%	20%	31%	
7	10%	17%	26%	
8	9%	15%	22%	
9	8%	13%	20%	
10	7%	12%	17%	

For illustrative purposes only. Actual results may differ.

## Investment Strategy

The case for the darlings of the current marketplace is very strong and the valuations are, at the very least, commensurate with those glowing prospects. We'll leave that very crowded trade to others. A glance at the table above highlights the allure of owning deeply under-valued stocks. Here are a few quick examples of the opportunity set.

Kopernik's analysis, based upon incentive prices, suggests that within the decade, you will see uranium trade somewhere between \$60 and \$90 per pound. It was at \$137 in 2007. Similarly, based upon incentive prices, oil should reach \$75/barrel, plus/minus. It has previously reached \$145. Natural gas, its cheaper, cleaner cousin, sells at the low end of its historic \$1.5/mcf (million cubic feet) to \$14/mcf range. A double is a conservative expectation. Silver has reached \$50/oz twice over the past four decades. Economics suggests even higher this time around. Gold is worth \$2000/oz as a commodity, but arguably in excess of \$4000 as money. Productive farmland in the emerging markets sells at a steep discount to US equivalents. A double is not a lofty expectation. Copper and other base metals have reasonable upside even sans the EV (electric vehicle) revolution. Current expectations suggest much higher prices may be needed, especially if EV targets are even halfway right. If this level of upside doesn't seem exciting, please revisit the table above.

For those who prefer more clarity regarding cash flows, the quality franchises that everyone loves are available for a song; oh, not the very same ones, but their brethren in emerging markets. We've highlighted the past performance and resultant valuation bifurcation of two prominent industries below. We could go into great detail here but suspect that the case has been made.



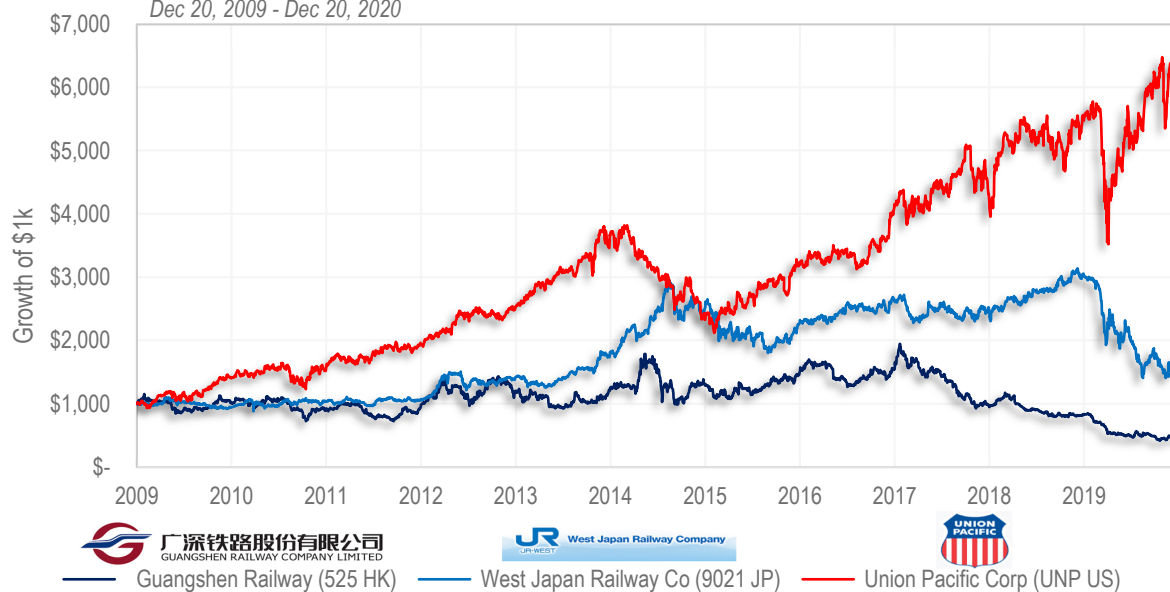
## KT CORP VS CHINA TELECOM VS CHINA MOBILE VS VERIZON

Dec 20, 2010 - Dec 20, 2020



## GUANGSHEN RAILWAY VS WEST JAPAN RAILWAY VS UNION PACIFIC

Dec 20, 2009 - Dec 20, 2020

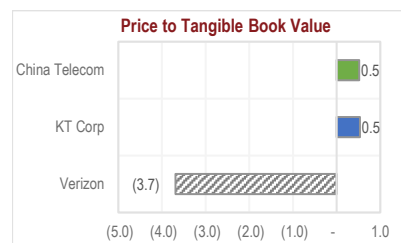
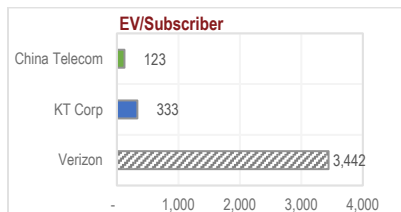


Source: Bloomberg

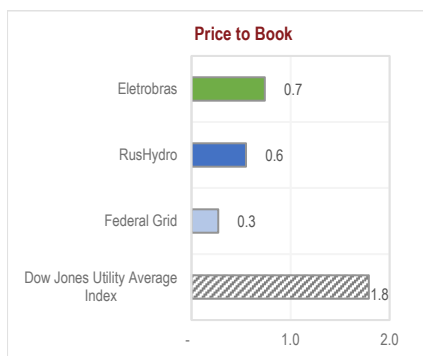
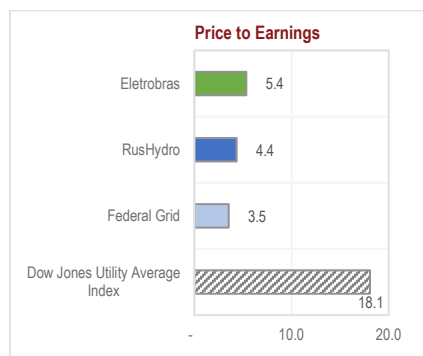


## QUALITY FRANCHISES ARE STILL AT ATTRACTIVE PRICES IN EMERGING MARKETS!

### COMMUNICATION SERVICES

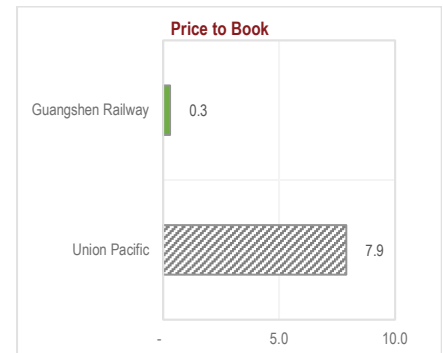


### UTILITIES



\*RusHydro excludes non-recurring write down

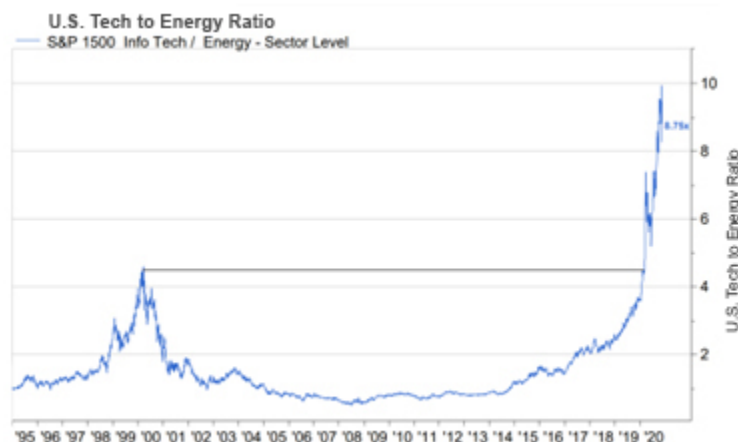
### TRANSPORTATION



\*Another competitor, Boeing, seems to have a P/B value of infinity!

As of December 24, 2020  
Source: Bloomberg

And the next chart shows you the extremity of the crowd's belief that tech is omnipotent and energy is a thing of the past. The prevailing thought seems to be: Who needs airplanes and cars when you can do business over Zoom and see the world via Netflix shows?

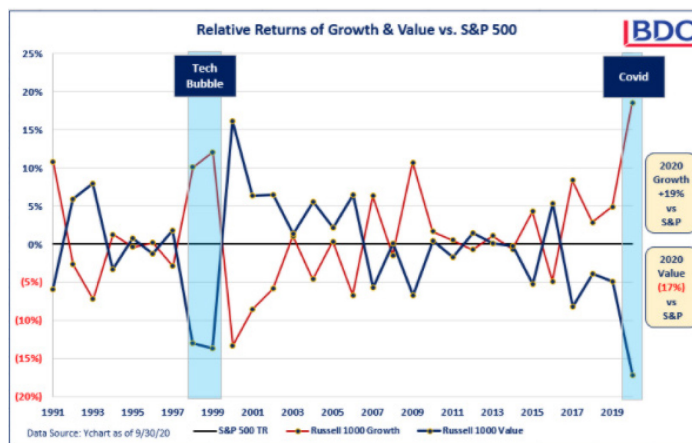




Meanwhile, world class companies that have dividend yields of more than 4% include: China Telecom, China Mobile, Mitsubishi Corp, Mitsui, Gazprom, Eletrobras, RusHydro, Federal Grid, and Kazatomprom.

## Conclusion

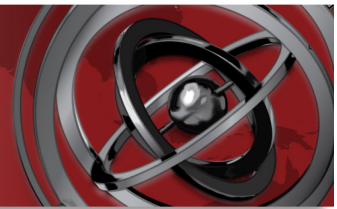
- 1) We concede that the case for the Titan mega-cap companies is quite strong. Possibly, investors will do well in the New World Order.
- 2) The level of risk inherent in the common stocks of these Titans is, seemingly, at unparalleled levels. At every market peak, it is the companies which have compelling stories that get most overvalued. People don't typically pay outrageous prices for stocks that don't look inviting. The market today is the most expensive ever by almost every appropriate metric and the leadership is worrisomely narrow. So, while the stocks may reward their legion of superfans, there is a reasonable chance that they experience severe pain. We'll soon know if 'this time is different' or whether 'Calypso's spell' will wear off.



- 3) Most importantly, in our opinion, whether or not the Titans prove worthy of their devotee's adulation, the real money-making opportunities lie elsewhere. The opportunity to own category leaders, in emerging market and Asian countries, and in the owners of the globe's world-class resources, selling at significant discounts to intrinsic value, is not to be missed. We always like to point out that the IRR (internal rate of return) on doubling one's money is compelling, even if one has to wait a few years. This is always true but is particularly true in our era of interest rate suppression, where an astounding \$18 trillion of bonds trade at a rate of less than zero.

Gods of lore always eventually succumbed to the next generation. History suggests the same for *de rigueur* stocks. Professor Mayor's book contains the story of the Brazen Bull. Things ended tragically for the bull's inventor, Perilles. The bull enchanted some with music while tormenting others. Sound at all like a contemporary bull? Will this bull, like all before it, reach its eventual demise?

Only the future knows if *this time is different*. Kopernik agrees with John Templeton's assertion that those four words are the most dangerous in the English language. History also illustrates that buying businesses at discounts to their worth is the winning strategy. Logic concurs. Ben Graham famously said, "*in the short run, the market is a voting machine but in the long run, it is a weighing machine.*" Calypso music legend Harry Belafonte sang thus, "*come mister tally man tally me banana.*" On behalf of all value-oriented investors, we say bring on the tally man sooner rather than later, to finally weigh valuations and balance the books.



Season's Greetings and a Happy New Year to All!

Cheers,

David B. Iben, CFA  
Chief Investment Officer  
December 2020



**“Despite another volatile day of trading across otherworldly markets, typically spooked investors remained paranormally calm, so all in all, it was pretty much unfinished business as usual.”**



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