Old West Investment Management, LLC

January 13, 2020

Dear Investor,

The stock market had a strong finish in the final quarter of 2019 and the decade finished with one of the best runs in market history. As you can see on your enclosed statement, we had a good finish to the year, but I am not at all satisfied with our performance last year. I take comfort in the fact that our portfolios are loaded with stocks that have yet to work and I have total confidence that they will. Yes, we underperformed the market, where the S&P 500 was up over 30% in 2019, but I believe we are ideally positioned going into this year. Unlike many other investors who are riding high and clicking their heels after this epic market run, we continue to have our eyes wide open to potential black swans lurking in the background.

By most measures this is one of the most expensive markets in history, matched only by 1929 and 2000. In 1929 the market lost 25% of its value and in 2000 the NASDAQ lost 78% of its value. The preservation of your capital is rule #1, and rule #2 is not to forget rule #1. No, we did not match the gains of the market over the last decade, but when this party ends, the way we are invested, I have no doubt we will outperform the market by a wide margin and quite possibly make money in the next bear market. Investors today are extremely complacent and it's hard to find a stock market analyst who isn't bullish. I have seen this picture before, and it is very worrisome.

What could bring the market down? War in the Middle East, China attacks Taiwan, Bernie Sanders beats Trump, corporate profits fall for a second consecutive year, or none of these occur and the market keeps going up. Nobody knows, but I do know that eleven years into this bull market, the longest ever, it's time to be cautious. The pundits and commentators on CNBC neglect to tell you, the individual investor, that the FED continues to inject huge amounts of dollars into the financial system to keep the party going. You saw what happens when the FED takes away the punch bowl, like December of 2018 when the market fell 19%. Since then they have been busy printing money out of thin air and priming the pump. Interesting that corporate profits fell last year, and the market screamed higher.

In my last letter I wrote about the upcoming presidential election and possible implications for the market. At that time, it looked like Elizabeth Warren was the strongest contender among Democrats. Her poll numbers have fallen off substantially since then and at this time it's a total toss-up. Joe Biden continues to be the Democratic frontrunner but at 78 years old he would be the oldest first-term president in American history. I believe the Trump administration's policies have played a big role in perpetuating this bull market run and the upcoming election has huge implications to the market's future path. Stay tuned.

As you know, gold has been a favorite investment of ours for several years. To repeat what I have said in past letters, we don't view gold as a commodity but rather a currency. Central banks around the world are printing their currencies as fast as they can, and when everyone wants to debase their currencies, to be able to have an asset that you can actually own and isn't someone else's liability to pay, we find that very attractive. To be beholden to that which can be duplicated by fiat currency is a problem. It's also interesting to note that several of the most renown investors in the world coming from different perspectives share our thoughts on owning gold and have made it a sizeable part of their investment portfolios. Ray Dalio (long only), Paul Tudor Jones (macro, trader), Jeff Gundlach (bonds), Mark Mobius (emerging markets) and Sam Zell (real estate) have all built significant gold positions. Perhaps the most notable buyers of gold are the worlds central banks. Central banks are the ultimate insider buyers and are buying their most gold since 1967. They know that their efforts to pump liquidity into the markets has created significant consequences as the utility of that money continues to diminish. One of those significant consequences has been an explosion of debt worldwide, and our great country is one of the worst offenders as we add $1 trillion of new debt this year on to the backs of you and me. Bank of America did a ranking of countries by the quality of their domestic finances and out of the 45 biggest economies in the world we ranked #41, ahead of Pakistan, Brazil, Turkey and Argentina. In light of this I would rather hold gold than dollars.

We don't have an investing edge in owning actual gold, but we do have an edge finding the best companies in the industry. If we follow the Old West Investment process, we will look for companies with strong balance sheets and experienced management with large ownership and modest compensation. Barrick Gold Corporation fits the bill perfectly and it has been a core holding of ours for several years.

Barrick Gold Corporation (Symbol: GOLD)

Barrick is one of the largest gold miners in the world with operations in fifteen countries including the U.S., Canada, Australia, Chile and Peru. The company has always had great assets, but past management became over ambitious in the last gold bull market and saddled the company with excessive debt, which can be the kiss of death for a commodity producing company. Current board chair John Thornton, a former Goldman Sachs executive, sensed opportunity and took control of the company in 2014.

It's difficult finding mining executives who are truly shareholder friendly. Often, they are obsessed with finding the next great mine discovery and will borrow money and issue stock to fund their ambitions. From the start Thornton vowed to be shareholder friendly making return of capital to the owners of the company his top priority along with reducing debt. He realized the company was blessed with tremendous properties with huge gold reserves, so acquiring new mines would not be necessary. Thornton owns $90 million of shares in the company.

The one missing piece to his mission was hiring a world class mining executive to be CEO, ideally someone with a geological background. It was widely known in the industry that Mark Bristow, CEO of Randgold Resources, was perhaps the best in the business. Bristow received his PhD in geology from Natal University in South Africa and was known to fly his own plane from mine to mine in Africa. He is a bit of a swashbuckler who can connect with the workers at the mine and demand great loyalty. Thornton had improved Barrick's finances to the point where he bought Randgold and made Bristow the CEO of the new combined company. Bristow has been focused on optimizing Barrick's assets by selling less productive mines and focusing on the company's best mines. He plans on selling $1.5 billion of "non-core assets" by the end of 2020. Bristow owns $100 million of shares in the company.

Barrick has massively reduced debt by 75%, or $10 billion over the past four years. The company is now comfortable with current debt levels and will concentrate on increasing their dividend. On the expense side, Barrick's all-in sustaining cost is a very competitive $870 per ounce of gold, so with today's gold price of $1,550 per ounce, you can see how the bottom line will swell. Of course, with higher gold prices the story just gets better. What if the price falls? New mine discoveries in the industry have fallen off a cliff recently and projections are grim for major discoveries in the future. Every corner of the globe has been searched for gold over the past several hundred years and, even with new technology, new finds are scarce.

In the coming year Barrick is projected to have $9.5 billion in revenue, $1.3 billion in net income and nearly $1 billion in free cash flow. At today's share price of $18.00, the market cap is $31.7 billion. If the gold price goes as high as I speculate over the next several years, Barrick Cold Corporation should be an outstanding long-term investment.

Thank you for your continued loyalty and support, and we look forward to a great 2020.

Sincerely,

Joseph Boskovich, Sr.
Chairman and Chief Investment Officer