Marin Katusa: The setup for Uranium is better now than any time in the last decade

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Erik: Joining me next on the program Marin Katusa, founder of Katusa Research. Marin, we are so excited to get you back on the program. You had some killer calls for us last time. Now, we had a chance to speak off the air. We did a lot of talking about copper and the long-term argument for copper.

We did mention uranium in the last interview. But I want to focus on uranium this time around. So let's start with the high-level macro perspective. Why uranium? And why uranium right now, when so many people in the world are convinced that nuclear energy will never be used again?

Marin: Wouldn't it be interesting if the actual winner of the de-carbonization of the planet was nuclear? And especially after what we've seen with Fukushima and the capital costs of building these nuclear reactors in the US? So what I actually did was I wrote a research report.

I have the advantage of having been to every single operating US and Canadian mine. I've been to projects. I've got a 17-year advantage over most people. So, rather than writing a bullish case on uranium, I decided to challenge it and say, if I was a "shorter," how could I write a "short" report on uranium using all the information available?

I went through every plant on the planet, all of the producers, how much each plant will use, and actually wrote a "short" report that I published for my subscribers. It was a very deep plus-20-page report. At the end I said, okay, let's look at the worst-case scenario. I'm going to ignore the base case and the positive case.

If we took off every unfinanced plant – first of all, let's talk about the emerging markets. If you take all of the planned and permitted plants – unless they're financed, I knocked them off the list and said they're not going to be available. And let's take all of the existing plants that have a potential phase-out. I knocked them all out, assuming they're going to be phased out. (But not all of them are, remember that.)

But let's take the absolute worst-case scenario. You basically have a 10% reduction in uranium by 2030. That's the absolute worst-case scenario. So knock off 16 million pounds. The world uses about 168 million pounds a year.

So, looking at that going, okay, what do we actually produce? America produced less than 2.5 million pounds last year. Yet, in the '60s it produced 35 million pounds.

But what’s the cost? What about the mines shutting down? Such as McArthur River which is the second largest mine in the world. And you say, okay, yeah, but Marin, it wasn’t economic. Well, it’s the second-lowest-cost producer outside of Kazakhstan.

That might make you think about, hmm, that’s interesting. And we’re talking about the equivalent. Imagine you shut down a gold mine that runs 12 ounces per ton. This is tens of thousands of dollars of rock, the value there.

You look at what’s going on in the market globally and then you start realizing the emerging markets – look at what’s going on in China. They’re actually building these and financing them themselves rather than the way it’s going in North America. And they don’t have the capital explosions from the union side that America has experienced.

You look at what’s going on in UAE. They just completed three new reactors. Same thing.

What about Fukushima’s effect? Well, the Japanese are also moving forward with slowly bringing on their reactors.

But in my report I assumed they’d all stay off. That’s another key factor.

What about Germany? Well, Germany is Germany. They’ve got their own issues. I’ve also stated that those in my report in the worst-case scenario would all stay down. Yet Germany today does import nuclear power from France across the river, assuming that there would be no fallout. That’s just an absurd case in itself.

So, really, where does the makeup difference? The reality is now that, because of what’s happened in Fukushima, it’s taken many, many years for the secondary supplies to be washed out into the market, Erik.

And the key factor here is, who is the gorilla? Who is the center of the chessboard? And whether people like it or not, or even understand it or not, it’s the Kazakhs. And, with their production – they have about 60 million pounds a year of production, mainly from ISR.

They are now themselves saying, wait a second. We’re not going to be selling into the spot market anymore. They’ve done very strategic alliances with the Western world. There is a fund, Yellow Cake, out of London. Another one out of Vancouver. And what they’re doing is they are strategically aligning themselves with the same type of – rather than the traders, the uranium traders who are just looking to play the arbitrage between the utility and the producer. They’re now putting it towards holding funds.

So the game really has started changing. Uranium is up over 15% year-to-date. It’s a very contrarian play. Most fund managers believe that – they put it in the coal sector, that the cost of building a nuclear reactor is too expensive.

And in some parts of the world definitely it is, if you have to pay huge union fees and permitting fees and all that. But in other parts of the world where that isn't the case and you have a government initiative, the actual operating costs of uranium, the metal, in a nuclear reactor is less than 5%. Whereas if you look at coal or natural gas makes up over a third.

So I look at it as the ultimate contrarian bet. But you've got to be very careful too. There's a lot of junk out there. I think if you're smart, and you do your due diligence, and invest in areas where the publically traded companies can actually execute their business plan –

And there's actually not that many regions that it can. There are certain areas that you have to compete with the Chinese and Russian influences. And here is the reality. They don't follow the same rules as the publically traded companies.

So don't make that bet. You're going to lose. The governments will always win on that side when it comes to geopolitical advantages.

Mongolia was a great example. There was a company back in the day called Khan Resources. The Russian company basically got what they wanted out of it and the shareholders got nothing. That's one specific example and I know many of those. So be very careful.

But long-term, I think we're in the beginning of a massive run that is going to be very comparable to the 2004-2007 run in uranium. That was the last time that I've seen this type of setup that we have right now.

Erik: Now, I couldn't agree more on the fundamentals, which is, I think, the world needs nuclear power. Everybody's freaked out over Fukushima,. But at the end of the day we need nuclear power. We're going to have demand for this.

I'm so glad you mentioned Kazakhstan. The reason I would be nervous about investing in uranium right now is I know that a lot of it, most of it, is mined in places like Kazakhstan. And if I look at, overall, around the world how much geopolitical instability there is, how much risk there is of losing your investment –

You mentioned Mongolia, Kazakhstan. These are not the most politically stable places. So how do you justify making an investment in these really remote jurisdictions where, potentially, an investment could be at risk if the whole country falls apart and doesn't honor its external commitments?

Marin: Well, I don't. Why do you need to? You don't need to go to Niger. There's an area called the Arlit Basin, essentially Areva, the old French – they have a new name. But anyway, at one point the French were getting over 70% of their baseload power from nuclear energy. And they were vertically integrated from the mines to the nuclear reactors. They were getting a big portion of their nuclear source feed, the uranium, the yellow cake, from the Arlit Basin.

But there's been a lot of issues, let's call it, in Niger. A lot of people won't say that. But why would I go – I've been there, done that when I was a lot younger, Erik. I don't need to pop on the body armor anymore. It looks cool for promotional purposes and all that stuff, but I have a family now. I've made my money. I don't need to do that crazy shit anymore.

So what I look at now is, why do I have to put my money there? I can go up to Saskatchewan or I can go down to Texas and I can get way better returns, much better deposits.

Why do I need to go to Mongolia? Which, truth be told, Mongolia has great world-class uranium deposits, but so does Canada. So does the US. At least there is the rule of law there. Why do I need to go to Niger or Namibia or Mongolia? You don't have to.

Erik: Well, let's focus on those markets then. You gave us a fantastic call last time we had you on the program, for Nevsun. Do you have a favorite pick or a company that people should be looking at in the uranium space right now?

Marin: I do. Going back to the Nevsun piece, our subscribers did really well. We closed out the position. But Serbia was very misunderstood. I speak Serbian, so I had a little bit of an advantage there over most market participants, but people saw it as a backwards country.

Many would probably compare it to a "stan" country. And I thought, that's ridiculous. It fits the whole China "One Belt and One Road." A lot of people don't realize, but Serbia actually fits in part of that plan.

Today, what I would look at, for me, and where I'm personally putting millions of dollars, is going, wait a second, this uranium cycle has had a massive washout. And there's very few management teams that know what they're doing.

So, right off the bat, you're at a huge advantage if you just spend, say, a week of due diligence. You can kind of figure out which management teams are who's who in the zoo, right off the bat. Pull up their insider holdings, figure out what their cost base is. That's a starting point.

Then work backwards and say, hmm, sorry, Mongolia, Niger, Namibia, not really my thing. Gabon, certain areas of Africa, I love. There's other areas I have zero interest in site visits. A lot of my colleagues, some of my former partners, are very bullish on pounds in the ground that, when uranium gets to $80, if stocks are going from 10 cents to $5, true, but there's easier ways to play, it in my opinion, where you can build upon politically stable jurisdictions.

I call them non-AK47 regions. I call them that because I've been to so many areas where we've had, whether the former French Legionnaires, putting on body armor. And we are literally driving in bullet-proof vests to get to a well site or a project.

And I just don't want to do that, because I really believe the world has changed in the last 10–15 years. For myself, you want to be in the Athabasca Basin, which is in Saskatchewan in Canada.

But even there you have to ask yourself, okay, am I buying exploration? Development? Or production?

If you're looking at development, ask yourself; what's the cost of building a mine? That's one thing. But if I do build the mine, where do I send my product? And this is the biggest mistake in Canada. A lot of investors ask themselves, well, my company is going to build the mill.

Well, it's not like a copper mill. This isn't a concentrator that you build up in the open air. This is a concentrator of radioactive material. If your mine costs you say three to four hundred million to build, a 20-million-pound-a-year mill would cost you at least a billion and a half to two billion dollars, plus a ten-year permitting window.

So ask yourself, what am I getting into? I think for investors, Cameco is the place to start. But I think there's places as politically stable that you can do better in. And then I would also look in the US.

I believe – and I wrote about this years ago – that we will see uranium priced as Russian sourced, or former Soviet Union. You know how there's different prices for oil? Why do we not have that for uranium?

Now, I understand – trust me, I wrote a book about this stuff, so I understand the different aspects – the chemical composition of the different types of oil between API and the different sulfur levels. But if you actually think about this, why wouldn't the US have their own price for uranium, domestically sourced versus importing it from the "stans."

Why is Trump not talking about tariffs on that aspect? People forget that America imports 95% of the uranium it consumes in the ground and their reactors. And half of that comes from Russia and Kazakhstan two former Soviet states.

So I sit there and go, wait a second, that's cannibalized the imports from the former Soviet Union plus the DOE sales – a lot of people forget that the DOE was selling about 7.5 million pounds a year into American utilities at a cost lower than what the US miners could produce it for.

And those two factors – and you see uranium pop up to $40–45. Do I see uranium going to $80–100? Not in the next couple of years. Could I see it going to $40? No problem.

So how do I make a double or a triple or a quadruple? You're not going to do it on an early-stage company that has $2 million in the bank looking at pounds in the ground in Africa. Not at $40 uranium. That stuff needs $80 uranium before the market gets excited.

Look for what I call the easy plays, and I believe they are in the US and Canada. And strictly think about taking the mathematical advantage of royalties.

Erik, not to bore your audience, but there's a little over 600 producing gold mines in the world [producing] over 100,000 ounces a year. Over half of them have royalties on them, some form of a royalty or stream.

About 5% of the producing uranium mines in the world have a stream or royalty. I think the best place to put your money is in a uranium royalty company. There's literally just one of them. And that's a huge advantage. That's where I would put my big bet in the uranium market.

Erik: Marin, I want to come back and get the name of the company that you're looking at in just a second. But, for the benefit of our many listeners who are macro oriented and may not be familiar with the streaming model, let me make sure that I understand it.

We're talking about the model where a company – I know this was pioneered in silver.

You go to a gold mine that doesn't care about the silver and you say, hey, guys, we want to buy out the rights to the silver that you end up mining as a byproduct of the gold that you're actually looking for when you build your mine. We're going to buy up those rights because you don't care about the silver.

And, as it actually tends to work out in reality, at least what happened last time, is the price of silver went up and a lot of those rights that had been sold off ended up getting bought back. And the people who had bought up the rights never had to build a mine.

They never had to do anything. They had locked up the rights to the silver that was coming out of other kinds of mines and eventually when the silver became more valuable they were able to sell those rights back.

Is that what we're talking about here in this model? And, if so, where is the uranium play? How does that fit in?

Marin: In that specific structure – everything in mining comes down to one thing: cost of capital. I've been involved in raising billions of dollars in this industry. I'm probably one of the largest financiers in the industry.

You can go to a mine and say, okay, what types of ways are there to raise money?

Well, you can issue equity, which means they do a financing to someone like me and they dilute themselves. Or they can bring in a joint venture partner at the project level. Or they can take on debt from a traditional bank.

Right now, the best project will be anywhere between 6% to 8% with the traditional banks. But if you go to the secondary lending markets it's realistically between 12% and 14% interest after all the due diligence.

Or there is the streaming and royalty concept. And, because the royalty companies trade at a premium to their NAV [net asset value], their cost of capital is lower than what a miner who trades at a discount to NAV, so there is a mathematical arbitrage there.

And they come and say, ok Erik, you've got this uranium mine. You're about to produce or you are producing, but you need a little bit more money, say $50 million. How about I'm going to take a stream on this and every year you give me 500 thousand pounds at $25 a pound and we fix that price?

So when the streaming companies did it, they did it at a slight discount. When you gave that silver example – today it's called Wheaton Precious Metals or Franco-Nevada. When Silver Wheaton started that model, they saw silver go from $4 an ounce to $40 an ounce and they collect that right or that option at $4.

In the uranium game, there are no royalty companies. And now you can get your life of mine stream on that production where you can either get the delivery of the uranium. Or, like you said, the mathematical option and it's just a financial arbitrage on that.

And I believe right now the lowest-cost producers in the world don't turn a profit at $30 a pound. They just don't, whether you're in Kazakhstan or Cameco, the two largest producers. Neither of them are covering their cost of capital at $30 a pound.

It's going to readjust. I think we see $40 within 12 months. And you get the biggest bang on your buck from the streamers because of your cost of capital.

If I was to go build a mine, the permitting process takes years. So you bypass all of the operational risk, execution risk, permitting risk, development risk, financing risk with the streamers. You just cut your deal. That's why I love the streaming model.

Erik: So let me summarize that and make sure I've got it straight. What we're talking about is you can see this opportunity in uranium. You look at any realistic evaluation of what it would take to get into this business yourself and it's overwhelming.

So, instead, you look for who are the smartest guys that are doing the best job that are already in business. And you go to them and you say, look, you're selling uranium for $30 a pound. I want to buy lots and lots of it for $30 a pound for the next several years.

To the seller, it seems like they guy wants to pay the asking price for many years. That's a great customer. And, in reality, what that guy is doing is he's getting a free call option. He's basically locking in today's price. And when tomorrow's price is much higher, he's still locked in what is going to end up later on being a bargain basement price.

Is that the gist of it?

Marin: Except we do it at a discount to the spot, not at spot.

Erik: So, instead of paying a premium for that call option, you're actually buying a call option that's in the money already and you're getting a discount on the premium. And you're doing that because you're providing needed capital to that seller that's very excited about their business model.

Everybody makes the same mistake in mining, which is they don't plan their capital, they're all running out of money. And you're the savior coming in on the white horse saying, we've got money for people who are willing to give us a bargain. And you end up buying those bargain rights.

Now, do you – I know in the silver case, the guys that had the bargain rights to the silver, they didn't even have to take the silver. They ended up selling the rights back at a windfall profit and didn't have to sell any silver.

Does that apply in this case as well?

Marin: Well, you have that option.

But, as one of the largest shareholders in the company, I don't want them to do that yet. Because the valuation compound that you get when uranium gets to $40–45 – remember pre-Fukushima, uranium was $75 a pound. Just in 2013 it was $40–45 a pound. It was the washout that we've seen.

You know, I just don't think that many new mines need to come into production. And I actually don't like exploration risk. Exploration is a very, very tough game. And I just want to clip the arbitrage on the streaming model.

My good friend Pierre Lassonde became a very, very wealthy man running Franco-Nevada through that exact model. But the setup for uranium is like doing Franco-Nevada back in 1996 or Silver Wheaton in 2003. That's the setup right now for uranium.

Erik: Marin, I'm sure that a lot of listeners just cued in when you said that you're one of the biggest shareholders in a particular company that's engaged in this model. I should probably explain that, out of respect to your paying newsletter subscribers, you're not at liberty right now to tell everyone what that is.

But certainly that has been disclosed to everyone who subscribes to your newsletter. Is there anything else that you can tell us for people who are not subscribers with respect to this business model and where they can learn more about this general approach?

Marin: The streaming and the royalty model is well known. You can look at companies like

Franco-Nevada, Wheaton Precious, Royal Gold. And there's many in the oil patch, also, that do it.

This is the first one in the uranium sector. There's going to be many, many imitators afterwards. Myself and my subscribers, we got in at the same price all through a financing.

That's something that we feature in my newsletter. There's open-market buying and then there's also the financing opportunities. I personally love buying my first two tranches through a financing because I don't have to spend all the time in the market getting my bids filled. It's just there's the price, there's how much I'm buying, and it's done.

And with the financings you also get the beautiful warrants sometimes. Not always, but sometimes.

So, in my experience, after being at over 500 projects, being in over 100 countries and all these different projects around the world, the best business model – now, you'll never make the most money. The biggest gains are always in discoveries or buying discoveries. And they're broken down like what we did in Northern Dynasty a couple of years ago.

You're never going to get a 20-bagger from a royalty company within the first couple of years. You've got to hold it for six to seven years to get something like that. But for a three-year hold, I believe in this uranium company we'll make somewhere between three and five times our money.

And you always have to ask yourself, Erik, what's my exit? How do I get out of these deals? And because there is no other royalty company on the planet doing this – and this company is already locking in royalties. Well, the bigger royalty companies are going to realize this and buy them out with their cost of capital being lower than the uranium royalty company.

Just like my whole thesis on what happened with Nevsun. And, before that, we had a buyout with Alterra – where I was the second largest shareholder in that company – got bought out by Innergex.

I believe the buyer for the uranium royalty company will be actually a larger royalty company rather than – they don't know uranium royalties. They can't go and structure these deals. Uranium is such a niche, niche market.

Because these royalty companies are run by gold guys or accountants, they have to go and get these uranium guys to understand the business. Or they can just pay a fair price for someone who's already done it, especially when uranium is going higher and higher. That's our exit.

Erik: I want to stay on this topic because we have a very large accredited investor population in our listenership who I know is going to be interested in it.

First of all, I think we've got a little bit of US/Canada terminology. When you're talking about "financings," I assume that what you mean in my terminology is private placements that are only available to accredited investors, buying companies before they go public.

Marin: Correct.

Well, there's pre-IPOs and there's also companies that are public and also do either a long-form prospectus or short-form. We've done both. We've done pre-IPOs, so before the big money managers in New York or San Francisco or Toronto get access to it our subscribers are in.

But we've also done financings after the company is public and it's already listed and trading. And then you do a financing in the already listed company.

Erik: Now, this is very interesting to me because I know from talking to our mutual friend Rick Rule that there's a lot of fantastic opportunities for accredited investors in private placements in, let's say, junior gold mining companies. Well, the thing is, if you're going to do a private placement in a junior gold company, you've really got to know a lot and know that you're taking a pretty big risk because you never know which way those things are going to go.

If I understand you correctly, you're talking about private placements but they're not in exploration companies. It's a private placement in a streaming business model where you're basically making your private placement investment in a company which is going to go and buy these discounted call options. It doesn't have to build any mine. It doesn't have any risk of it turns out that they got kicked out of whatever "stan" they were in. Any of that stuff.

Am I correct? And I didn't know anybody was doing this.

Your company has apparently done financings where you're offering your subscribers the opportunity, if they are accredited investors, to participate in a private placement in this streaming model company. Is that right?

Marin: Exactly. How it works is I did my whole research report and played out the whole short case for uranium thing.

In a worst-case scenario, here's the landscape and how do we make money in this horrible market. And then I came to my conclusions that the best way to do this is streaming. We could still make money in a horrible market. If uranium goes gonzo and goes to $45–50–60, I'm going to make even more money, which is great.

But the upside always takes care of itself. Let's focus on the downside.

And because I was personally writing a very large check and becoming one of the largest shareholders of the company, my subscribers have the right after they read the research report to call the company and get in at the same price as myself.

The best part of what I do is I don't take any fees from these companies. I work for my subscribers. They pay me my annual fee. And there are no fees paid. So a lot of these financings, whether it's Rick or anything, Rick takes a finder's fee because he works at a brokerage firm and that's what brokers do. They take a commission.

This way 100% of the money raised is going towards the streams, whereas, right now on the Street, the average fee is probably like 7–8 points cash, 7–8 points in broker warrants. You're looking at the cost of capital for these companies – right off the bat you're looking at 12 to 15 points. So maybe 85 cents on the dollar goes into the ground or wherever it's going, usually.

I love turning the industry upside down.

And if you're accredited – you have to be accredited to do this. I don't make the rules. I play by the rules. And that's what I love about the bear market in commodities, especially uranium, because there are really not many people doing it.

Now, Rick is a very close friend of mine. We were partners in one of my funds. Rick has done many financings. Some of them we co-invest. Other ones I wonder what he's doing. We disagree or whatever. That's the beauty of the free market enterprise.

But for myself, my big bet is take the low-risk angle because you'll still do really well. And for myself, where I am at this phase in my career, and for what I want to do with my newsletter, I'm happy with a three- to five-bagger over three to five years. I think that's a reasonable – I don't want to be shooting for the 10-baggers because you have to have the support of the uranium market.

Most of these junior exploration companies who are looking for uranium don't have uranium. They're looking for it. That's a very expensive venture. The cost of capital is expensive.

And, unless uranium gets really going, the market's not going to come to them, meaning everything is based off of supply and demand. And, unfortunately, these junior companies supply a lot more shares than there is a demand for. And that's why they're not going anywhere.

I like the cash flow model. I like going after producing assets and eliminating execution risk, development risk, permitting risk, jurisdictional risk, and just going into production. I just want to cut my stream. That's it. It's nice and easy.

And, Erik, some people might say, oh, sheesh, Marin's lost his edge on risk. No, I actually haven't. When the time is right, I take big risks. But I just think right now it's a very unique business model. They have such an advantage and they have about a two-year runway lead over anyone else. In three years we'll relook at what's going on. But, for now, I think it's the safest way to play the sector for maximum upside.

Erik: Marin, you touched on a point that's very important and I want to make sure we don't skip over it, which is warrants. Let's just make sure we explain this to our listeners.

If you're buying a private placement, you're basically buying stock in a company that either hasn't gone public yet or, as you say, maybe it's a public company that is doing some kind of offering that is allowed to make a private placement of stock.

Most people, if they're not initiated to this game, would think it's all about the price you pay for the stock. That's the only thing you'd care about. People who are veterans of this game will tell you that warrant rights are more important than the price you pay for the stock itself.

Please explain that. What are we talking about? What is a warrant and how does it play into this story?

Marin: Okay. A warrant usually comes with the earlier stage of the company. The financiers want to get paid for their risk. What happens is it's called the "unit."

Let's use a great case called Northern Dynasty. Northern Dynasty is a company that had a big project called Pebble and they needed to raise money. I was the large financier and we did a 45-cent financing. It was for a unit.

For 45 cents, you get a share and a warrant with an exercise price of 55 cents. So you pay 45 cents for the stock and you have the right to a warrant. You don't have to exercise it. Now, if the stock trades at 45 cents until the end of the expiration date – a warrant, just like an option for a management team, it expires.

So there are as short as 12-month warrants and, in this specific case of Northern Dynasty, we had 5-year warrants. And that is a full warrant. So warrants can come as quarter warrants, half warrants, and the time frame could be anywhere from 12 months to 60 months. It could be 18, 24, 36 – whatever the financiers negotiate with the company.

But where the warrants really kick in, Erik, in the Northern Dynasty case is when the stock went to $4, you know you've made almost 10 times your money on the share. But on the warrant you almost made 10 times. So you made 9x on the stock and 8x on the warrant. Now you've pulled a 17-bagger, so you get paid almost twice when it works out.

That's the beauty of warrants.

Now, the best type of warrants is what Rick Rule calls the Katusa warrant (he named it after me). It is what we did on the Northern Dynasty warrant. We actually listed the warrant and it trades like a stock. It has a ticker (WT) and that warrant trades.

Now, the beauty of these warrants is a lot of big funds and individuals can't buy stocks under a dollar because they're penny stocks, or for whatever reason.

For example, my partner Doug Casey phones me up at Morgan Stanley and says, hey, you've got to get rid of this stock – because it was 80 cents and Doug paid whatever he did, the stock went under a dollar, and they don't want that on their books because it's a penny stock and it's just a liability for them for whatever reason.

So, long story short, these brokerage firms like Morgan Stanley or whoever it is doesn't want that risk. But a warrant is like an option. It's like a put or a call. And these funds, because it has an expiration date, can speculate in the warrants, and they can't actually speculate in the stocks.

There was a period of time when Northern Dynasty was trading at $4–4.50. The warrants actually traded at $4 a share. So that 45-cent unit, the shares at $4.50, and the warrants are trading a little above $4. That's $8.50 combined in your listed fee with the Katusa warrant.

Those are the type of potentials you can get in financings.

Now, not all financings have warrants. But in a bear market, especially in exploration or development, you can get warrants. I've gotten warrants on producing mines, on producing oil companies. They are there if you know what you're doing.

Erik: So, just to summarize, the scenario is you've got a company that wants to sell its shares to an accredited investor in a private placement. They're saying, hey, we think it's a fair value to pay 50 cents a share for our shares, so please buy some.

An accredited investor turns around and says, well, you know, it might be a fair value, but you need money and I've got money. So I want a bargain. I want you to give me what's effectively a free call option.

I'm going to pay the 50 cents, the fair price for the stock, but I want you to give me a call option that lets me buy another share of stock for that same 50 cents for the next two or three years. And if the stock triples in price, all of a sudden that option, which is called a warrant when it's issued by the company as opposed to someone else, ends up giving you as much profit potential as the stock itself did.

Needless to say, a very profitable model. Is that basically a summary of how this works?

Marin: Correct. And what I love about listing the warrants, and actually of all of the exchange I have listed more – in my financings I have listed more warrants than anybody else in the industry.

As you know, growing up, Doug and Rick were mentors to me when I was working with them and partners with them. And the old saying would be, "Peel out the shares and ride the warrant." That's industry lingo.

Well, I've turned that upside down. By listing the warrant there is no overhang on the stock. So you can actually keep the share and peel out the warrant. It actually turned the whole financings upside down.

In growing up with Rick's mentorship, you do a 50-cent financing, you have a right for a 75-cent option on the warrant exercise price, and the stock is at $1. Well, people would sell the shares and ride the warrant for a few more years.

But what if you could actually not have that overhang of the warrants, sell the warrant, and you keep the share for free? It takes away the selling pressure off the issuer. That's why I love listing the warrants.

Erik: Let's switch gears now, because I want to come back to the recommendation you gave us last time I interviewed you on this program, which was Nevsun. At the time – I want to be clear with our listeners – the fact that that stock moved up 50% in something like 48 hours after you made that call that was pure dumb luck. That part was not skill.

But the fact that you knew to focus on a company that was going to be an acquisition target, that part was skill. And I think, where MacroVoices listeners happened to get lucky and the call played out in 48 hours, for the people who are reading your newsletter it took more like 10 months.

But waiting 10 months for a 50% payout is still an awfully good deal.

So, Marin, if you took seriously the stuff they teach in universities about efficient markets hypothesis and so forth, it's impossible to make a call like that. You do it consistently. And I'm sure a lot of our listeners would like to know how. And I'm sure your first answer is buy my newsletter.

But, for people who want to know how to do it themselves, what do you do in order to build an investment process to find companies that are going to be takeout targets, acquisition targets? Because that clearly is, particularly in natural resources, a very effective strategy.

Marin: For sure. Let me give you two examples from the same time. When we talked about the Nevsun example, I laid out my site visits, how I go do your due diligence, you understand your own models.

But then you say, okay, what kind of product would they produce? And you've got to kind of know what you're doing when you build your models. In my newsletter, I have my takeout candidates, I think this is a takeout target, and Nevsun was one of them.

The one before that was a company called Alterra Power. And the chairman of that company was the largest investor in the company. He and I actually had a public feud in 2009 on the valuation of his company.

It was trading at $25 a share at the time and I was a moderator of this investment conference. Lucas Lundin, another billionaire, is sitting at the panel. Doug Casey was there and Rick Rule was also there, our mutual friend.

And someone in the audience goes, Marin, you're the mathematician in the group. What's your opinion on this valuation? And I said, I personally believe right now (and this is videotaped; this is on the web) I said I believe the company is priced to perfection. I don't understand why you would buy it at $25 a share when they have to execute perfectly to justify that price.

That was September of 2009. By October 2014 – obviously I followed the industry. This is the industry I'm in, so all the press releases, conference calls, you do what you've got to do, you update your models. And the stock went down to about $3.50, remember.

Five years later, it went from $25 to $3.50. You would think that the company was a disaster, right, Erik? No, they actually executed their business plan. They had better cash flows. They did everything they said they would do.

But guess what? The industry sentiment changed. What happened during that time? SunEdison blew up. So I wrote up a report where David Einhorn went big on Sun Edison and I said, man, your numbers are wrong. This company is going to go bankrupt. What you should do is do what I'm doing.

I became the second-largest shareholder of Alterra Power and I said to my subscribers, look at its true NAV on just operating. This company is cheap. We told my subscribers, under $5 buy it all day long. And I was the largest buyer of it, period, in the open market.

Also, my subscribers got involved in a financing in it at $6. And I said, look, let's give its exploration and development projects zero value. Ironically, this company provided the geothermal fluid – it's a famous spot, I don't know if you've ever heard of it – called Blue Lagoon in Iceland. It's kind of like the country's hot spot. Kim Kardashian did a whole thing on it.

Anyway, the company owned a third of it because they supply all of the geothermal fluids that provide the spa environment. No analyst even realized that. I go, that alone is worth about a $1.50 a share that's getting zero value. Innergex, another large green energy company, bought it out for $8.25.

And in our reports we said one of these five companies will buy it out because it fits into their portfolio. You just have to do your homework and it's when you buy.

I spent the first 10 years of my career learning how to analyze and how to buy – what it takes, like what are the components of finding a good stock? Then I spent the second 10 years on how to buy. And, more importantly, when I'm buying what I'm about to buy, what is my exit?

Understanding what is the valuation I'm going to sell this at. If my thesis is right and my analysis is right, what do I look at? When do I sell?

So, for the Nevsun example, I laid out my whole model. I had a candidate that I said would buy it. In my June 2017 report I said this is who I think should buy this and here is why it fits. They have a mill in Portugal that makes all the sense in the world.

And at $4.85, we got about 67% gain on it. I sold it out. My subscribers get three business days to sell before I sell. And at $4.85 I closed out my position. And, granted, I sold maybe a little early. The Chinese company called Zijin came and put an offer on top of the $4.75 offer at $6 a share.

But I'm okay, because my numbers said $4.85 was fair value. The Chinese were paying for potential other discoveries and, to secure the deal, they were willing to pay an extra $1.25.

I can't get that upside but was happy with the 67% gain in a year. And I was a big shareholder.

So that's kind of the process. You have to understand, what are you buying? When are you buying? And when do you sell? I'm trying to simplify it, but it takes a lot of work to do that.

When I look at the uranium sector, there are going to be a lot of new companies. I remember in 2004, when I first started financing uranium companies, there were like 10 to 12 management teams then. That's all there were.

By 2007, we went from 12 companies to over 500 uranium companies. There is something about the resource sector that attracts – it's like bacteria growth. It attracts everybody with a dream in their eye. I remember there were European projects everywhere in Europe. And in Slovenia, people were trying to promote projects and the country banned it – there is no way you're going to mine uranium there.

But guys who create these companies – you've got to kind of go, wait a second, what am I doing here? Who are these guys? Does this project make sense? What's the infrastructure like? What's the history? What's my political risk? And, more importantly, if I'm right on my analysis, what's this thing worth? And when do I sell?

And never worry about getting the top because, in almost 20 years of doing this, Erik, I've never bought at the exact bottom and sold at the exact top.

I might have gotten pretty close to the bottom and pretty close to the top, kind of like what I did with Nevsun. But, like on Alterra, I got pretty close to the bottom but I didn't buy the exact bottom. And we sold when the company got bought out by Innergex.

That's the best way to exit. When you know it's at fair value, another major will come in and buy it out. And that's generally how you succeed in the cyclical junior resource sector.

Erik: Marin, I could pick your brain about this for the next three hours, but, unfortunately, we are running out of time.

Before we close, I want to quickly touch on your company's services. You manage a hedge fund. You returned 138% in 2016. That's after fees. Net to investors. Another 58% in 2017.

The only reason I can actually mention those performance numbers on the air is your fund is closed. So, unfortunately, sorry folks, it doesn't matter if you're accredited. You can't get into that one because you've already hit your AUM target. And it sounds like you're probably not going to reopen that to outside investors any time soon.

That leaves your newsletter service for people who want to do it themselves. Tell us a little bit more about – who is it for? How is it structured?

And, for people who want to learn more about it, is it possible to get a free trial or a money back guarantee or something? Because it's a very high-value newsletter, but it's not cheap. So how do we protect our listeners who might want to try it out and, let's face it, not everything is for everybody.

Marin: First of all, that's exactly right. I think if you're looking to spend invest at least $25,000 to $30,000 over the next 12 months into the resource sector, that's your starting point for my newsletter.

I don't do what most newsletter groups do. I have no interest in being a publisher, not that I'm trying to knock down some of these other organizations. But I'm not going to have you sign up to my $99 newsletter and then sell you a $799 [newsletter] and then sell you a $7,000 newsletter. I don't do that.

I just write what I'm doing with my money: Here's my analysis. You get the same type of research that my fund shareholders have.

Now, who is it for? It's for my mother, it's for my brother, it's for my wife (who is a geologist), it's for myself. This is what I'm doing for myself for my net worth, for my family, for the people in my office.

And I think, as long as you want to work at –I've got little clichés that I use in the newsletter like the way of the alligator – you've got to be strategic when you're buying, and disciplined. I don't have a new investment recommendation every month. We have less than 10 companies in the portfolio.

But I have a watch list. I'll give you a great example on one of them. There is a royalty company

– I did a whole royalty analysis of every single company about five months ago, Erik. And I said, look, I think the market is going down. Gold and silver are going lower. I believe these are trading at a significant premium to their NAV (their net asset value). And I think, with the compression of commodity prices plus funds selling them, let's buy these below NAV.

And then I charted the history of a company and I showed how Royal Gold actually traded, in December of 2015, below NAV. It traded at .9 NAV, and that was the lowest it ever traded. We're actually approaching that.

I send out multiple alerts to my subscribers saying, hey, we're getting there, we're getting there. And I said this one specific company would drop 40%. We're almost there. And I keep telling my subscribers: Be patient, buy your first tranche at this price.

So I have a buying matrix. I tell people to buy your first 20% of desired allocation at this price. Then we're going to wait and buy our next 25%.

So you've got to do a little bit of work. This isn't like a glitzy, puffy – it's not a comic book. This is my portfolio. I take it very seriously.

Every issue I try to keep under 20 pages. I have not succeeded yet. Some of them are as long as 40 pages.

I try to make it interesting. My hobby is resource history. I go back to the times of Trajan in the Balkans, in which I highlighted where that mining industry in Serbia was. When I did the Nevsun report and I tried to connect the dots. Kind of like – I don't know if you ever watched the BBC show *Connections*. That was one of my favorite shows when I was a kid. I try to make it fun.

Now, what can I provide? How about I do one better? For any of your subscribers who want to just try it out, try it out for 30 days. If you don't think it's the best newsletter in the industry for resources – I'm not going to compete with the biotech guys or the marijuana guys, just for resources – if it's not the best in the industry, we'll give you all your money back.

So, a 30-day money-back guarantee. You've got nothing to lose. You've got not just access to that month's issue but every single thing I've published since I've started. And, Erik, I think people will find out why guys like Doug Casey, who is the chairman of a competitor newsletter to me, why I manage all his money.

I'm not trying to be cocky or anything, but there is a reason why his money is with me and not other people. I'm not trying to slag people, but I'm trying to bring the truth. What I'm trying to do is even the odds for the retail person.

Because I started out as a high school math teacher when I was 23 years old. And I wanted more out of it. Then I got into teaching calculus at the university. And then I had my big break and I hit tungsten and then uranium and I left.

What I'm trying to do with my newsletter is what I would want to subscribe to myself. It's that simple.

My subscribers get three business days before I buy in the open market and they get three business days before I sell. So they have the advantage over myself. When it's a private placement, they get the same alert as myself and they get the same price. But when we sell they get three business days to sell.

I'm trying to be as fair as possible. And we're one of the largest followed newsletters in the industry.

People might ask, well, why the hell is this guy doing this? For one reason – incredible deal flow. You know, in university when they say "publish or perish"? Well, because I publish so much, the industry follows.

The industry players follow my stuff. It's kind of in the room, in the deal kind of thing. People remember me and they'll go, sheesh, we need Marin in on this deal. And I'll be invited to the site visit, in the hopes of me writing the company up. Now, 99% of the time I don't.

But by publishing and being out there I get access to the best deal flow. And that's why I do it.

Erik: Okay, Marin, to summarize – this is for serious people who want to take natural resource investing seriously. This is not your beginning investor kind of thing. And, let's face it, it's not cheap. It's a $3,500 per year subscription.

Patrick Ceresna, my amazing producer, has negotiated very hard with your staff and, once again, we've got a [price of] $1,999 – [approximately 42% discount] – so it's just under $2,000 only if you are a MacroVoices subscriber. And, listeners, you'll find the link in your Research Roundup email for that.

The one hesitation that I have about this, Marin, is, listening to your description – you say this is for you, this is for your family, this is for your people – those are all pretty successful people who are accredited investors. And I wonder, is there value here if you're talking almost entirely about things like private placements that are only available to accredited investors?

Is there value for non-accredited investors? And, if so, what form does that come in?

Marin: The majority of what we do is not financings. Let's just make that clear. On my list, about 1/3 of my subscribers are accredited and 2/3 are not. And, remember, my parents were immigrants to Canada. I started with nothing. It wasn't like I was a silver spoon kid. So when I started I was definitely not accredited.

And 2/3 of my list – my goal is that eventually everyone on my list becomes accredited. That's through our open-market buying. And my strategy is when to buy. I call it the way of the alligator. It's on my website.

And that's why I stated, if you're just looking to invest anything less than $25,000 in 12 months, it's not for you. If you're looking at, hey, I've got about $25,000 or $50,000, this is definitely something that you should take me up on my 30-day offer. You've got nothing to lose.

And you can look at my style. It's a very, very different style than most newsletters, because in every one of these deals I become one of the largest shareholders at the same price as my subscribers, whether it's Alterra or Nevsun or this uranium royalty company.

There are many ways that an investor can buy.

Another strategy, even the accredited investors – they might say I'll buy a quarter of it in the financing but I'll look at buying in the open market if it weakens up. Or, you know what? The trend looks up, they might play the momentum on it. So there's many ways to play the newsletter.

But, most importantly, it's the research and the uniqueness in the industry, whether it's Rick or Doug or even my competitors. They'll all say my stuff is unique. And I pride myself on being the first to the story, like being the first to publish on Alterra or being the first on Nevsun or being the first on the uranium royalty company.

These are what I strive for. It's what makes me want to come to work.

Yeah, it's a lot of ego. I'm well aware of it.

But I'm very proud of what I do and I'm proud of the team I have. It's not just me. I've got a pretty impressive team in the Vancouver office. I have one of the world's most renowned [coal bed] geologists, petroleum guys, Dr. Marc Bustin. That's one of my guys.

Two Canadian hall of famers, Roman Shklanka and Jim O'Rourke, they were both inducted into the Canadian Mining Hall of Fame. They work with me intimately in our office. Plus I've got a whole team here. So it's not like it's just Marin plugging away. I've got a pretty sophisticated team. And when I don't know an answer, I try to figure out who does and go to them.

People might say, well, why don't you just publish this for free? I spend about $400,000 a year on just data services. And on one deal I spent [about] $370,000 on just due diligence on stuff that I didn't know and my team didn't know. So I went to the best in the industry and paid them to do it.

That stuff costs money. And my newsletter is for serious investors. And I priced it to basically eliminate the non-serious people.

Erik: Well, Marin, I can’t thank you enough for a fantastic interview. We ran a little bit over time on this one, but it was well worth it for fantastic content. I look forward to getting you back on the program again soon.

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