FRMO Corporation Q1 2014 Conference Call
Tuesday, October 17, 2013

Operator

Good day, and welcome to today's FRMO Corporation first quarter 2014 earnings conference call. As a reminder, today's call is being recorded. At this time, it's my pleasure to turn the conference over to your host for today's call, Thérèse Byars. Please go ahead.

Thérèse Byars – Corporate Secretary of FRMO Corp.

Thank you, Jason. Good afternoon, everyone. My name is Thérèse Byars, and I'm the Corporate Secretary of FRMO Corp. We appreciate all of you joining us for today's call.

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Today's discussion will be led by Murray Stahl, Chairman and Chief Executive Officer of FRMO Corp., and Steven Bregman, President and Chief Financial Officer. They will review key points related to the first quarter's earnings. Once Murray and Steven complete their remarks, we will move to questions. A summary transcript of this call will be posted on the FRMO website. With that, I'll turn the discussion over to Steven.

Steven Bregman – President & Chief Financial Officer

Thank you, Thérèse. Good afternoon. Our FRMO Corp. financial statements have been released, and are posted on our website. As well, posted today on our website is an updated Horizon Kinetics assets under management slide or review, which is updated through September 30. The last such slide we issued was for July 31. Since that's relevant to FRMO Corp. in a couple of important ways, you'll note that the Horizon Kinetics ("HK") firm-wide assets under management, as of September 30, were about $9.1 billion. As of June 30, the figure had been about $8.6 billion. So, there's progress there.

We would note that, as we have in the past, the relationship between a given increase in assets under management at HK is not necessarily linear with the increase in earnings, for a variety of reasons, including fixed costs versus variable costs and scalability issues. But also, importantly, because you will note, in the slide, that about 6% of the total assets is labeled "Alternatives," which includes hedge fund assets, for instance. Those hedge fund assets also contain performance fees, which are quite variable, both as to occurrence and as to magnitude.

And if one looks at the income statement for the first quarter of 2014, which is the August quarter, one can see that the consultancy and advisory fees, as they're labeled here, are represented almost entirely by the 4.199% revenue interest in HK. So, with that number, one can roughly estimate what the revenues of HK are.

But it's important to note what those revenues do not include. They would not include performance fees that are what's called "un-crystallized," meaning, if everyone in those hedge funds were to close their accounts today and leave, by operation of the contractual arrangements, HK would be due its performance fees through that date. But otherwise, these fees don't "crystallize" until the end of the year. And it's quite possible that the investment returns of those funds will go down during the balance of the year. But if they don't, there is some proportion, and it's not necessarily small, given the fact the markets are up and our performance in various strategies is positive, that would provide additional revenues not shown in this number.

I can't say much more about that subject in this call, but there is information on the Horizon Kinetics website, for instance, that pertains to various strategies that HK has and what their performance has been. So, I suppose the mosaic theory of information development would certainly apply.

I'll mention one more item that catches my attention, and then there will be many that favor Murray's attention about our financial statements. Since I'm speaking about limited partnerships and hedge funds, in our financial statements, on page 11, there is a review of the various investments FRMO has in various limited partnerships, such as the Horizon Multi-Strategy Fund and the Polestar Fund and the Multi-Disciplinary Fund and so forth. One will see that their fair value at August 31 of this year was about $19 million. I can tell you that, a year ago, which is probably the appropriate period to look at, a year ago, on August 31, 2012, the fair value of these funds was $12.4 million. That's quite a substantial increase, and it happened without our making any additional investments in these funds. That's a function of both their investment performance, which has been quite nice, and any accrued and reinvested management performance fees due us as managers. By "us" in this case, I now mean HK.

So, those are items that I wanted to observe. And I think Murray probably has some observations he'd like to make.

Murray Stahl – Chairman & Chief Executive Officer

Thank you, Steve. Just staying with the income statement for one more minute, I'll point out a fact, and then I'll point out a philosophical item, move to the balance sheet, and then we'll talk about strategic developments. So, you can see the consultancy and advisory fees are really the revenue share. And the revenue share is up over 25%.

The important thing to note about it being up 25% is that it is a revenue share. Whatever number it happens to be in the future, whether it includes some additional development or not, its design is that of a waterfall. It flows purely through the income statement. So, were it to rise—and we certainly will do everything in our power to make sure it rises in the future—it's going to flow down to the bottom line, whatever the magnitude of the number happens to be. That's the basic philosophical point. That's why we engaged in the revenue transaction some number of months ago, in order to allow that to happen.

Turning our attention to the balance sheet on the consolidated financial statements, you'll see the comparison, what it looked like August 31 versus May 31 of 2013. I prefer to look at it year over year, because I think it's a more relevant comparison. You'll observe that our cash number is up by over $5 million. We have an additional $5 million in cash on the balance sheet. Our investment number is up by over $6 million. Of course, we now have these valuations of the Horizon Kinetics revenue stream, which you didn't have before and that affects the totals. Total assets are now over $95 million.

We engaged in a stock offering, which brought in a certain amount of money, and we now value the revenue participation at a specific number. But total assets a year ago were less than $62 million. If you look at the increase in total assets, it's a 50% growth in assets. This is balance sheet power we've never really had before. It gives us the possibility of realizing and actualizing opportunities we also never had before.

Another item that we are very proud of is, if you turn your attention to the liability side and you look at "securities sold [short], not yet purchased," a year ago that figure was $1.791 million, with proceeds of sale of $3.253 million. Today, that figure stands at $2.276 million and the proceeds of sale are $4.993 million. Subtracting it out crudely, that's about $2.7 million of unrealized short-sale profits in a market that basically was going up, with some brief interruptions. We're pretty proud of that. It creates a naturally deferred tax liability, as do our investments. One day we'll have to pay, but not yet. It's all accrued for on the balance sheet.

Now, strategic developments: we (HK) launched our third index. We have three indices. We have the Horizon Kinetics ISE Wealth Index, the Japan Founders Index, which technically is a fund, but it's really based on an index. And we have the Spinoff Index. If I recall properly, on the date of the Annual Meeting on August 27, 2013, the Virtus Wealth Masters Fund, which seeks to track the Wealth Index, had about $7.3 million in it. As of last night's close, that fund was a little bit shy of $55 million. It was at $54.960 million, if I'm not mistaken. You can always check that on the Virtus website.

We have over $20 million in the Japan Founders Index Fund, and we have over $46 million in the Spinoff Index, which was the index I talked about at the Annual Meeting that we were going to launch in the swap market, and that's exactly what we did. We raised $46 million in that index, not that many days ago. In round numbers, we've got about $120 million of index management. At the beginning of the calendar year—this would be January 1, 2013—we had roughly $1 million under index management. That's a lot of growth.

On June 1, 2013, I daresay the number was something like $45 million. The bulk of the growth occurred subsequent to July 1. As a consequence, because our quarter ends on August 31, you don't really see that reflected in our revenue numbers yet. If those numbers hold, and they increase, obviously they will affect the revenue numbers and the revenue share. It will also, by the way, affect the profitability of Horizon Kinetics, because the index business has the feature of scalability, meaning more revenues on essentially a constant cost base. It's not really a zero cost increase, but it's not very much. It's enough so that we can say it's almost a rounding error.

We're working on a fourth index, which we hope we're going to have ready shortly. I'm not going to provide you with very much detail about it, because it's proprietary technology. But I will tell you that it's simple to explain and it has all of the predictive attributes of the other three indices. Secondarily, it's worth noting that now I'm talking about four indices, which are the Wealth Index, the Japan Founders Index, the Spinoff Index, and now our fourth index, which we'll name when we launch it.

To have four indices that we believe are predictors of excess rate of return is like having eight indices. Why is it like having eight indices? Because there can always be the market-neutral version of each. If Index X beats the commonly used index by a certain number of basis points every year, obviously an investor could both go long our index and go short the conventional index and create a market-neutral strategy. Naturally, we are making plans in that regard.

It's also worth noting that we're making some interesting changes to our Horizon Kinetics Multi-Disciplinary Fund. This is a fund that uses options. Historically, the idea was to get an equity-like return without taking equity-like risk, and have less volatility. Now we think the big opportunity is in the bond market. We're using out-of-the-money equity options and some other instruments to create a much more stable rate of return than we ever had before, the aim being to create relatively stable return streams, certainly more stable than those offered by the bond market and of greater magnitude. That's the idea. We think the market for that product is absolutely enormous, and we'll be making more efforts in that regard as well.

Then, lastly, I wanted to call your attention to the announcement we made the other day that I was elected to the Board of the Minneapolis Grain Exchange ("MGEX"). We made an investment in membership seats on the MGEX via a private fund in which FRMO is invested called the South LaSalle Fund. In our opinion, that exchange is an underutilized asset that could be doing a lot more than it currently does. We'll see if my membership on the Board can contribute to making it a more productive asset. Reasonable minds may differ as to what expertise I might have to offer, and maybe I have none to offer at all, but I am on the Board.

That MGEX investment represents the first truly strategic investment we've made. All the investments we've made to date have been opportunistic. An opportunistic investment is merely one that's intended to make a rate of return. I don't want to understate how important that is. But a strategic investment has two features: it has an opportunistic element, which is the idea that we want our capital to earn a high rate of return, and hopefully it actually does that. Secondarily, it serves a larger strategic business function, which is ultimately to expand the revenue base.

In our case, when you expand the revenue base, you don't necessarily, and generally speaking you won't, expand the cost base. The idea is for revenues to flow to the bottom line. So, we're not taking a lot of risk. We're hopeful, but cannot guarantee, of course, that we'll have a significant reward from it. We're still in the very early stages.

We're also designing some other indices. I can't tell you much about them, but I can tell you that one deals with inflation. I can talk about it in philosophical terms. Inflation protection is a basic building block of asset allocation. Generally speaking, it's done by either buying a hard physical asset, like gold, or it's done by buying the shares of equities that are involved in tangible asset businesses, like gold miners or real estate companies. Towards that end, many asset allocators use indices to accomplish that objective.

It occurred to me that it's not necessarily the way to go. First, you'll observe that until the end of 2012—it's worth reflecting on this—if you bought a portfolio of long-term Treasury bonds, you did extraordinarily well. If you bought a portfolio of precious metals, such as a whole portfolio of gold, you did extraordinarily well. One is a beneficiary of disinflation, or even deflation, and one is a beneficiary of inflation. Yet, they both did well simultaneously.

Then, in the spring of this year, for various reasons that we need not go into at the moment, gold did not do well, and neither did Treasuries. They were supposed to be uncorrelated assets, but they turned out to be correlated. The reason that they became correlated is that investors, not knowing whether deflation or inflation would emerge, were buying quantities of both. There's only so much they're going to buy, and once they stopped buying, the great impetus for appreciation ceased, at least for the time being, because we have neither deflation nor inflation. The preparation for the extremes really wasn't a strategy that necessarily served a useful purpose.

The second observation is that in some of the indices—especially in the real estate indices—you'll see the emergence of triple-net lease companies. Why is that important? In a triple-net lease, the tenant takes responsibility for the operating expenses, which include maintenance of the property, property taxes, and insurance. To the extent that those items are subject to inflation, as the owner of the building, in that sense, you are protected from inflation, because the tenant pays for those items. It is a pure pass-through; the money flows through you, but it's a wash.

As the owner, you get a rental income stream, usually from an excellent tenant that is very credit-worthy, and which might go on for decades. But, it has no escalator; it's a fixed income stream. If there were inflation, to the extent that you're buying a long-term stream of income and it's fixed in value, it's actually not an inflation beneficiary. It might, in extremis, be a victim of inflation.

Therefore, we believe it's not sufficient to create an index by looking at the industry codes of the constituent elements and decide that one has inflation protection based on those codes. You have to look at the qualitative characteristics of the companies. No one's ever created indices like that.

Maybe it's worth saying that in a certain sense they're not even indices. Maybe they're just systematic creations of portfolios that try to invest in a variable based on the qualitative dimensions of the companies rather than, in a traditional value investing sense, the quantitative valuation of a company. In other words, a company might be undervalued or overvalued, but in an index sense, it simply happens to belong in a certain category and, therefore, it becomes a constituent member of the index.

Rest assured, we are not stopping; if anything, we're intensifying our efforts. We have a pretty large research staff here at HK to assist us, and it's finally coming into its own, as you can see from the products that are coming out. In the not too distant future, I think it's fair to say that I expect to have more news in that regard. With that update, maybe I can invite some questions, if you don't have any follow-ups, Steve.

Steven Bregman – President & Chief Financial Officer

Actually, I have a question on behalf of the listening audience. If I were not familiar with the strategic reasons you have for getting involved with the Minneapolis Grain Exchange, based on what you've told us so far, I wouldn't quite understand what's so strategic about it. To the degree you're willing to share some information about it, just in the most general terms, what would make it strategic as opposed to simply buying an undervalued property?

Murray Stahl – Chairman & Chief Executive Officer

That's an excellent question. If you're willing to grant that we are creators of intellectual capital, the question is, what are the most efficient methods of distribution? The historical way was to create an exchange traded fund. There, I suppose, you receive a certain amount of revenue, and you don't have a lot of operational cost. But, you do have a lot of marketing expense. That's discretionary in the sense that you can invest as little or as much in marketing dollars as you like, but the revenue flows through the marketing dollars. In addition, once you have raised the money, there's a certain amount of marketing effort needed just to maintain the assets in situ. We're exploring other avenues.

The Virtus Wealth Masters Fund is not an exchange traded fund; it's a conventional mutual fund with a different channel of distribution. It's very unusual for that type of product. We have the Japan Founders Index, which is a Japanese-style mutual fund, making it a little bit different because it has an initial public offering, which we really don't have in the United States. As a result, it starts with a larger amount of money than you would have at the start of a mutual fund in the United States, unless it were to be seeded by a very cash-rich firm. The Spinoff Index is being deployed in the swap market, which is in the derivatives market. They don't engage in small transactions in the derivatives market, only large ones.

Lastly, since the MGEX is a commodities and futures exchange, there's always the possibility of creating futures, which would be a different source of revenue for an index. You wouldn't necessarily earn revenue based on assets under management. Rather, you would get a fee based on the amount of trading that goes on. So, it's a different way of doing it. The more modalities of distribution and the greater the modalities of payment, the more stable your revenue stream is going to be. From the point of view of shareholder risk, it's not merely the degree to which you can grow the revenues; it's also the degree to which you can have stability of the revenues. We're mindful of all these factors.

The narrower the distribution and the narrower the range of products, in principle, the less stable the revenue stream. Therefore, it logically follows that the wider the distribution pattern and the greater the multiplicity of products, in principle, the more stable the revenue stream. You don't rest on one; you rest on a multiplicity. Does that answer the question for the audience, Steve?

Steven Bregman – President & Chief Financial Officer

Yes, I think that was very helpful.

Murray Stahl – Chairman & Chief Executive Officer

Thank you. Of course, we can promise nothing. We can't promise success. All we can promise is we're going to make a good faith effort.

Steven Bregman – President & Chief Financial Officer

I would also just mention, in respect of Murray's comments about the unexpected, perhaps, and somewhat painful correlation of gold and bonds in recent periods, and understanding that our audience, whoever might be on this call, probably has some kind of a value orientation, and that amongst that group there might be people who have a long association with gold, yesterday we posted on our website, in the Research section, some commentary from the Horizon Kinetics research about gold and bonds and their behavior, and what that might mean or not mean for people. It might be of interest to anyone with those interests. http://www.frmocorp.com/reports.html

Murray Stahl – Chairman & Chief Executive Officer

Now, if anyone in the audience would like to ask a question, we'd be delighted to answer it.

Operator

At this time, if you do wish to queue up for a question, you can do so by pressing the star key, followed by the digit 1 on your telephone keypad. If you're using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Once again, that's star-1 to signal for a question.

Questioner 1

Hello, Murray. I have just one quick clarification question, and then one little bit more involved question. The investment in the Minneapolis Grain Exchange, is that done through FRMO, or is that done through a different entity?

Murray Stahl – Chairman & Chief Executive Officer

It's done through FRMO. FRMO invested some of its capital in a partnership called South LaSalle. The sole purpose of the partnership was to buy seats on the Minneapolis Grain Exchange. There's a small amount of cash in the partnership, but apart from that, it's only invested in seats on the Minneapolis Grain Exchange.

Questioner 1

Okay, great. Thanks. It's fairly easy to understand that, as Horizon Kinetics increases its number of products and its revenue streams, the value of FRMO will increase. But the question really is the value relative to today. I'm just wondering if you have a preferred sort of approach to valuing FRMO. Is it based on net book value? How do you think about valuation currently, just in general?

Murray Stahl – Chairman & Chief Executive Officer

Well, here's how I can answer your question. Obviously, I can't tell you whether I believe the stock is undervalued, overvalued, or fairly valued. That's your job.

Questioner 1

And, just to be clear, that's not the question. I simply want to understand conceptually how you think about valuation.

Murray Stahl – Chairman & Chief Executive Officer

Well, the price-to-book value approach is wanting in various respects, for the simple reason that we have a different structure than the typical S&P 500 company in that we don't have the same variable cost base you'll find in most businesses. I personally think that's a virtue. If we're successful in generating revenue, you're not going to see us giving ourselves big salary bonuses or stock options or anything else.

That said, if you look at our price-to-book value ratio versus the price-to-book value ratio of the average S&P 500 company, I believe ours is lower than the average S&P 500 company. I don't think we deserve that but, in any event, the metric is wanting, in my estimation.

Questioner 1

Would that be true for other asset management firms as well?

Murray Stahl – Chairman & Chief Executive Officer

I don't think so for a couple of reasons—well, two of them, really. The first reason is, in FRMO, as you can see from our balance sheet, we're accumulators of capital. So, assuming we are successful at investing money, generating cash, and making more investments, the book value is going to rise. So, the shareholders' equity, the book value, is something one needs to focus on, because it's a part of the value creation process.

That's not usually what happens in publicly traded asset managers. They're usually not accumulators of capital. There might be an exception, but one doesn't immediately come to mind. What you'll find is that the bulk of their assets, generally speaking, are intangible. That's what you'll usually find. That's not our case. The bulk of our assets are actually very tangible.

It's almost an apples to oranges comparison, from that standpoint, other than we're in the investment management business. Clearly, you could look at the market capitalization; you could look at the hard assets. And then there are two other assets you have to pay attention to: the hard assets, which are the mark-to-market securities, and the cash. They're worth what they're worth in the marketplace, and that's pretty objective. Then there's the revenue stream. To value that properly you have to factor in an estimate of what you believe its stability would be and also what its durability would be. I think there are some studies done that show the average investment management account for the average investment advisor has maybe a six- or seven-year life. I don't know if that number is accurate but, if it isn't I don't think it's very far from the truth. The question is, if one creates a revenue stream that is more durable in years, then is it worth more, or is it not? That's a question only you can answer. But, methodologically, I just pose that for your consideration. So, that's one aspect.

Then there's the earnings per share contribution of Horizon Kinetics itself, which is an actual operating company. In its case, it's going to pay out a very large proportion of its income. It's not really a capital accumulator, although it is going to retain some profits, not as a revenue share, but it is a company with a high payout of its earnings. Therefore, how do you value it?

Would you value it as if it's a dividend yield company? Would you not value it as a growing dividend? If you value it as a growing dividend, what would you compare it to? Would you compare it to companies that are growing their dividends? I guess you would. Then the question becomes, at what rate our dividend is growing, relative to the dividend growth of another firm.

If you're valuing it that way, there's the famous book by John Burr Williams, *The Theory of Investment Value*. That book is the precursor to the famous dividend discount model. You need to make an assumption about what the dividend growth rate is going to be in the fullness of time, and insert the numbers in order to derive a value.

Lastly, there's the optionality. If you were to compare us to the typical S&P 500 company, qualitatively—not quantitatively, but qualitatively— by how many products we've talked about even just on this call you would find that the list of comparable companies will be short. Our new ventures may or may not be successful, but they are new ventures and they really don't require a lot of capital. If you make a list of companies in the S&P 500, put them all on the left-hand side of a page, and on the right-hand side of the page, list the new ventures for the typical S&P 500 company, I think it's going to be a very short list.

The question then becomes, for the companies that have new ventures, which I think are few and far between, to what degree and to what magnitude of their capital are they risking? I think you'll find that, when there is a new venture, it requires a fairly substantive capital commitment. So, there's a quantitative element, there's a qualitative element, and the rest is up to you. Philosophically, that's the way I would look at it.

Questioner 1

Thank you very much.

Questioner 2

Thanks, guys, for hosting this conference call. Congratulations, Murray, on your election to the MGEX board of directors. I'll drink a glass of apple juice in your honor tonight.

Murray Stahl – Chairman & Chief Executive Officer

Well, that may be premature yet. We don't know.

Questioner 2

Oh, okay, well, half a glass of apple juice, then.

Murray Stahl – Chairman & Chief Executive Officer

Okay. A half I will accept.

Questioner 2

I am very impressed by the growth in the Wealth Index from $7 million to $54 million. Touching on your comments about durability, at what point in time, or is there a point in time that you may think, well, we're going to start attracting some competition for indexes that are developed around the owner/operator focus from larger players in the industry? I mean, this presumes, obviously, some level of success. But it's just something that perhaps you've thought about and you could just expand on a little bit.

Murray Stahl – Chairman & Chief Executive Officer

That's an excellent question. You're 100% right. We could debate at what level it would be but, assuming success—in failure, no one would want to imitate, obviously—but, if there is success, sooner or later, and probably sooner rather than later, we're going to attract imitators. Let's put it this way: we're ready for them, because here's what's going to happen. By the way, it applies not just to the Virtus Wealth Masters Fund, it applies to every index we're ever going to create or any investment product we're ever going to create. We'll create Investment Product X and, sooner or later, someone's going to try to imitate it.

When they do that, if they're even modestly successful, they're going to change two things. They're going to change the valuation of our securities to the degree that the predictive attributes probably will no longer work. Also, there's a finite number of securities in the world. So, if we attract enough competition for what we're doing, and we draw the money out, all it's going to do is create inefficiency somewhere else.

I'll give you an example that is easier to see, because it's in the options world, which is purely mathematical. We write put options. To the degree that we can write put options and get a certain premium for them, we earn a certain rate of return. Let's say we encounter a great deal of competition in that strategy. What would happen? A lot of people would be trying to write the same options. By the laws of supply and demand, the compensation we would get for writing those options would decline by some uncertain magnitude. The direction, however, is not uncertain; it's going to decline. Therefore, it won't be as remunerative as it otherwise would have been, so it might not remain a viable product. Or, even if it is viable, it might not be interesting from a rate of return point of view.

Let's play that scenario out. There's something called call-put parity in options. Let's make it egregious so that new entrants really lowered the premiums on writing put options to the degree that it's almost not worth writing them anymore. We might have a lot of money in the strategy. In that case, we might create a different fund to buy call options, because the call options would be cheap.

Basically, the colloquial way to answer your question is that we have no intention of fighting it out with the competitors. They might come at us with a zig, but we're ready to zag. We have contingency plans in place to do just that, if they show up. And they're going to show up. I hope that answers your question.

Questioner 2

It's a good answer. I am just trying to think about the durability. You mentioned the six-year lifespan of some investment accounts and, in essence, some of your products may have certain limited lifespans. It's just something that, as an investor, I have to consider, right? I'm thinking about the lifespan.

Murray Stahl – Chairman & Chief Executive Officer

There's no question that everything has a lifespan. All you can debate is what the duration of the lifespan is. I think you have to be mindful, as we all do, that we're going to have to be ready with new products. One consideration to throw into the mix is to understand, philosophically, what we are doing. We're not really in the index business in the way other people are in the index business, because we're mixing research and indexation. We have a portfolio of securities, and the first thing to understand about our indices is that they're all equally weighted.

Think about equal weighting as a barrier to entry. It may not be the barrier to entry we think it is, but let's consider it. It's worth talking about. If you take the Virtus Wealth Masters Fund, there are roughly 150 names in there, equally weighted. When you have an equally weighted index, the amount of money you raise is really a function of the most illiquid members of the index or, I should say, the least liquid members of the index. That's really the limiting factor: the smallest member. I don't want to limit it to one because, in theory, you could take the smallest member and you could throw it out so that instead of

150 constituents, you have 149 companies. Because they're equally weighted, it probably wouldn't make a very big difference in the rate of return, but the main factor is it's limited in scalability.

There are two flavors of competition we can get. Flavor number one is they're going to come after us in competition and they're going to equally weight the way we do and for the same reasons. If they do that, they're limiting their scalability. We still would have the first mover advantage, and they would have to make a better index to displace us. It's not going to be anywhere near as scalable as the kind of indices they normally work with.

Flavor number two is they compete with us, but they might not use our methodology, because they're interested in scalability. They might use a market capitalization weighted approach. I don't think that's the right way to invest in predictive variables, for the simple reason that a certain stock is going to be your biggest position. The risk of such an outsized position, even though the predictive variable is operative, is that one company might have what in the mathematical literature is called a confounding variable. That would be some other factor affecting that company which, if the index were equally weighted—and that might be viewed as a negative characteristic—might not mean anything to you. However, if that position were 10% of your portfolio, the confounding variable would mean a lot. That could happen, in which case that competition is not going to be successful against us.

A third point is that, from a barrier to entry standpoint, people have to really consider, before devoting their resources to competing against us, that there is a limited amount of market share that they could ever get, because there's a limited amount of scalability. Hopefully, that will keep them away for a while. We don't know if that's the case, but it's something to bear in mind.

Questioner 2

Thank you very much.

Operator

At this time we have no further questions.

Murray Stahl – Chairman & Chief Executive Officer

In light of the fact that there are no further questions, we thank you very much for paying attention to us and our small enterprise. We will reprise this call in about 90 days, and we look forward to your attendance at that time when we will address any questions you might have. In the meantime, if anything occurs to you that you'd like to ask us, you can certainly email us at info@frmocorp.com and we would be delighted to respond to you. Thank you so much, and good afternoon. We'll see you again in about 90 days.

Operator

This concludes today's conference. Thank you for your participation.

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