Marin Katusa: Tricks Anybody Can Use to Out-Invest the Top Fund Managers

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COMPANIES MENTIONED

- Africa Oil Corp.
- Alterra Power Corp.
- Brazil Resources Inc.
- Cameco Corp.
- Copper Mountain Mining Corp.
- Crocodile Gold Corp.
- EOG Resources Inc.
- **Fission Uranium Corp.**
- Midas Gold Corp.
- Newmarket Gold Inc.
- Pioneer Natural Resources Co.
- Uranium Energy Corp.

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You don't have to be a geologist or a workaholic fund manager to spot deals in the natural resources space—although it helps if you know a good one. Focus on the people behind the company, find out if they have skin in the game, and wait until you can get in at a lower price than their price. Then be patient. In this interview with *The Energy Report*, Marin Katusa, founder of Katusa Research, shares some of the names in the uranium and oil and gas space that could add up to future profit for any investor.

Source: Karen Roche of *The Energy Report*

The Energy Report: You recently launched Katusa Research after years of working with Doug Casey. How do you see your new company expanding on what you achieved at Casey Research?

Marin Katusa: My time at Casey Research was fun and a great platform to spread my wings. Doug and I are still very close. We're partners in a hedge fund and we talk regularly. Katusa Research is going to be much more focused on just publishing research. There will not be any upsells, and I am not a publishing company. I run an investment fund, and my focus is making money on investments, not selling newsletters. Everybody will be able to get free access to all my research and thoughts on my website and monthly newsletter, all available for free at katusaresearch.com.

I have no axe to grind with the publishing model; it's just not for me. I've made all of my money from my investments, and the cash flow I received from the newsletters was a very small part of my income. So, I want to focus on the great opportunity I see currently in the resource industry. And, I plan structuring deals that in five years are going to add a significant impact to my funds' portfolios.

TER: What do you hope to achieve by publishing this for free that you were not getting when you were at Casey Research?

MK: Therapy and deal flow. I've done eight flights in the last week and visited six countries in the last 30 days. I spend a lot of time on airplanes, so I try to optimize my time, and writing is therapeutic. I don't pretend that I'm the best writer, but I am a fast writer, and jotting down my thoughts helps my stock analysis and research. My output is up there with the best of the writers in the industry. I can create spreadsheets, but when I write it out in plain language, it helps my analysis. Moving forward, since my research will be free, I don't have to worry about the marketing side of the publishing business.

*"**Fission Uranium Corp.** has one of the highest-grade projects in the world."*

I am busy running one of the largest funds in the junior resource sector. I'm an investor and speculator. That's my focus. I'm not going to be hitting people's emails 10 times a day to tell them about the best investment theme of their lives. If people are interested, they can come to my website. Time will tell if my model will work.

TER: Will Katusa Research readers be notified of deal flow? How can they participate?

MK: When I find something interesting, I pop it up on the website. The first thing I wrote up was one of my favorite stocks and one of my largest holdings: Newmarket Gold Inc. (NGN:TSX.V) taking over Crocodile Gold Corp. (CRK:TSX; CROCF:OTCQX), which is supported by some real industry heavyweights: Lukas Lundin, Ian Telfer, Doug Forster and Mike Vitton. My research was the first published analysis about the deal, and I provided detailed cash flow analysis, and I met with the insiders. I shared with readers the best way to do an arbitrage with this company. On my website, I also post big picture topics, the truth about uranium supply and demand, the role of the Clintons and what it was like being interviewed for a story that appeared on the front page of *The New York Times*.

TER: You also recently published a book called "The Colder War: How the Global Energy Trade Slipped from America's Grasp." You summarized how Putin has leveraged Russia's greatest assets, its energy resources, to rebuild the Russian economy. And you noted that Putin did this by establishing trade relationships with countries like China, Brazil and Iran and that he did all of this outside the U.S. dollar. What's the next battle in the Colder War?

MK: About 120 pages of the original manuscript got cut out—and it covered the importance of China and the emerging markets. The battle of the petrodollar will take many decades to play out, and China and the emerging markets will be essential for the bull market in resources to get going again. This will be the basis of my next book, along with specifically how to position your portfolio to profit over the next decade.

"Natural resource companies are learning they have to either adapt or die."

A lot of people don't realize that the yuan is the second largest currency in the world today; it overtook the euro in Q4/14. China and Russia are already working closer together. The "stans" are rallying together to create their own critical mass. This is a multi-decade battle with a lot of players. Japan and Europe are in their own battle to the bottom, devaluing their currencies to try and stimulate growth. Meanwhile, about a half a trillion fewer U.S. dollars are pouring into the Middle East because of the success of the U.S. shale sector and the slowing global economy.

People are chasing yield. You don't get yield in speculative growth economies; you get rise of net asset value. When Federal Reserve Chair Janet Yellen raises rates, that further establishes the U.S. dollar as the dominant currency with the yuan pegged to it by default. No one knows how this will play out. Will China's export market weaken if the currency is too strong? Will that increase social unrest? If it devalues too much, that could stimulate the economy, but then it will cause currency wars with other Asian countries. We are living through an interesting flux point here, and the petrodollar is still the main thing to watch.

TER: If we are mired in this epic battle, why do you still think natural resources could be up in the next five years?

MK: Two words: human ingenuity. Companies are learning they have to either adapt or die. Copper Mountain Mining Corp. (CUM:TSX) in British Columbia built a new secondary crusher. The team at site worked hard to bring in the best technology possible, such that it is now a "smart mine" where many aspects of the hauling and crushing are all digitally monitored. All of this decreases the cost of production.

Heap leaching revolutionized Nevada gold production. The industry is getting better at metallurgy for processing all metals. We are finding new ways to be successful.

TER: Are we getting creative at finding new uranium sources?

MK: I recently spoke at the World Nuclear Fuel Market conference in Paris and I have visited most, if not all, of the major uranium projects in the world, including in Eastern Europe, and for my money, the low-hanging, easy fruit is in the Athabasca Basin in Canada and the U.S. The U.S. imports 94% of what it consumes. One in every 10 homes in America is being powered by Russian nuclear fuel. Everyone is focused on investing in the things that China needs. But with 99 operating reactors, 20% of U.S. baseload power is nuclear; that makes uranium a strategic metal and, by definition, valuable. Plus, it is a lower risk to invest in a North American uranium project where you know the rule of law, you know your government take, you know your taxes, you know your process and you are not going to have to compete with a major Chinese conglomerate that doesn't care about the North American Securities Exchange rules. I'm not saying that they're doing anything illegal. I'm just saying it's different. If you look at my portfolio track record of which stocks are doing really well, it's exactly those ones. That's what I'm sticking with because it's working.

TER: What are the North American uranium mining companies that fit that description?

MK: I was one of the first to recommend Fission Uranium Corp. (FCU:TSX) in the fall of 2012. It was in the $0.30 range. We made a triple on it, and then I sold it. I was wrong for selling it, because the company has done extremely well, but you can never be wrong taking a profit. Ross McElroy and his team there have done a fantastic job. They discovered a world-class, high-grade project in the Athabasca Basin. It really is one of the highest-grade projects in the world. I no longer own shares in Fission, but have it on my watch list, as I've seen great deposits go on sale in the past—nothing specific to Fission, but if a major market correction happens, then I would pick up some shares again.

"The industry is getting better at metallurgy for processing all metals."

I've mentioned Uranium Energy Corp. (UEC:NYSE.MKT) before to you. It has built and permitted a 2 million pound facility in the U.S., so there is no financing risk. Instead of digging, blasting and moving and crushing rock, it is using the equivalent of a water processing facility. What I really like is that rather than depleting its uranium reserves in a bad market, the company is pulling back production for now. The company also has great supporters. One of the largest investors in China, the Warren Buffett of China, Li Ka-shing, has become a major shareholder. George Soros has become a major shareholder. BlackRock has become a major shareholder because it believes in this concept of build it, but don't deplete it. I like to invest in franchise players like Amir Adnani, the president and CEO. This company has been a triple for the Casey subscribers and myself. It's one of my largest holdings. I believe that it's going to go a lot higher moving forward. It's also one of the most liquid uranium companies in the world.

Adnani is also involved in another junior company that I believe is going to be the next high-grade project in the Athabasca Basin, Brazil Resources Inc. (BRI:TSX.V; BRIZF:OTCQX). This company owns a major concession in the Athabasca Basin in a joint venture with AREVA SA (AREVA:EPA).

America has relied on Canada, Australia and the former Soviet Union for its uranium supply, but those resources are turning toward other markets. Cameco Corp. (CCO:TSX; CCJ:NYSE), which mines in Saskatchewan, Wyoming and Kazakhstan, has signed a long-term offtake agreement with India. Australian companies, which are major suppliers of uranium to the U.S., have signed long-term agreements with the Chinese. U.S. utility operators are going to need to replace the Russian imports. Ironically, so many market pundits say the U.S. will just consume more Russian uranium. The U.S. changed the law so that a maximum of 25% of the domestic demand can come from Russia. Hence, in 2014, the U.S. increased its imports from Kazakhstan by over 80%.

I’d hardly call Kazakhstan supply stable and safe. If you are a uranium speculator, this is all music to your ears. It could take a few years to play out, but it will play out.

TER: Is there enough uranium in North America to supply our needs, but it just isn't built out yet?

MK: Yes, there is enough resource in the ground, but it has to be developed and that takes a long time—at a minimum, 10 years to develop, permit and build an operating uranium mine in the U.S. Eventually the big money will recognize this when the geopolitical tensions rise and the colder war heats up even more. Then they will have to pay a price to the people who were smart enough to get in early.

TER: Has human ingenuity been too effective when it comes to the oil and gas space? Has fracking resulted in too much supply?

MK: After a year of sub-$100 barrel ($100/bbl) oil prices, North American rigs are drilling faster and more efficiently. Companies evolve or die. But even in a global economy with slower growth, there is still increasing demand for essential commodities, and where there is demand, people will figure out how to deliver product.

A big opportunity exists in the oil and gas sector in South America. The Cantarell Field went from 3 million barrels a day to less than 500,000 barrels a day because it didn't reinvest in the oil fields and prevent the big production declines. This negligence was also true in the past in many other countries and other commodities.

> "I still think we have a couple of years of consolidation, during which time you can build up your positions."

Eventually, there will be a turning point where the reserves are depleted. Again, human ingenuity will solve those problems, but there will have to be an increase in price. That is the opportunity I am positioning our funds to take advantage of. You have to be in the right commodities, with the right people, and you also have to have patience. The resource sector is cyclical. But if you understand that and you invest with the right people, you will do well.

TER: Can you give us some examples?

MK: Mexico has world-class potential, but it hasn't seen any modern technology. Fewer than 30 horizontal wells have been drilled there. PEMEX, the national oil company, has seen a huge decrease in production because instead of investing profits in the company, they are used to subsidize social programs. That is why the country opened up its oil patch to North American drillers. Right now, Mexico is importing condensates from the U.S. The game has changed. Ten years ago, everyone thought the U.S. would be importing liquefied natural gas (LNG). Now, it's planning on becoming a major exporter of LNG. So you have to adapt, evolve. And it is happening faster than we ever could have imagined.

TER: You have made the point that not all shale formations are the same. What are the two or three data points I should be looking at when I'm looking at a shale oil opportunity?

MK: It's like saying all gold deposits are the same. That's absurd. I recently wrote a piece called "Why David Einhorn is Wrong on the Big Oil Short" to debunk some of the myths about fracking. The problem is that the production of shale oil is so new that a lot of people just don't understand it yet.

Investors should start examining possible shale investing by determining the type of production. The Bakken has a different type of production than the Eagle Ford or the Montney in Canada. Take the time to understand the formations, the depths, the infrastructure, the government take, the state tax, the provincial tax and all the wellhead prices. The price you get in Canada is different than the price you get in the Bakken, and it's different than the price you're going to get in the Eagle Ford because of variances in demand and the cost of transportation.

Once you get to the company level, then you do the financial analysis. If you're looking for a low-risk company and you want to have exposure to the U.S. shale sector, something like Pioneer Natural Resources Co. (PXD:NYSE) or EOG Resources Inc. (EOG:NYSE) is probably where you want to start.

TER: How about some names that are up and coming?

MK: The first question you have to ask yourself is "What is your risk tolerance?" I have a very high risk tolerance. I use $55/bbl oil as my base case for oil prices. If a company can't make money at that price, I avoid it.

There's one exploration company that I think you can be patient with. I think it's going to go down lower even though I love the management team. I currently don't own any, but I'm watching it very carefully. I've been to the project. It's a Lundin company that doesn't produce any oil, but has huge potential, even if it is ultra-high risk potential. Africa Oil Corp. (AOI:TSX.V) is in Kenya and it is a true contrarian play. That is one worth watching. It's not shale oil, but it has world-class, elephant-size deposit potential.

I also believe that you don't need to own too many companies. My three funds only own nine positions. If you own more than 20 resource stocks, you might have to reassess the style of investor you are, because I do this professionally full time and I'm a bit of a workaholic and I have a hard time keeping up with 9 or 10 companies. Be patient. Pick right. Sit tight. Never buy your whole allocation at once. You really just need to focus on a few companies. You don't have to be an amazing financial analyst to do really well in stocks. Find the gurus, go to the conferences, talk to them. People like Ross Beaty and Lukas Lundin have created billions of dollars of net worth for investors, and they are so invested in their deals that they're going to bend over backward to make it happen.

This is why I have partnered with Cambridge House, to bring the absolute best resource investment conference to San Francisco and Vancouver with the Cambridge-Katusa Resource Conferences.

How can a retail investor be successful? Don't try to figure out the geology if you're not a geologist or an engineer. Look at the management team. Focus on the people. A teacher, contractor, lawyer or plumber can be just as good at analyzing people as a fund manager is. Focus on the people running the deal; find out what price they paid to buy the stock. Then be patient and wait for your chance. I waited five and a half years before I bought my position in Alterra Power Corp. (AXY:TSX). I made sure I bought the stock cheaper than Ross Beaty paid in the open market in 2014. I did the same thing with Uranium Energy Corp. The stock got so oversold because of the shorters in the U.S. that I was able to get stock cheaper than what Amir Adnani paid for it. Now, I'm very bullish on both companies. Ironically, I found out that Ross Beaty is a big shareholder of Uranium Energy Corp. Using those simple rules, the average kindergarten teacher can have the same success rates as one of the best fund managers in the business.

TER: Earlier you mentioned "An Easy Arbitrage Opportunity." How can the average investor identify and jump on opportunities like the one you describe in that article?

MK: As soon as the Newmarket Gold and Crocodile Gold deal was announced, I jumped. I carefully evaluated the people involved. Ian Telfer, chairman of the world's largest gold producing company, Goldcorp Inc. (G:TSX; GG:NYSE), is one of the advisers on the deal. Mike Vitton, one of the best bankers in the business, is an adviser. Lukas Lundin is on the board and putting in $5 million ($5M) at the equivalent of $0.37/share of Crocodile stock. Because Crocodile was in such bad shape, it was trading at $0.32/share. I realized that if insiders are putting in millions of dollars, this was a legitimate deal. I saw an opportunity to cash in at a 15% arbitrage in three months or convert to stock at $0.36/share. This is the easiest arbitrage I've seen in the gold patch in a while, and I'm happy to do that all day long.

Since I knew the people involved, I called them up the moment the press release came out, and the first meeting management had was with me in my downtown Vancouver office.

I wrote it up, I bought millions of shares, and I clipped the 15% arbitrage—I love it when a plan comes together.

TER: With the TSX being down 80%, will there be more of these types of deals investors should be looking for?

MK: Yes, definitely. I see a lot of juniors consolidating. I also expect consolidation in the oil patch and the Canadian copper producers. When the majors start consolidating the best of the juniors and their margins increase, then the market will look for higher-risk, higher-reward, and that will spill over to the juniors. I still think we have a couple of years of consolidation, during which time you can build up your positions.

I'll give you another great example—Midas Gold Corp. (MAX:TSX). I was involved in the private round at $0.20 when nobody even knew about it in early 2010. In the summer of 2011, it had its initial public offering (IPO) and went over $4/share by early 2012. I exited my position at the beginning of 2012, even though I love the company, because I had made my profit. Management has spent over $60M drilling and advancing the project in the last four years. Now, the company has just under

$20M cash, a $60M market cap and north of 6 million ounces of gold. But it trades under $0.40/share. It's twice the company it was when it did its IPO, but it is trading at a fraction of the price. Now, I've built up my position again to where I'm in the top five shareholders of the company, because you couldn't replace that asset for the price it is selling. It is held by major investors like Teck Resources Ltd. (TCK:TSX; TCK:NYSE), Jeff Phillips, myself and a few other really smart fund managers. It you look at it day to day, it will depress you, especially if you paid over a $1/share. But I'm looking at it three or four years down the road, and I'm happy that I could build a position for an average price of $0.45/share. That's an example of where we are in the market.

TER: Thank you for sharing your tips.

Marin Katusa is the author of the New York Times bestseller, "The Colder War." Over the last decade, he has become one of the most successful portfolio managers in the resource sector, such as his 2009 Fund Partnership (KC50 Fund LLC), which has outperformed the comparable index, the TSX.V by over 500% post fees. Katusa has been involved in raising over $1 billion in financing for resource companies. He has visited over 400 resource projects in over 100 countries. Katusa publishes his thoughts and research at www.katusaresearch.com.

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3) Marin Katusa: I own, or my family owns, shares of the following companies mentioned in this interview: Alterra Power Corp., Uranium Energy Corp. and Midas Gold Corp. I personally am, or my family is, paid by the following companies mentioned in this interview: None. My company has a financial relationship with the following companies mentioned in this interview: None. I was not paid by Streetwise Reports for participating in this interview. Comments and opinions expressed are my own comments and opinions. I determined and had final say over which companies would be included in the interview based on my research, understanding of the sector and interview theme. I had the opportunity to review the interview for accuracy as of the date of the interview and am responsible for the content of the interview.
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