FRMO Corp. Q1 2024 Conference Call
Tuesday, October 17, 2023

Thérèse Byars—Corporate Secretary

Good afternoon, everyone. This is Thérèse Byars speaking, and I'm the corporate secretary of FRMO Corp. Thank you for joining us on this call.

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Today's discussion will be led by Murray Stahl, Chairman and Chief Executive Officer, and Steven Bregman, President and Chief Financial Officer. They will review key points related to the fiscal 2024 first quarter earnings.

A replay of this call will be available on the FRMO website until the summary transcript is posted in the coming weeks.

And now, I'll turn the discussion over to Mr. Stahl.

Murray Stahl—Chairman & Chief Executive Officer

Thanks, Thérèse, and thanks, everybody, for joining us today. I was going to start with some general remarks, like I always do, but I'm going to add some general remarks to my general remarks. And the first general remark of my general remarks is that we always try to do this in real time; there's not a lot of tremendous preparation that goes into this, so we're just taking questions, and whatever's happening right now is what we end up talking about. It's very, very real-time.

You might be aware—perhaps you're not—that this conference call format is slightly different. Ordinarily, we use a conference call company that monitors the call and the attendees. Now, we're monitoring the technology ourselves. I was just informed of this literally about when this call was starting, so the start time was delayed by two or three minutes while I was informed that the prices for the conference call company, such as it is, went so high that we thought we'd rather just do it ourselves and save the money.

In light of inflation, which is one of the subjects we almost always talk about, that's an example of inflation that I personally wasn't aware of, because I hadn't really thought about it. And I guess an awareness of inflation is inculcated in everyone. The conference call prices went up a lot, meaning they went up a lot more than the generalized rate of inflation that you'll see published as the CPI. Now, one of the reasons that's so interesting—apart from the fact that it's one microcosmic example of inflation, and this actually fits in perfectly—is that the government's inflation calculation assumes substitution, when the price of a given commodity rises.

The way the inflation rate was calculated in the prior modality was as a basket of goods, and if a given item increases 10%, you multiply 10% by its weight, and do that for every item in the basket. That's the inflation rate. But that's not the way the rate is calculated right now. Rather, it's assumed that, if something rises by seemingly more than the rate of inflation, then the way people cope with inflation is—and there's some objective truth in it, but it also distorts the numbers—they'll substitute something else, just like we did right now. So, rather than pay the extra price of the conference call, we eliminated that cost by doing it ourselves.

Obviously, there's a limitation on how far you can go with that, so I'll just give you an arithmetical example to show how inflation is prevalent in our circumstances, and how you can't rely on a published inflation number. For the purposes of this discussion only, because we're doing it over the phone, and we want to keep this simple as possible—obviously, the world is much more complex now, but I'm going to hypothesize here—let's assume a human being could live by buying only two commodities for a given year: chicken and beef. What you need to survive for the year is three pounds of chicken. You don't buy it all at once. You can buy it in gradual increments, but at the end of the year, you will have consumed three pounds of chicken, and that chicken will cost you $3 per pound, or $9 total. You also require two pounds of beef at $4 a pound, and that'll total $8, obviously. When you sum those two expenditures, you've got $17 of annual expenditures, so that's your inflation base.

Now, let's assume the price of chicken doesn't go up, but the price of beef goes to $5 a pound. The way the inflation rate was calculated, until a number of years ago, was thusly. You're now consuming three pounds of chicken, as before, and it costs $3 a pound, so it's still $9. And you're still consuming two pounds of beef, because the basket remains constant, but now it's $5 instead of $4. Instead of paying $8 for two pounds over the course of the year for beef, you'll pay $10. The cost for three pounds of chicken and two pounds of beef is now $19, and compared to the prior number $17, obviously, you have double-digit inflation. That's how the inflation rate was calculated for most of the history of the inflation numbers until, I think, the watershed event—meaning the change in calculation, which came about 20 years ago.

Subsequent to that, we have what's called a chain link method, which would be better named if they called it a substitution method, because that's really what it is. Here's how the substitution method works. You have to make an assumption—and there's no empirical data on this—that the average person in this limited example is going to consume four pounds of chicken instead of the original three, because it's cheaper than beef. You consume more chicken, even if it happens to have less nutritional value. You'll make that sacrifice, because the price hasn't risen. So, it's four pounds of chicken, and it's still $3 a pound. Well, $3 times four is $12. That's your chicken expense, but your beef consumption, reduced to one pound as opposed to two pounds, is now $5. Obviously, that adds another $5 to your expense, so $12 and $5 is $17. There is no rate of inflation.

When you look at the published inflation numbers, it's very, very important that you take that into account. When we're looking at things—people, of course, are very influenced by the published number, which is fine—I think it's worthwhile knowing how the published number comes about; in other words, how that published number is calculated. So, building the inflation factor into our investments is important to us, because I think we're going to have a lot it. Maybe in the Q&A

someone will ask me about that, but the inflation thesis, I think, is worthwhile focusing on—it's difficult to express in the published numbers.

That's why we own Texas Pacific and some other things, and we can get into that later if you'd like. It's important for the cryptocurrency business that we're developing. Cryptocurrency, in principle, should be a beneficiary of inflation. But what if there is no inflation? Cryptocurrency, in my humble opinion, will work even if there's no inflation. So, we have various investments in crypto. I'll just touch on a few, and you'll see we expanded our crypto business gradually. We have our own servers, and we accumulate some crypto. On our website is a table with all the crypto numbers. You can look at it yourselves and see what it is.

We're gradually increasing our exposure to crypto. Why gradually? Because as a function of the economics of crypto, the purchasing power of crypto in relation to the equipment you have to buy to mine crypto is constantly getting cheaper. In round numbers, years ago, when we started, you could have bought one of these servers, with not a lot of hashing power, and you had to pay one bitcoin for it. Today, you can buy servers that have maybe 15x or 18x the hashing—or computational—power of the servers we bought six years ago, and one bitcoin will probably pay for four and a half, maybe five of them.

Effectively, the price of equipment is always going down. Very few people believe that, but that's the empirical reality, as you'll come to understand momentarily. But before we get to that, just remember, it's not merely the servers we have on our own books. We own a small interest in Consensus Mining, which hopefully—if all goes well—will be traded in the public markets in about 90 days. Hopefully that will happen.

We own a piece of a hosting and cryptocurrency mining rig repair company, which we refer to in our documents as HM Tech, but it's really called HashMaster. We own a very small interest in Digital Currency Group, and we also own a fairly substantial interest—and it's been getting bigger—in Winland. We used to call it Winland Electronics, and now it's Winland Holdings, and as of the most recent reckoning, we have something like 1,586,000 shares and some increment. We constantly expand that, and the way we do it is, we buy shares on the open market. And you will observe that frequently we make transactions with Winland, meaning that we buy some mining equipment—brand new, state of the art—which we swap with Winland in exchange for more Winland shares, so we currently own something not far from 34% of Winland, and that's gone up a lot in the last several years. So, it's important to keep one's eye on that.

There are three things you have to understand in crypto, and the most important one of which is, there's something called a halving every four years. We're about 190 days away from the next halving. What does the halving mean? It means that the reward you get for mining bitcoin—which actually means validating the transactions—is cut by 50%. Therefore, the amount of crypto you're going to get with each successive iteration of halving is going to be cut in half. In order to make the system work, everyone has to find a way to lower their electricity costs and increase the processing power of the equipment. That's actually what's been happening over the years.

No one will believe this, but I can tell you—because I would show you the documents if we were in person—I would be able to prove to everyone's satisfaction that the efficiency of the state of the art cryptocurrency mining rig relative to the first ones we bought—I think, seven years now, when we started mining—is probably increased by 96%. If I err, it's only because I err on the side of caution now. I don't think there's any other electronic instrument that has gained that much in efficiency. We measure efficiency, in this particular case, in electric power used per unit of computational power, which we call a tera-hash.

A tera-hash is one trillion transactions a second, one tera-hash per second. So, that's what's going on. If you buy too much equipment in any one iteration, you stand a great risk of it being obsolete not long after. Your big risk is that it might be obsolete before you've actually gotten through the estimated useful life of the equipment. You don't want to do big transactions. What you want to do is small transactions, and gradually grow your hashing power, and you want to grow your hashing power at a rate that's greater than the hashing power or the computational power of the entire system, as we've done in all three of our crypto companies: Consensus, which will be publicly traded; Winland, which is publicly traded; and HM Tech, which is not publicly traded.

There are three vectors in crypto. Obviously, I stated the first, which is the halving, and you understand that. Let's look at the halving in more detail and isolation if we can. Look at it this way. Every four years, the amount of bitcoin you're going to get for using a certain amount of computational power is going down by half. It's another way of saying that, in order to have the same reward as before—or produce the same amount of bitcoin as before—you need a lot more computational power. Another way of saying it is, your costs are going up, because even as the equipment gets cheaper, electric power is not getting cheaper. There is some exception to that, but generally speaking, it's not getting cheaper.

Bitcoin is a commodity and, like any commodity, if the cost of producing is goes up, bitcoin goes up. With the halving, it's engineered to basically double in price every four years. Remember, it was designed for digital scarcity, so it's engineered to do a certain thing. That's one of the vectors that makes it go up.

Another vector that makes it go up is the hash rate, the aggregate computational power in the system. The more people that are mining for bitcoin, the more robust the Bitcoin blockchain is, meaning the lower the probability somebody is going to be able to hack it. Incidentally, no one's ever been able to hack it. But, from the point of view of you individually as a miner, you're expending more effort, you're competing with more people. You're getting less bitcoin.

So, not only do you have to worry about the halving every four years, lessening the amount of bitcoin you're getting per block, you've got to worry every hour of every day, because most of the time—not all of the time, but most of the time—the aggregate hashing power or the aggregate computational power is increasing, and it's a way of saying your costs are going up. It's not as sudden as the other case, and sometimes it goes down, but the general trend is up. If the hash power goes down, which it infrequently does, it'll actually lead to a lower Bitcoin price. But it's better to think of, in normal circumstances, the aggregate hash power system is a vector that propels the price of Bitcoin upward, just as the halving propels the price of Bitcoin upward.

There is a countervailing variable, which is the price of these rigs that you buy. There are occasions when they actually go up in price, which would actually influence the Bitcoin price upward, but most of the time, it's going down.

If those three variables were well understood—which they're not—the price of Bitcoin would not be volatile, because those are the primary constituent elements. It's very, very simple.

Bitcoin also has one benefit, apart from these three vectors, that commodities in general don't have: supply inelasticity. In general, there's no reason why the production of any commodity can't be increased—whether it's gold or wheat or silver or what have you. If the price rises enough, and return on investment capital for the producers is high enough, you can be absolutely certain that the supply of the commodity in question will increase. No doubt about it whatsoever.

The converse applies to Bitcoin, which is programmed such that supply is always *dwindling*. We're now going to produce, over the next 116 years, I believe, fewer than 1.4 million bitcoin. There's about 19.5-odd million bitcoin in existence. If the supply can't be increased relative to demand, the only equilibrating variable is price. So, this is a really incredible investment. Now, there are a lot of bad things that can happen to it, but that's the way to understand Bitcoin specifically and crypto more generally.

Now you'll understand both the investment thesis and why we build this business so slowly. A lot of bad things can happen, some of them obvious and some not so obvious, but so far, such negative events have yet to happen. If the three vectors I just enumerated were well understood, they should be gradually discounted in the price of the coin, because they happen gradually over time. And even when they manifest suddenly, like the halvings, it's nevertheless very, very predictable, you know the actual day it's going to happen.

As to the hash rate, you don't know in advance if it's going up or down in any given short-term period, but generally speaking, it expands. You don't know by precisely how much in advance, but you can see it, because the figure is calculated in every minute. And that information should in turn be reflected in the price minute by minute by minute.

As far as the price of the mining rigs, they fall literally every week. There are some exceptions, so there'll be some volatility, but generally speaking they're falling between 3% and 3.5% a week. That's the normal regimen; it does change, but it doesn't change all that much.

Here we're using Bitcoin as an example. By the way, Bitcoin doesn't have to be the dominant cryptocurrency. It just is, because it has the biggest operating system and the most loyal community of miners, which is a really bad term. They should be called validators, which would be much easier to understand, but they call them miners. I suppose we're going to have to tolerate that term, but basically, they're just validators. The large miner population is what makes the robustness of the system.

Part of my investment thesis for Bitcoin is that if all these attributes are known, it should become gradually less volatile. And, in point of fact, this can be measured. It turns out there is something called the Crypto Volatility Token. You can see it on coinmarketcap.com. It's calculated in a way that resembles the VIX or the Volatility Index. It can't go lower than zero, and it has a high value of 200, so it's a range of zero to 200, and when it started trading about a year a half ago, it had a value of 80, in round numbers. I didn't look today, but it has been around 40. Now, 40 in crypto terms is not very volatile, but 40 in equity terms would be a very volatile market.

Right now, crypto is a lot more volatile than equities. The only point to be taken away from this part is that Bitcoin has approximately half the volatility that it was a year and a half ago. I personally believe that crypto will eventually be less volatile than equities. I believe it's also going to be less volatile than bonds and it's going to get a higher rate of return. That is one of the reasons I believe that one day—assuming none of the many things that could go wrong actually do go wrong—it's going to be the biggest asset class. That's the takeaway.

Looking at our financial statement, I just want to put a couple of points out there, and for you to notice, if you haven't already. First the shareholders' equity attributable to the company—as opposed to our total shareholders' equity, which we'll get to momentarily—will be past $200 million. I don't know if that's the record. I didn't look; I think it is. In any event, total liabilities and shareholders' equity is $391 million. I think that's otherwise known as total assets. I think it's the biggest balance sheet number we've had so far.

When you look at this balance sheet, you'll see minimal debt, but also some pretty sizable investments. The debt, basically, is a $660,000 mortgage on the building that houses HM Tech, otherwise known as HashMaster, which is being gradually paid down.

Because of the investments, the earnings can be volatile, but remember that is because of mark-to-market accounting adjustments. Against those investments, though, we have a pretty large tax liability, because we hold our investments so long. When the market value of those investments goes down, we don't feel the full force of it, because we un-accrue some of the tax liability.

Cash on the balance sheet is slightly less than $39 million. The biggest liability we have is to the government, a deferred tax liability of $24 million, which we only pay if we sell our appreciated assets. And we're not planning on doing that, hopefully, for a very long time. And there you have the makings of, if I do say so myself, an attractive balance sheet. Ultimately, in due course, the crypto investments will grow as they have been growing, and eventually, you'll be able to see an earnings revenue stream related to them. At the moment, they're all minority investments. We don't consolidate, so you can see the direction that we're gradually going in. No guarantee that we're going to end up in that direction, but the takeaway is, we're gradually increasing our exposure to crypto in some consistent and ultimately—hopefully—meaningful way.

Now, I should tell you, a lot of bad things could still happen to the crypto experiment. There's no guarantee of success. It's just at this point in its evolution, it's probably in the best circumstance it's ever been, so one quick way of just keeping an eye on the health of the crypto environment is looking at that volatility number. For that, you can reference the Crypto Volatility Token, which you can find it on CoinMarketCap.

And there, you have a synopsis of what we're doing, and I hope that was insightful or instructive to you. Maybe now, if there are any questions, we can address them.

Questioner 1

Horizon has launched a number of ETFs in the recent past. From the Horizon perspective, why ETFs versus mutual funds? From the FRMO perspective, how do ETFs versus mutual funds impact the Horizon revenue stream, if at all?

Murray Stahl—Chairman & Chief Executive Officer

First, from the Horizon perspective, the historical mutual fund, in certain ways, has a little more flexibility than the ETF. In that sense, one might prefer the mutual fund. In all the other respects, the ETF is far superior. Most people who buy funds would rather buy an ETF as opposed to a mutual fund. One reason for that is the fees are much lower. Another reason is that you can sell during the day, whereas the mutual fund requires you to wait until four o'clock to take your money out.

A lot of people like that liquidity aspect, so whether we agree with it or not, from a Horizon perspective, ETFs are here to stay. They're not going anywhere. If anything, they're going to grow even more. You might want to ask, why didn't Horizon get into it earlier? The reason is that until recently, you couldn't do an actively managed ETF. You could only do an index ETF, and we didn't want manage index ETFs. Although we're not totally against doing an index ETF, we wanted to actively manage ETFs. The active versus passive issue is a whole long discussion—which if somebody asks me that question, I'll be glad to go on for hours and hours about that—but I've written plenty on that subject, so I'm not going to belabor it at this moment. That's the Horizon perspective.

The FRMO perspective is that we have the revenue share agreement with Horizon, so that FRMO receives whatever revenue is produced from the ETFs, just like for the mutual funds and any other investment. So, if there's revenue from the ETF ventures, FRMO will do very well. One of the ETFs, just to give it an honorable mention, is what we call the Blockchain Development ETF. It doesn't have a lot of money in it. It's only a little over $3 million of AUM, but it is my contention that assets will come in the not-too-distant future, once cryptocurrency trades primarily on regulated securities exchanges. That's not the case today, but I believe that—for reasons we could go into, if you want to explore it, because it will take a lot of time to explain why—exchanges are the gateway to crypto.

I believe when crypto gets to be a legitimate asset class, which it's well on its way to doing, most of it—not all of it, but most of it—is going to trade on regulated exchanges. One of the reasons, just to tiptoe into the subject, is if you're going to have ETFs in crypto, which means you can get in and out during the trading day, you have to have prices that you know you can validate. Which, in turn, means you can't have phantom bids and offers, which happens pretty frequently—that's a practice known as spoofing. You can't allow that. You have to regulate the participants.

And because crypto trades globally, one of the challenges is how to regulate an exchange when somebody's trading crypto outside of this country. How do you know they're even obeying the regulations or, more importantly, what can one do as a regulator to ensure that people who are not citizens of this country are actually going to respect our regulations? The answer is, you're going to have to trade on the exchange. That's the only way it's going to happen.

If you're going to trade on the exchange, well, then it's a global product. How could you regulate participants that are not physically present in the U.S. with the authority you have over them? Therefore, you could argue—and none of this has been worked out, these are just questions that are asked—that you might only allow people on your exchange that the U.S. government has some jurisdiction over, and until you're sure you can get jurisdiction over them, maybe you don't want to sponsor an ETF that would be Bitcoin. At least if it were up to me, that's what I would do. But I'm just one person, and I certainly have no regulatory authority, but that's the way I would look at it.

Anyway, you can see what's going on with this Blockchain Development fund of $3 million. One day, I have of over hope that this is going to be a pretty neat fund. Since one can't actually invest directly in the ETF that owns crypto—even though there are crypto funds in the U.S. that are licensed, that buy the crypto futures—you can't do the physical yet. But our ETF focuses on the regulated exchanges, which seem to be where regulators are gradually influencing crypto trading to gravitate to. They'll be the on-ramp, so to speak, for large-scale crypto trading. So, I think that's kind of a neat fund. Will it catch on? I don't know. I'm hopeful it will. I'm pretty confident that in the fullness of time, it's going to have pretty good performance. I might be wrong, but let's say I'm right, and it happens—what then happens to that securities exchange could make such an attractive investment over the long term.

For the regulated exchanges, when they've issued a whole new asset class—something that's happened a number of times in the last hundred years—their expenses were already reflected in their income statement. The moment the new asset class commences to trade, the exchange is simply putting more throughput on the same systems. Therefore, the operating expenses go up only minimally, which means that when the revenue goes up a lot, the differential goes to the bottom line. And that's why, when looking at financial statements for exchanges, you'll find they have very robust financials and extremely high profit margins. I hope that addresses a lot of that question.

Questioner 2

Can you tell us how many shares of the Canadian Securities Exchange (CNSX Markets, Inc.) are owned by FRMO Corp?

Thérèse Byars—Corporate Secretary

In my records, I have 380,000 shares owned by FRMO Corp.

Questioner 2 (cont.)

In absolute terms, which investment is the most undervalued on the FRMO Corp. balance sheet in the opinion of Murray and/or Steven?

Murray Stahl—Chairman & Chief Executive Officer

I'm going to take the liberty of ever so slightly rephrasing the question, for reasons you'll understand from the answer. I'm going to interpret it as: What investment has the most upside, the greatest potential? And I think it's Bitcoin Cash. By the way, I think Bitcoin, has enormous potential. I think Bitcoin Cash has more potential appreciation. Basically, Bitcoin Cash has the same monetary protocol as Bitcoin. Yet, one Bitcoin Cash, trades at 0.7%, less than 1%, of a Bitcoin. The reason it trades at that level is that its mining network is less than 1% of the Bitcoin's. But, there's no reason why that mining network won't grow, even in relation to Bitcoin. The reason is, there are so many potential use cases of the blockchain, just in transacting securities, though there is a lot more than that.

In the securities world, trading will eventually shift to same-day settlement, probably in a couple of years. The current systems are just not adequate for that. Blockchain technology, though, can do it. Moreover, as far as security, it's much harder—and in the case of Bitcoin I would argue it's impossible—to hack. I guess nothing's impossible, but hacking Bitcoin is so difficult you could say that in the practical sense it's impossible; I don't think anybody's successfully done it ever. In any event, Bitcoin should, in theory, be worth the value of all nominally denominated currencies. In other words, for anything that has a face value, like a government bond or cash, Bitcoin could be used as a substitute for that sort of value—and if it can, it should be worth at least the nominal value of all those assets, and arguably more.

If Bitcoin Cash were to rise from its current 0.7% of the value of Bitcoin to merely 2.8% of Bitcoin—which is still just a tiny fraction—you basically have all the appreciation potential of Bitcoin, which is enormous, but times four. So, to me, that's the most attractive investment in terms of its potential upside. But as I said, the cryptocurrency project can still fail, so we have to be mindful of that, although I don't think it's going to.

Steven Bregman—President & Chief Financial Officer

Murray, I would make your job a little harder and amend the question to: There are a couple of ways to look at what would be the best investment. One is the percentage increase a security could have. And then there's the question of how large it is. So, in terms of total dollar return or market value return to FRMO, would it still be Bitcoin Cash?

Murray Stahl—Chairman & Chief Executive Officer

Yes, you're right. Basically, we have a lot less Bitcoin Cash than we have Bitcoin. Our biggest exposure in crypto is clearly Bitcoin, mostly in the form of the Bitcoin Investment Trust, but we're buying Bitcoin Cash along the way, so we have plenty of time to buy. I don't know where the future numbers are going to be.

We recently bought some Bitcoin Cash, and that's one of the reasons, incidentally, why the funds are there—people can't see this, but it's worthwhile noting, when you look at our balance sheet liquidity, the only cash you're seeing is the cash that's consolidated, so our own bank accounts and our own brokerage accounts. Obviously, the only debt we have is the mortgage.

You're not seeing liquidity in the various funds. Then beyond that, we have enormous borrowing capacity that we never touched, but we have that as well. And we have time, so little by little, we've been adding Bitcoin Cash to the funds, so we'll see how long we're going to do it and what the upside potential really is. Like everything else, we accumulate over time. So I hope I addressed that part of it satisfactorily. Did I, Steve?

Steven Bregman—President & Chief Financial Officer

You did. In fact, you answered in a way I didn't anticipate. Thank you.

Murray Stahl—Chairman & Chief Executive Officer

Okay, you're welcome.

Questioner 2 (cont.)

Are FRMO's shares in Franco-Nevada held directly, or through funds, or a mix of both?

Murray Stahl—Chairman & Chief Executive Officer

It's a mix of both. Some are held directly, and some are in funds.

Questioner 3

This shareholder wishes to thank FRMO for listing the library locations on the Horizon Kinetics website. He looks forward to visiting some of them. And he would like to ask for an update on how the short sales of the path-dependent equities have been doing over the past year. Also, to what extent do high short borrow rates and/or short dividends detract from the investment, or does the use of options avoid these expenses for FRMO?

Murray Stahl—Chairman & Chief Executive Officer

Basically, in the last 12 months, the shorts have been fabulous. The best ones have been the volatility shorts. It's worthwhile noting that we don't short volatility if volatility is below its average. The volatility metric is the VIX—I may be slightly off, so don't hold me to this, because it's from memory—but the volatility average over time, which I define to be the volatility since it started, is 19.53. So, we haven't shorted anything since May 31, 2023. I know that because the Volatility Index has been below 19.53 for every day. Now, when I say the Volatility Index, I don't mean the spot VIX that you're looking at. I'm actually looking at the forward future VIX. But even so, it's been below 19.53, so on our records, May 31 is the last day we shorted those. And they've been great.

Why aren't we shorting it right now? Basically, experience, and that's all you have to go on. Experience shows us that if we short below 19.53, the index doesn't stay below 19.53 for very long, and you're bound to have a spike in the VIX. We haven't had a spike since, as I said, May 31, and we can't tell when it's going to happen, but I'm pretty confident it's going to happen.

What's happening now is, as you see on our balance sheet, we're working down the values of those short positions. Based on the contango of the volatility curve, our shorts are losing value constantly with the internal trading—it doesn't lose value every day, but it's ongoing. So, it's working out great, though I don't think it'll get to zero—we never really get to zero. Technically, it just approaches zero. I think it's going to spike up before we get to an ultra-ultra-low number, but as you can see, relative to the cost, it's a very low number.

The other things that we've been shorting are also path dependent funds, but which pertain to precious metals. We are still shorting them, and we've made a good return on those—not as good as the with the volatility funds, but pretty good. I'm doing this from memory, so I could be a little off, but I don't think we've made money on it in the last six months, and I don't think we've lost money in the last six months. I think, basically, it's been in stasis, though ultimately, it's path dependent. We're going to make money on it, so we short a little more every day, and that's essentially our short exposure. From the balance sheet, you can see cost versus market. It's pretty good.

By the way, I should also mention, all our short investments are hedged with the options. We're 100% hedged. As a matter of fact, we're technically probably 105% hedged, or something like that, 100% plus a small increment. So, if it the underlying assets were to go against us, we're protected against that contingency. And the hedging costs are actually unusually cheap. The hedging cost is less than the contango, so it's worthwhile hedging those short positions. It's *much* less than the contango. However, you don't really want to make more money on your hedges. You want to lose all your money in the hedges, because you don't want your underlying investment to go up. You want it to go down, so normally speaking, we lose money on our hedges.

Although sometimes, when the market is going against us, we would actually take a mark-to-market loss on the underlying funds we're short on, our short sales, and we make money on the hedge. Not the way you want it to go, but we're prepared to do it. In any event, the ordinary or normal losses from hedging are deductible for tax purposes, and when you factor it in, our tax rate is so high that these are very cheap hedges, and that's why we maintain a fully hedged position.

Thérèse Byars—Corporate Secretary

That was our last question.

Murray Stahl—Chairman & Chief Executive Officer

In that case, it remains for me at every meeting to thank everybody for following us and the questions and the attention you pay us, and we'll do our best to be worthy of your confidence in us. And of course, we're going to reprise this in about three months. This quarter was unique because we had the annual meeting, and we answered a lot of questions there. But, in the interim, if matters come up or if you didn't think about it at this meeting, and you want something addressed, please contact us. We're going to make sure we'll get you an answer. Until that time or the next one of these calls, I'll just say good afternoon and thanks so much for your support.

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