FRMO Corp. Q2 2015 Conference Call
Tuesday, January 20, 2015

Operator

Good day and welcome to the FRMO Corp Second Quarter Conference Call. As a reminder, today's call is being recorded. At this time, I would like to turn the conference over to Thérèse Byars. Please go ahead, ma'am.

Thérèse Byars – Corporate Secretary of FRMO Corp.

Thank you, Melissa. 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.

The statements made on this call apply only as of today. The information on this call should not be construed to be a recommendation to purchase or sell any particular security or investment fund. The opinions referenced on this call today are not intended to be a forecast of future events or a guarantee of future results. It should not be assumed that any of the security transactions referenced today have been or will prove to be profitable, or that future investment decisions will be profitable or will equal or exceed the past performance of the investments. For additional information, you may visit the FRMO Corp. web site at www.frmocorp.com.

Today's discussion will be led by Murray Stahl, Chairman and Chief Executive Officer of FRMO Corp. and by Steven Bregman, President and Chief Financial Officer. They will review key points related to the second quarter earnings and will answer selected questions that have been submitted in advance. A summary transcript of this call will be posted on the FRMO Web site in the coming weeks.

With that, I'll turn the discussion over to Steve.

Steven Bregman – President & Chief Financial Officer

Good afternoon and thank you for joining us. I'll start with a few observations about the financial statements. As usual, I have a feeling there really isn't an awful lot that's set forth on the financial statement that needs much discussion or explication, because the nature of our business is such that it's plain enough. We have a balance sheet with substantial investments and with no substantive obligations. The investments will typically earn something in a given year and have certain characteristics.

We have both the equity interest and the revenue interest in Horizon Kinetics. Those investments will have their characteristics, and that's pretty straight forward. It doesn't speak to what the ultimate value of some of the strategic investments will be or how that will affect earnings. One might look at a balance sheet and look at book value and consider a price and try to put some multiple on observable earning streams, and I have a feeling that most of you are familiar with that approach. It raises some questions about what you think the earnings stream is really worth. We have some questions that were given to us before the meeting and we'll speak to those.

I'll cover some of the plain practical points on the balance sheet, such as they are. They're not really indicative of where the ultimate growth of FRMO Corp. will occur, other than as a discussion of some of the strategic investments.

What we have here are some major points on the balance sheet. Shareholders' equity is up nearly 11% per share as of November 2014 versus November 2013. Of the balance sheet components, you might notice that retained earnings are up only 6.2% per share, but then there are some large increases in accumulated other comprehensive income, which is up about $4 million, or 42%. That rise has to do with certain accounts, which are credited directly to shareholders' equity and don't pass through the income statement. You can get a peek into some of those accounts by looking at the investments on the balance sheet.

Under current assets, if you look at other investments available for sale for November 2014, the difference between cost and market value is about $24 million; whereas, in November 2013 the difference was only about $18 million. If you go further down under current liabilities, we have that interesting line called securities sold, not yet purchased, which relates to a kind of quasi permanent short position in what we'll call certain structurally defective ETFs, and the proceeds there, parenthetically, are $6.2 million; whereas, the market value was $1.9 million, a $4.3 million difference. Those are profits not yet realized; whereas last year, November 2013, the difference was $3.3 million. That's a million dollar increase. For other investments available for sale that we covered above, the difference was about $6 million. Hence, those are the earning portions of the balance sheet that don't show up in earnings, but certainly show up in shareholders' equity changes.

An exercise such as that can't really speak to what earnings might be from strategic investments as opposed to balance sheet investments. I'm going to defer to Murray to talk about some of those. Of the questions that were submitted in advance, some of them actually address those issues. I guess many of our listeners are cued in to them. Among the strategic investments are the line item investments including the Bermuda Stock Exchange and an investment in South LaSalle Partners, which holds the ownership stake in the Minneapolis Grain Exchange. They are held on the balance sheet for a certain amount of money, although it's not an enormous amount in terms of the total balance sheet. Then, of course, there is the investment in Horizon Kinetics and the participation in the Horizon Kinetics revenue stream. [1]

For any of those, it will be the strategic value or return on intellectual capital, or the kind of returns that an index product, or a securities exchange can produce, which really has very little to do with balance sheet values. I don't really see much else on the balance sheet that's otherwise remarkable.

A question was submitted asking what percentage of FRMO stock is owned by its officers and directors. It is roughly 76%. I'm not aware of any major sales. I do believe there have been some purchases in the last year by one or two parties. With that, I'll turn it over to Murray.

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[1] FRMO has a 4.95% investment interest in Horizon Kinetics LLC and a 4.199% participation in the revenue stream of Horizon Kinetics LLC. For more information, please refer to the FRMO Corp. and Subsidiary Consolidated Financial Statements.

Murray Stahl – Chairman & Chief Executive Officer

Today, I'm going to talk about three topics. First, I'll talk about what we're trying to accomplish strategically at FRMO and at Horizon Kinetics. Second, I am going to talk about a variety of initiatives and actions that we have undertaken. And third, I'll answer the various questions that have been submitted to us in advance.

At Horizon Kinetics, we're not trying to be a classical financial company, in terms of raising a tremendous amount of assets. That's not really the way for us to maximize profitability, because there are so many expenses attached to the management of assets, and not just people expenses. They include platform fees, marketing expenses and others. And they're not all discretionary, meaning you just have to pay them. The size of those expenses in relation to the assets determines your profitability.

Consequently, we're not trying to vastly increase the assets under management. Instead, we are working to build optionality. In other words, for practically irrelevant expenditures that are mostly unnoticeable, we are trying to build the possibility of sizable revenue shares, what some people call royalty income. I won't resist that definition, but it's not really a royalty in the sense that somebody owns land and there is oil being produced and they're getting an oil royalty, because that's just a completely passive position. We're not passive; we're active. We're actually designing products. The world is moving towards indexation and that trend is not going away, but in the primary development of indexation we're in the ninth inning.

When I say that we're in the ninth inning, I don't mean that money will not be going into index funds. The fees on traditional indexes are literally collapsing. The exposure that investors in those funds get is just exposure, and the marginal cost of providing that exposure is almost nothing. Therefore, the fees are going to be almost nothing, perhaps not now, but ultimately. The future belongs to people operating at the fringes who can create interesting risk/reward trade-offs. And that's an area in which we excel, because we've been in the research business for many years. Therefore, our major investment is in intellectual capital.

With that, let me talk about the various projects we're working on, and you can decide whether or not they are intriguing. Just bear in mind that we have many more in development, and these are just the ones I am permitted to talk about now.

You'll observe that FRMO's balance sheet cash is increasing. Essentially that is because we're monetizing our closed-end funds. Closed-end funds are largely bond funds. Occasionally you will find an insignificant, or almost insignificant, equity closed-end fund that we're involved in, but basically they are closed-end bond funds. The reason that we're closing those positions was discussed in the 2014 shareholder letter; therefore, I won't belabor the point. The risk/reward tradeoff in bonds is as bad as it's ever been. I'm not predicting anything, because I know don't what will happen to interest rates, but all you have to do is take the 10-year Treasury and ask "What if rates were to go up 25 basis points a year for the next 12 years, with a view to being ultimately 300 basis points higher?" Key into a bond calculator and see what a horrible market for bonds that would be. We don't want to be in that.

Also, if we're receiving the income and paying taxes on it, even in the best case scenario, we can't possibly earn a real return on capital—or, at least, nothing that's meaningful to us after taxes. We would be taking the risk for no real reward. We have to alter that posture, and we are doing it gradually. We started at the time of the 2014 annual report, and gradually we've been implementing the process. Thus, the increase in cash is largely from that. At the end of November, we had $35.7 million in cash, an amount that will increase gradually as we continue to adjust the portfolio.

For certain tax reasons, it may well be that we leave a number of closed-end bond funds in the portfolio. It wouldn't be a lot, but there may be some remaining. Bear in mind that we bought most of them in the fall of 2008 and early 2009, when there was a crisis in fixed income; accordingly, we got them at good prices. However, over the years, as bonds appreciated, the funds realized gains, we had taxable income passed out to us, and we're now in a position to liquidate a lot of those investments at a tax advantageous level, which is what we're doing. That's hard capital, which is cash, and we're going to redeploy it at some point.

In a moment, I'll talk about one mode of redeployment, but right now let's talk about the underlying investment management firm. We have an investment in a fund called the Kinetics Multi-Disciplinary Fund (KMDNX). It's multi-disciplinary—not just a bond fund—and it's designed to be a low volatility fund. It can have bonds in it or it can engage in all sorts of interesting options strategies. The idea is, using the modality of options, to come up with some favorable risk/reward characteristics using the income of bonds and the flexibility of options. Very few people ever mix the two—usually it's stocks and options that are mixed.

The fund has assets of approximately $133 million. If we do a good job, we believe that it could be a big fund and add a lot to our revenue. The marginal cost of running it shouldn't increase much. Hopefully, marginal revenue should increase disproportionately. In success mode, we're not going to pay ourselves higher salaries or anything like that. If all goes well, and it need not go well, but if it does, there will be a lot of more revenue and the shareholders of Horizon Kinetics will get some of that. And, as owners of the Horizon Kinetics revenue participation, FRMO will get some of that and the number will be what it's going to be. That's the idea of the optionality.

We're working on an emerging markets ETF that we should be able to launch shortly. I personally think it's very cool. It's a different way of investing in emerging markets, which I've alluded to at different times and it's basically ready to go. We'll see how it works. Obviously, it has no assets right now. We've created it alongside our Wealth Masters Fund (VWMAX), which is based on the Horizon Kinetics ISE Wealth Index (RCH), in partnership with Virtus. The Wealth Masters Fund now has roughly $140 million of assets under management. About a year and a half ago, it had $7 million in assets under management; now it has $140 million. Technically, the Wealth Masters is a mutual fund, but if it were an ETF, it would rank somewhere in the top 600 or 700 out of roughly 1,400 ETFs. When we launched that fund in non-ETF fashion, we made a meaningful addition to the assets under management. If it goes up, either in unit value or by assets under management, expenses won't increase by much, and that should contribute to the revenue share and the earnings we receive from Horizon Kinetics.

Very recently, we also launched an international wealth index. It only has about $5 million in assets at this point, but it's a new launch and we'll see how that goes. It's based on the same idea as the Wealth Masters Fund, but is composed of companies operating outside the United States. We're working on an international spin-off index. We have a domestic spin-off index that we offer only in swaps. The new one will be an international index. Spin-offs are interesting, because they have a tendency to produce a lot of excess return.

Just a couple of days ago Horizon Asset Management obtained a license to trade directly on the securities exchanges in India. There are plenty of India funds and indexes, but you'll observe that they are all focused on the 50 biggest companies in India. As a matter of fact, the Indian index is called the Nifty 50. That's the primary way of investing in Indian companies. As those who are market historians might be recall, the last time the Nifty 50 moniker was used for a group of securities in the U.S., it didn't work out too well. That's the point about indexation that's worth clarifying. There's some number in the hundreds of major liquid securities around the world and, via indexation, the whole world is invested in that group.

At the same time, there is an enormous pool of securities that I wouldn't classify as illiquid, but they are just not the primary engines of liquidity. When people un-differentiate their views and un-differentiate their investments and express their preferences insofar as they can in the same securities, bizarre things can happen. For example, you might have noticed that not very many days ago, the Swiss franc rose 30% in value in one day. I'm not an expert in currencies, but just consider this: the Swiss government knew that the Swiss franc was a very coveted security because, for whatever reason, people believed that owning a certain percentage in Swiss franc assets was a hedge against uncertainty, because the Swiss franc is a hard currency.

Whether or not that is really a hedge, when everyone starts believing it, maybe in anticipation of a crisis, you never make it to the crisis, because the collective action of all the buyers drives up the price. The Swiss government didn't like that very much; therefore, for some number of months, they pegged the Swiss franc de facto to the euro and decided that they would print up as much of that currency as was needed to hold the Swiss franc at the predetermined euro level. That went on for months until the Swiss government realized that there was almost no end to the demand for the Swiss franc.

In the prior six months, the Swiss franc fell against the dollar by 27%. Why? Because it was pegged to the euro. When they unpegged it—meaning that Swiss National Bank (the Swiss central bank) decided not to aggressively print up any more Swiss francs—the currency rose 30% in one day. If you had been long for the whole time period, it was to what end? You were down 27% and then, in one day, you were up 3%. That doesn't strike me as a victory. If you were short the Swiss franc as a way of being short the euro, because they were pegged, you had a true problem on your hands, and a number of firms were actually wiped out by that.

Although the intent is to control volatility, when everyone acts in the same way, they can never control volatility; they will only enhance the volatility, as anyone can see from the prices. At FRMO and Horizon Kinetics, we're trying to get as far away from that as we possibly can.

I'll mention a few other items. Subsequent to November 30, we made an investment in a company called Winland Electronics (WELX). We filed a Form 13G with the SEC that shows FRMO's ownership to be 15%. There are two individuals, one of whom is employed by Horizon Kinetics, who together own about 30% of Winland. Obviously, you might say that we have a bit of influence at that company. Winland Electronics makes electronic monitors. These devices allow you to monitor remotely what the temperature is in a refrigerator, for example, and it makes other interesting monitoring devices. The company has a tiny market cap, but a fairly decent sized cash balance. It's not as large as FRMO's cash balance, but relative to Winland's size, it actually has a large cash balance, and it's profitable.

There are literally hundreds of companies like that. They are profitable in some ways; you might say that they are innovative companies. They are balance sheet rich and, therefore, asset rich. But they are small and outside the ambit of professional investing. We hope to be able to make more investments like that in the future. We certainly can't guarantee it, but understand that this is an investment outside the orbit of financial services. We don't want to give you the idea that we're going to stay limited to financial services, because that isn't the case. Hopefully, if our auditors agree, we expect to show the Winland Electronics investment as a separate line item under long-term investments. I can't guarantee that will happen; the auditors will have to agree, but that's how I would like to represent it, so you can monitor it. Hopefully there will be other long-term investments like that, as well.

I would be remiss if I didn't talk about the Bermuda Stock Exchange and the Minneapolis Grain Exchange, which are also strategic investments for FRMO. You might recall that we made the investment in Bermuda at the end of April last year, so we've only been in the investment for about nine months.

You might not know that Bermuda is the largest factor in Insurance Linked Securities, what they call ILS. On the Bermuda Stock Exchange website you can see that the 2014 listings for the ILS sector increased by more than 50% and the value of those securities increased by nearly 63%.[2] That market is growing enormously. Insurance Linked Securities are very important, because it's an asset class that few recognize or even talk about. You could argue that the insurance companies of the world are undercapitalized in that if some horrible event were to happen—I hope it never happens—but if there were a large earthquake in California, it's not entirely clear that the insurance companies would have enough capital to deal with such a calamitous event. To spread their risk around, they issue insurance related securities. Why don't they issue equity? Because it all relates to the bond market. It shows you how the bond market distorts everything and indexation distorts the distortion.

[2] http://www.bsx.com/

Insurance companies basically take a certain amount of risk in return for a certain amount of float. That money from the float is invested largely in bonds. That's not always true, but it's usually true. You can't make a lot of money in bonds right now. Accordingly, what could they do, in theory? They could issue more equity. But why would they issue more equity when the earnings from the portfolio of a typical insurance company are low, they don't usually have big valuations, and it's not usually going to be an antidilutive transaction. Another way of doing it is to borrow money through an insurance linked bond; and, although it's borrowing money instead of getting the money through equity in permanent capital, the insurer can borrow the money for a long period of time. True, they'd be paying a higher interest rate, but the higher interest rate is tax deductible. If there's a claim, the holder of the Insurance Linked Security is liable for some of the losses.

Basically, the insurers are hedging the equity on the balance sheet. If there really were a horrible event, these securities wouldn't go down as much as you think. It's basically a very roundabout way of raising permanent capital. You might think that shareholders' equity is permanent capital, but it isn't if the company has a big claim against it, because there could be a drawdown there. It's a very intelligent way of raising money and, from the point of view of people who will buy it, it's a bond and, say what you will about it, there is some risk in it but these risks are not correlated with typical risks in the bond market. From the point of view of those who buy the securities, they have a substantially higher interest rate and a diversified security portfolio. In principle, both sides are happy. Consequently, Insurance Linked Securities are growing rapidly. The small exchanges are interesting, because you only need one or two good ideas and, if successful, you can make a lot of money on a very small market capitalization.

You should be aware that we adjust the cost basis of our investment in the Bermuda Stock Exchange by the amount of money FRMO's share makes. We started our investment in May 2014. You can see that our cost basis between May 2014 and November 2014 is up $75,000, and we own not far from 40%. You can get an idea of what the earnings from the Bermuda Stock Exchange have been. FRMO owns almost 40%, and when you look at the cost basis you can see how it is valued. The May figure basically represents our investment at true cost, because we hadn't yet had time to make a lot of money. We are very pleased with what's happening in Bermuda. Hopefully, more good things can happen. Thus, kudos to Greg Wojciechowski, the team in Bermuda, and the Bermuda Government for making it possible to develop this market. And we are hopeful of greater things to come.

In the case of the Minneapolis Grain Exchange, all you have to do is look at the website and you will see that calendar 2014 saw record volume. Fiscal 2014, which ended in August, shows record volume. The volume continues to grow, the open interest continues to grow, not every day, but the general trend is definitely up. You can debate what that increase is attributable to, but I personally attribute it to indexation. Commodities are now an asset class that is used as a diversifier. Look how small the Minneapolis Grain Exchange is and how much it really adds to the earnings. There is always the possibility that for any of our exchange investments, that maybe something else can trade there. If that were to happen it would be a big increment in earnings. If it doesn't happen, it doesn't disrupt the progress being made.

I say that only because it illustrates the basic principle of optionality. We're trying to build optionality. We're building for optionality inside Horizon Kinetics and in our investments. Winland Electronics, in theory, could be making investments in companies similar to itself. There is optionality and economy of scale there. There are the various funds for which the optionality is self-evident. There are the two exchange investments for which the optionality is less evident but, nevertheless, is there because, basically, it's a scale economy game. The marginal cost of going to higher levels of volume, whether it's a multiplicity of products or one, more or less goes to the bottom line. That's the way we're thinking about it, and we're not finished, by a long shot, with building optionality.

With that I'll go through some of the questions that were submitted in advance. One question relates to the investment portfolio, noting that we've been a net seller of bonds. Though I touched on that at the beginning of this call, I should emphasize that this action is not a statement about the bond market; we're not making any predictions about what's going to happen in that market. All we can say is that rates are at all-time lows. We're a taxable entity; therefore, we won't even get the low interest offered—we'll get less than that. I don't know if rates are going up or not but, if they do, it's not good; and, if they don't, the return is not good. It's just not a place for us. We will reduce those holdings in a responsible, gradual iterative process, but we're doing it in scale; and we'll continue doing it. We have continued the process since the end of the last quarter and it continues to this very day.

Another part of the question asks if we can provide an update on any new funds being offered since the annual meeting. We discussed that to a degree; I talked about the international wealth index, which we didn't discuss at the annual meeting. There is also the international spin-off index, and there's going to be an emerging markets fund. We're working on other projects as well. The number and scope is limited only by the power of the human imagination. We intend to do more in that regard.

Moving on to another question, which asks about any additional moves likely to favor individual equities or in-house partnership investments. We made the investment in Winland, and you might expect more activities in that realm. We're not planning to add more to the in-house partnerships, because it's not a diversifier for us. We want to build optionality in other areas. We already have a fairly substantial investment there. As I said, we're working on new products, and some of them will likely have incentive fees.

The next question asks how we value the company. We get this question every quarter. I can't blame you for asking it, and you're certainly entitled to ask it, but I hope you understand I can't answer it with a formula or directly because, first of all, it's frowned upon by the regulators. Second, it's an inherent conflict of interest just to give an answer. All I can really do is to talk about how we see the company. To reiterate, we're trying to build optionality. In relation to other big companies in the world, we don't have a big market capitalization; however, it's big to us because, relative to not that many years ago when we didn't have much money, it is actually a lot of money. In success mode, we believe the optionality could make it lot bigger and that's the way we're looking at it. From the point of view of a shareholder, you can look at the book value of the assets and you can value them at face, or you can say that some of the assets, like the revenue share, you can't value at face. You could say that, in itself, is a kind of optionality. I wouldn't say that the value at cost of $10.2 million represents fair value. What I can say is, you know how much revenue we get from looking at the income statement, and you can think about how much revenue we might get if some of the optionality were to be realized.

You could look at it in one or two ways. You could say that if we were to sell the whole revenue stream for $10.2 million, the question you should ask yourselves is, would you be angry at us or would you not be? We have no intention of selling it, by the way, but if we did and you were angry, then obviously you know what you think the value is. If we were to sell at that price and you'd be happy, then that would give you another answer. So, that's the question you really need to ask. I can't really tell you what the answer is; you have to supply that.

Moving on, another question was on the on the suite of wealth index products. I think I answered that. There was a question on progress at the Bermuda Stock Exchange, which I already discussed. There has been a lot of progress in the Bermuda Stock Exchange. I really encourage you to visit the website, because there is a lot of interesting information there. It's intriguing just how the country itself is really a blue chip financial market that hasn't yet reached its potential. At least that's my view of it.

The next question relates to the Horizon Kinetics fourth quarter market commentary. I'll just read it: "You wrote that the 'marginal dollar of demand is now in the hands of indexers.' How is FRMO's portfolio (not just that of Horizon Kinetics) positioning itself to take advantage of this situation?"

I'll answer it this way: as far as indexation is concerned, whether in an investment sense or an FRMO sense, we're trying to get as far away as we can possibly get. You can't say, "Stop the world, I want to get off," because the world doesn't work that way. To the extent that there are certain currents in the world, they are going to affect equities, period. But to the degree that we can avoid the primary companies and the primary indexes, we are aiming for that. The portfolio was always idiosyncratic, and it is as idiosyncratic as we've been able to make it so far. We hope to be able to make it even more idiosyncratic. We say that because the biggest effort is to control volatility by so called diversification indexes, but all the indexes are correlated. Anybody can see it at a glance, even if you didn't know what correlation even meant. Anybody can see that.

The question, therefore, is what can you do to avoid that? By the way, the more important question is: What's the problem if everybody un-differentiates—in other words, if investments are democratized. Everybody owns the same percentages of the same securities. They're going to react to the same information, and they could run through the door either in a buying sense or a selling sense at exactly the same moment. Therefore, they become a herd. We normally use the term herd when we refer to a large group of animals behaving similarly. A group of human beings acting in an un-differentiated manner is called a mob, and we don't want to be part of a mob; so, we are getting away from that.

This brings me to one more question. It's not technically an FRMO question; it's more a Horizon Kinetics question, but I'll just take the liberty of answering it. The question asks if we would speak about Dundee (DC/A CN, DDEJF) and Dream Unlimited (DRM CN, DRUNF), since they seem to be in fewer of the portfolios than in the past. That's not true. As far as I know, we have the same number, give or take; we haven't altered our position. Now, if money comes out of a fund, we basically sell all the securities and, as a result, we might own fewer shares of Dundee in a given fund if it had withdrawals, but then we own fewer shares of essentially everything in the portfolio. We generally try to sell more or less pro rata.

I'll talk about Dundee first. This company is really a conglomerate that has all sorts of investments that would work best if there were a lot of inflation. And there isn't a lot of inflation right now; as a consequence, it trades at a very substantial discount to net asset value. Just as when the FRMO comprehensive income goes up, it reflects the change in the market value of the assets. Dundee has that too, except that it has negative comprehensive income, not positive, because we really haven't had inflation yet. There are some who argue that there are very strong deflationary tendencies in the world. As a consequence, Dundee trades at a big discount to book value. You could possibly argue that some of the investments are actually undervalued as, for example, Dream Unlimited, which is one of the investments that Dundee holds. You might think of Dundee as having inflation-based optionality and Dream is part of that.

In one sense, Dream is a more complicated company and, in another sense, it is a less complicated company. It's less complicated because, instead of owning a lot of different investments like Dundee, Dream really has only two divisions. There's the land development business—it owns land and develops it—and there's what's called the asset management business, which manages REITs. Hence, it's a simple business to understand. For the asset management business, the fees are tied to book value; therefore, the revenues are stable—it's a stable business.

On the other hand, the negative aspect is that there aren't very many Canadian REITs, and they own a lot of the assets in Canada. To grow the business, meaning to grow book value, it's very hard for them to make a sizable asset acquisition in Canada. Consequently, it's not easy to grow book value, but it's not a volatile business either. It's possible for the company to grow its book value, but it's not easy.

In the land development business, that's not the challenge. The natural return on land development in Canada is very big. The problem is that the earnings pattern is volatile, because it's really a question of when the local provincial government or given city government is going to open an area to building. Why would they not continually open areas to development? Because the local municipality has to be prepared to provide the social services—fire department, police department, hospitals, schools, to name a few—for the community that's going to be built.

The primary focus of the municipality is managing its own finances, and it's not really concerned with the finances of a land developer. Dream owns a lot of the entitled land that could be developed in the province of Saskatchewan. It's a huge province, but you can't build wherever you want, because you might not get municipal services where you want them. You have to build in the entitled areas, and Dream owns a lot of that land. It has a very high return on capital, except it's not predictable, which is one reason it's out of favor, but you can see now why we're attracted to it, because it's so idiosyncratic.

The second reason it's out of favor is that it's small and not eligible for inclusion in any index, or at least not in any index of importance that I am aware of. Even if it were in an index, it would be at an insignificant weight.

The third reason Dream is out of favor is that it's impossible to make an assertion about what the earnings are going to be in any given quarter, because of the earnings volatility; therefore, it doesn't really get a reasonable valuation multiple. To make it worse—and this is the main point of reason three—is that a lot of people believe that the earnings are somehow correlated with oil prices. If these properties were located in the province of Alberta, that might be a reasonable assumption, but in Saskatchewan, if you ever go there, what you'll find is wheat, uranium, potash and all sorts of natural resources besides oil, which is there as well. I believe it's the fastest growing province in Canada. It actually has a reasonably diversified economy.

The population of Saskatchewan is about 1.1 million people. It's a big place with not a lot of people but lots of resources, and it has a quite diversified economy. How many people over the next 20 years do you really need to move in there before you can sell a lot of land? The answer is, not that many. I think it was just yesterday that Dream announced a deal that, in partnership with Canadian Pacific, Dream will develop various Canadian Pacific underdeveloped properties.

Consequently, it's important to have that business, not merely because I think it's undervalued, which I do, but because it's idiosyncratic and when the earnings come, they're going to come, and it's going to have very little correlation with the market or with anything else. That's an example of the kind of security we want to own.

Steven Bregman – President & Chief Financial Officer

Canadian Pacific has been making itself more efficient. It has excess real estate that used to be associated with its operations. If you think of places like Manhattan where they have railroad yards on the west side near the Hudson River that can be developed, Canadian Pacific has properties like that. They could be 40 or 70 acre properties in or near big city centers that, properly redeveloped, could be enormous developments. It could take decades to develop them, but they're quite large, particularly in relation to Dream.

Murray Stahl – Chairman & Chief Executive Officer

Right, it's optionality in an investment. We look for un-correlated optionality, maybe that's a better way to say it. We have un-correlated optionality in the portfolio; we have un-correlated optionality on the balance sheet; we have un-correlated optionality in the various strategic investments. You may not think of us as very astute, and maybe we're not, but even fools get lucky once or twice. And we might get lucky once or twice; you never know.

I think that takes care of all the questions that were submitted in advance. If you have more questions, we invite you to submit them. We welcome your questions. We'll do everything we can to answer them. If there are things that we can disclose under the various rules under which we're governed and we're not disclosing them, we would be delighted to consider disclosing them. Let us know if there's information you want.

At this point, I might be exhausting my voice and exhausting your patience; accordingly, I thank you once again for attending our call and for your interest in FRMO. We will reprise this in about ninety days, and we look forward to your questions at that time and hopefully we'll have some more interesting things to talk about. Thank you very much and good afternoon.

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