Thérèse Byars: Welcome to the 2015 FRMO Annual Meeting of Shareholders. My name is Thérèse Byars, and I'm the corporate secretary of the company. Joining me is Murray Stahl, Chairman and Chief Executive Officer, and Steven Bregman, President and Chief Financial Officer.

The FRMO Annual and Quarterly Reports can be found on our website at www.frmocorp.com. If you would like a hard copy of the 2015 report or the proxy statement, we have a few copies here. And you may request one at the end of the meeting. A summary transcript of today's meeting will be posted on our website in the coming weeks.

And now, I would like to present the seven directors, all of whom are candidates for re-election: Murray Stahl, Steven Bregman, Peter Doyle, Lawrence J. Goldstein, Lester J. Tanner here, Allan Kornfeld, and J.P. Hirschson, who couldn't attend today. Also present today is FRMO's general counsel, Jay Kesslen, and John Basile and Lian Brandt from Baker Tilly Virchow Krause, LLP ("Baker Tilly"), auditor to the Company.

We will now proceed to the report on the tabulation of the proxies for the three proposals. The proxy committee appointed by the FRMO Board of Directors is here this afternoon to represent those shareholders who gave their proxies to the committee. Notice of this meeting and the proxy voting materials were made available to shareholders of record on July 14, 2015. The inspectors of election report that proxies were received from FRMO shareholders holding approximately 41.3 million shares of common stock, or 94.5% of the total common stock entitled to vote. Therefore, this meeting is properly organized with a quorum present.

There are three items of business for this meeting. The first is the election of the seven directors, who were nominated in accordance with the company's governing documents. The second item of business is a proposal to fix the size of the board of directors at seven. The third item is the proposal to ratify the appointment of Baker Tilly, as the independent registered public accounting firm of the company for the fiscal year ending May 31, 2016. The board recommends a vote for all three items.

Based on the preliminary report of the inspectors of election, all seven director nominees have been elected to the board, with all nominees receiving at least 99.9% of the votes cast and 85.8% of the shares outstanding. The proposal to fix the size of the board of directors at seven directors has been approved with approximately 98.3% of the votes cast and 92.9% of the shares outstanding. The proposal to ratify the appointment of Baker Tilly as the independent registered public accounting firm of the company for the fiscal year ending May 31, 2016, has been approved, with approximately 99% of the votes cast and 93.6% of the shares outstanding.

That completes our formal business. The next item on the agenda is the Chairman's report to the shareholders. Mr. Stahl will review key points related to the 2015 financial results. When he has finished his remarks, he and Mr. Bregman will answer questions. At that time, if you have a question, please raise your hand. Please clearly give your name, state if you are an FRMO shareholder, and to whom your question or comment is directed. Please speak clearly so that everyone can hear the question. Please limit your questions or comments to matters that are of general interest to shareholders. And now, I will turn the meeting over to the Chairman of the Board, Mr. Murray Stahl.

Murray Stahl: Thank you, Thérèse, and thanks to everybody for coming today. Before I start, when Thérèse read the results that we won by 99%, I couldn't help reflecting that it had the aura of a Joseph Stalin kind of election. [laughter] It wasn't done intentionally. Of course, we want to win, but we do invite shareholder input. We don't have all the ideas; we don't have all the wisdom; we have made mistakes, and we are not immune to making them in the future. We are duly humble.

That's why this year's shareholder letter was designed to do two things. First of all, it's more sober. Normally, we're very lighthearted in the shareholder letter, but the tone of this year's letter is more sober because, as a company, we're growing up. The purpose of the letter was to show the range of activities that we're involved in now, which is much greater than ever before in FRMO's history.

I should say something about our history. When we started 14 years ago, we only had $10,000. As we accumulated capital, from the start to about 2008, if you look at our various reports, our assets were largely invested in cash. In 2008 and the first few months of 2009, you'll see a change. We were actually very aggressive during that time period. It was a time of planting. And now, to some degree, it's a time of harvesting, at least as to conventional equity investments. It's also a time of seeding new activities. We have more liquidity than we ever had in the history of the company. We're not expending it at the moment; we're waiting for opportunities.

Our philosophy of life has not changed from what it was historically. When we see opportunities, we're prepared to be very aggressive. When we don't see opportunities, we're prepared to hold cash. I think that's nothing other than prudent. And, hopefully, we'll always act in that manner.

When you look at some of the seedlings sprout—the seedlings of the past that we intend to hold—we're very pleased with their development. For example, when you look at our investment in the Bermuda Stock Exchange—and I encourage you to study that investment—we're now exposed to an asset class, a real asset class, that we ordinarily wouldn't get exposure to in the conventional asset management business. What's that asset class? It is insurance-linked securities.

What's an insurance-linked security? It turns out that the greatest insurance companies in the world actually issue four-year bonds with coupons ranging from 7.5% to 8%. Hence, they're A-rated paper, with four years to go. How wonderful is that in the current interest rate environment? Of course, there's a price to be paid, which is that there's roughly a 3% chance that the bonds, which are tied to an insurance pool, might actually be subject to an adverse insurance event. Your bond might be wiped out. Over time, you're going to lose 3% of your capital. You earn 7.5% to 8% minus 3%, making it very competitive with a high-yield bond.

That's a small but very rapidly growing asset class. Its size approaches $25 billion, and the Bermuda Stock Exchange has about a 67% market share in that class. This data is available on the Bermuda Stock Exchange's website.

So, we're growing up as a company. That's not something we could accomplish through the conventional asset management business. One day, we hope—we do not know, but we hope—that the insurance-linked securities business is going to be orders of magnitude larger. We don't know that; we can't predict it, but insurance companies like to lay off their risk, and Bermuda is the home of that kind of investment.

Similarly, let's look at our investment in the Minneapolis Grain Exchange, or MGEX. As the name suggests, it primarily trades grain, but it recently launched another contract that I'll talk about later. Commodities are all in a bear market, yet MGEX has had record volume for its 2015 fiscal year, which ends August 31.

MGEX also has a carbon credits business, announced some months ago. The State of California is now regulating carbon emissions, and permits are required for companies that emit CO_2. Those permits are transferable, and the transfers have to be tracked. A good place to track them is an exchange, and the Minneapolis Grain Exchange is doing such tracking. That's an interesting kind of investment.

We made an investment in an entity called OneChicago, an exchange for trading single-stock futures. Single stock futures are a way of getting leverage, essentially, apart from getting it from a prime broker. Prime brokers, because they are banks, are regulated, and are having difficulty extending the kind of credit to funds that they did historically. It can be done with a single-stock future, and it can be done a lot more safely, because the transactions clear through a clearinghouse. There shouldn't be loan defaults.

In the history of commodity trading contracts, I believe there hasn't been a default since 1854, because there is daily mark-to-market and daily margin variation, and one has to carry proper collateral at all times. You usually have a half-hour to get the collateral. If you can't get it, the positions are liquidated. Consequently, we're involved in something safer for the world, and I think we're doing a good thing.

Our partners, by the way, at least the large ones, are Chicago Board Options Exchange, the CBOE; the CME, Chicago Mercantile Exchange; and Interactive Brokers. Those are three pretty big outfits, and then there's us.

We're looking for more such investments. If we can find them—I don't guarantee we're going to find them—but, if we can find them, we're going to make those investments. We have lots of cash available to do it. As of quarter-end, our year-end, we had over $44 million of cash on the balance sheet, and had $102 million of shareholders' equity. I think, as a balance sheet, we're more conservatively positioned than at any time in our history.

Another interesting investment that we made during the year was in a small company called Winland Electronics ("Winland"). That puts us in the electronics business. Winland makes wireless transmitters that capture data pertaining to moisture, temperature, air pressure, and similar conditions. You might think that it's just a trivial activity, and, from the point of view of the great electronics companies of the world, it is trivial. I'm sure many companies can do it, but they don't. Thus, Winland, small though it is, has a fairly high return on capital. It generates reasonable quantities of cash. We bought it when it was quite undervalued. Companies that are not in the indices and that no one knows about, are still out there and, every now and then, you can find them.

We're not giving up on equities, by any stretch of the imagination. We're just going into areas where we haven't been before. We're doing it, I hope you agree, in a fairly conservative way. We make a very small investment—we're not risking a lot of capital—we do our homework, and we learn more about the business. When we feel we've learned a lot about it, we expand, if it's still a suitable investment.

One of Winland's activities—and I won't go into great detail on this, but, to show you how we're expanding—is an investment in a company called Exhibits Development Group. What do they do? They create exhibits to be shown in museums. Winland didn't actually invest in the company; it invested in an exhibit called "The Beatles: Magical History Tour." As the name suggests, it's comprised of Beatles memorabilia that's going to be shown in various museums. The Exhibits Development Group's website has information on where the tour will be shown. It's going to last for a long time, and I hope you can go.

The important point is not that we're investing in another business, it is how we're getting into another business. Winland has excess cash—more than it can reasonably deploy in the electronics business. As are most small businesses, Exhibits Development Group has been starved of capital for years because the trend of modern investing is to invest with liquidity, meaning the biggest companies get loans, the biggest companies have their stock traded, and the very small companies are, to some degree, excluded from that process.

Essentially, Winland made an investment in this exhibit. From a look-through point of view, from an FRMO point of view, when you look at the money that was invested in Winland and our share ownership of Winland, we're indirectly at risk for $30,000. If the investment goes to zero, on a look-through basis, if somehow the 15% we own in Winland were consolidated, we'd be $30,000 the poorer. Actually, not even $30,000 the poorer; because we'd get a tax credit from it. We might be $20,000 the poorer.

I hope we'll be able to do more of those sorts of transactions. The message is: the company is growing up. Now you might ask the question, so I'll ask it for you: why does it have to grow up? Why can't we just confine our activities to what we did historically, which is largely equity management in the context of Horizon Kinetics, and keep raising money there? There are many reasons. I'll just name a few and I'll invite my colleagues to opine if they care to.

First, speaking for Steve and myself, something could happen to us. If we're just a money management company, we're the asset. If something happens to us, it's not going to be a good result for shareholders. Second, we could make a mistake. We would prefer to be infallible, to not make mistakes but, unfortunately, since we have to be honest, we must admit that we do. From time to time, and maybe even more frequently than that, we make mistakes. Third, as an asset class, equities are a great place to be, and we want to be there. The opportunity set waxes and wanes, though. Sometimes there are more opportunities, and sometimes there are fewer. At the moment, we see fewer opportunities. That doesn't mean there aren't opportunities; it may just be that we overlooked them, or we're not smart enough to find them. But we don't force ourselves to make investments when we don't see investment opportunities to exploit.

At the moment, we're fairly well positioned, I think, to make use of any opportunities that should come our way. We'll see if they come our way or not. We're still committed to the business of conventional equities. We're there. We're not leaving it. We're going to do everything we can to make it a success. But, don't forget, that it's been a 35-year period, or maybe a 33-year period, with some interruptions, of a vast bull market, now characterized by indexation. Therefore, when I say there are valuation issues, almost all of it really comes from indexation, a topic I write about all the time. Accordingly, I'll go into a little detail.

Most of you are familiar with the idea of indexation. Essentially, you buy a basket of securities. Nothing wrong with that, as long as the valuations of the companies are set by people who pay attention to valuations. If they do, and the index business is a sufficiently small part of the whole, you'll usually be buying your index at a fair price, and you'll usually have a good result. But today, the index business is the biggest thing in asset management. This is my opinion, so don't take it as gospel or fact, but I believe that it affects valuations. You probably are all aware of companies that you think trade at ridiculous valuations. I think it comes from that source: indexation.

We are in the research business, and we believe you should do serious research before you undertake an investment. Think about the last time we had a mortgage business—this was 2006-2007—when there was no income verification on loans. How did that work out? I think less than satisfactorily. Now people are buying baskets of securities without research, which is the equivalent, in a mortgage, of buying properties without income verification. We just don't want to participate in practices like that.

We have engaged in some activities in indexation, but you can take a good thing too far. We don't want to take it too far. So, even in that field, we've been fairly conservative and fairly cautious.

I don't want to give you the idea that some imminent horrible thing is going to happen. At least, I don't want to give you the idea that I know that some imminent horrible thing is going to happen, because I don't know that. We're value-based investors, and it's all a question of valuation. I'm not predicting the course of the economy, because I don't know what it will be.

I can just tell you that indexation as a business was successful for the following two reasons: one, when indexation started in the early 1970s, interest rates, with some interruptions, had been coming down for many decades. Now we're at close to zero. That rate decline impacted the valuations of large baskets of securities. I don't know what will happen with rates, if they will stay the same or go up. But I do know one thing: they're not going down. Therefore, when you buy an index, you have to be mindful of that situation, because you won't get the valuation increase that people have achieved historically when they bought indices.

Second, the early 1970s saw the inception of more aggressive fiscal stimulus, in the deficit sense of the word. There were deficits before the 1970s, but nothing on the order of what's happening right now. Again, I don't predict problems; I just say: Be mindful of the following observations.

Let's say there were a recession. Let's just say there were. I don't know that there is going to be one. We have a $640-odd billion deficit. What would happen to the deficit if there were a recession? There would be less tax revenue; the deficit might be $1 trillion. It might be more than $1 trillion. The government would be left without the customary means of spending more money and stimulating the economy. That stimulus is what led to the success of indexation historically, because we live in democracies. Governments are mindful of spreading the benefits to many different areas of the country, which affects many different companies. You could buy a basket of 500,000 companies, and many of them would benefit from fiscal stimulus.

The next time we have a recession, whenever that happens, we might be bereft of that approach. We need to be mindful of that. All equities are influenced by indices. All indices are influenced by valuation. Valuation is influenced by interest rates. And earnings, at least historically, have been influenced by deficit spending. So, I merely say: be mindful of those observations.

We position FRMO to be ready, but there's a cost associated with it, and it's called opportunity cost. If the money were invested, we would, in principle, have a higher return on equity. Currently, we've got not quite, but more or less, half our shareholders' equity invested in cash or cash-like instrumentalities, and we managed to have an 8% return on equity. We could have had a much higher return on equity had we invested the whole balance. But, hopefully, there will be opportunities and we look forward to finding them. Maybe we'll find them tomorrow but, at the moment, we're still searching.

I want to give Steve a chance to opine.

Steven Bregman: I will just say that, as a form of cribbing, just before the meeting began, I reviewed your shareholder letter. And I'd like to compliment you on it because, until I re-read it, I had forgotten everything you put in it. I would say your shareholder letter was a kind of a graduation, because our early shareholder letters were mostly about all the things we might be able to do, and about just the one or two we actually did.

This one is structurally a lot different. You were able to lay out a whole table of contents of the different structural elements of the firm, and what they mean strategically, and what they mean in terms of the balance sheet. It's a whole different kind of shareholder letter. You weren't tilting at windmills. You were actually describing what we've got.

Murray Stahl: What Steve is referring to is a running joke we have about what we call "graduation." When we were at Banker's Trust, we were two guys buying stocks. Then we created Horizon, and we were instrumental in creating Kinetics, and then we merged the two firms and became Horizon Kinetics. And we were two guys buying stocks. Sometimes, it was great and sometimes there were down markets and it wasn't so great. From time to time, we'd see an opportunity set that was much bigger, and we always felt a little dejected, because we never were in a position to participate in it.

When we were planning to form Horizon, we wrote a business plan, and it had two parts. One part outlined all the things that we thought were going to go wrong, and for which we had to be prepared. The other part listed all the things that we thought we had under control and were not likely to go wrong. Of course, you know what happened: all the things we thought were not problematic were actually all problems. All the things that we thought were going to be problems turned out not to be problems.

Anyway, the original business plan was that we were going to run Horizon Kinetics, or Horizon at that time, for about 10-12 years in a conventional manner, build up a certain amount of capital, and then expand the range of investments we were likely to undertake with our own capital. In one sense, that ended up happening earlier than we had thought, because it didn't take 12 years to form FRMO. In another sense, however, it happened later than we thought, because it took a certain amount of time to build up FRMO's cash so that we could take this course of action.

Accordingly, the graduation Steve was referring to is FRMO's; we're graduating. There are many opportunities available, especially when there's dislocation. You just have to be prepared. The only problem I see with the conventional asset management business is that capital leaves when the market goes down, which is when you have the opportunities, and the capital comes back after the market goes up, after you've manifested success. We wanted to have something that was in the field of permanent capital, so that we wouldn't have to rely upon the flows.

The $100 million milestone in shareholders' equity is not about the number itself, but we see it as important, because we now have a fairly robust balance sheet. If there is a crisis, we'll be just as aggressive as we were in 2008-2009. We'll just have more latitude and more wherewithal with which to operate.

Steven Bregman: Sometimes I get a phone call or an email from a shareholder, and there's a question that often has a slightly penetrating aspect to it, like, "What are you guys exactly doing?

What's really going on?" Usually, we have some discussion and I allay those suspicions. People are interested in how we look at the capital. How do we look at our shares? How would we differentiate ourselves versus the company or outside shareholders?

In a modest way, we reprised something in FRMO Corp. that we did at Horizon, because Murray was talking about the early years of Horizon. Part of our strategic goal was to build up enough capital inside Horizon so that we could have some existential safety. So that, one day, as always happens, because this is the business we're in—the stock market business—markets will go down. Clients might flee. Maybe they like us, but they don't have a choice. Or, outside advisors for whom we manage money might have to withdraw. We didn't want to be at the mercy of that eventuality.

It's very unusual in a partnership, whether it's a law partnership or a doctor's office, certainly the investment advisory business, to retain capital. Mostly, people pay out in a partnership. They pay out all the income and they divvy it up, for whatever their various reasons. We had to pay taxes on that which we didn't distribute, but we did that. We kept our salaries very, very low for many, many years, and then we raised them, and we kept them flat. We kept reinvesting and building up the balance sheet, in case one day 50% of our business went away. Do we generate enough income on our capital to stay in business and not be forced to make investment decisions that we don't want to do because we're being pressured to do so? We wanted that independence.

It seems like a little thing; we do the same thing inside FRMO Corp, where Murray and I don't take any cash salaries. The accountants, on behalf of, I guess, the accounting authorities, require us to ascribe a notional expense, which is not a cash expense that we have to put on the income statement and the balance sheet. It's the easiest thing in the world to pay yourself some nominal salary. A few dollars feels good in your pocket; you can go on vacation with it. But we really wanted to build up the balance sheet. We wanted to maximize the buildup of cash and capital. It doesn't seem like a lot, but I don't think anybody would complain if we each took some hundreds of thousands of dollars home. That amount might even be considered low if you compare it to other CEOs. Then think of adding that up over the last decade. That would be a significant part of FRMO's capital. We have more capital because we didn't take salaries. And we don't intend to get wealthy by paying ourselves anything. That's entirely anathema to the way we think. So, the capital is important. It's the same capital you share, if you own a share, as we do.

Murray Stahl: That was the business plan we hatched in late 1993. We started Horizon in 1994, and we never lost sight of that goal. Through decades-long experience in the investment management business, we saw the same pattern, which is: people don't make money in mutual funds, because they sell when it goes down or they sell when the fund underperforms. They buy after periods of high performance. Even though one is required, in a fund, to state that past performance is no guarantee of future performance, it doesn't do much good, apparently. People behave as people behave anyway.

We had to have a pool of capital to be able to do what we really needed to do. There is more capital there than meets the eye. In the shareholder letter, I pointed out that the funds themselves, even though we don't control 100% of the funds, the funds that we invest in, have a fair amount of liquidity. And Horizon Kinetics itself has a fair amount of liquidity. Thus, there is a lot of liquidity available for when there's a dislocation.

Over the years, as we studied the great investors of the world, what made them great investors was they were able to retain, or have access to, liquidity at crucial moments when they needed it. There was permanent capital; they didn't have to raise it during periods of stress when it's well-nigh impossible. That's what we wanted FRMO to be, and we're very happy to report that's what it is: the highest shareholders' equity in our history. More importantly, we're ready for anything that's going to happen.

That's the thought I really wanted to leave you with. It should be a happy thought, but it's a more sobering thought. It's why we're not doing the normal, lighthearted banter that we usually do, although we will do it a little bit, but not too much.

We want to give you a chance to ask us some questions. Maybe there are topics we haven't covered.

Questioner 1: Are there structural differences between bond ETFs[1], meaning bond indices, and stock ETFs, meaning stock indices? Is one worse than the other?

Murray Stahl: Really, no. Some people say that the problem in a crisis is liquidity, and that could be a problem. But that's not the problem that we worry about. The problem we worry about is the valuation.

In a rationally ordered society, money is a form of capital, and capital needs to flow to the most successful companies. If there are unsuccessful companies in an index that might also be overvalued but, because they are members of the index, capital continues flowing into them, then that's already dysfunctional. That's already problematic from the point of view of the economy.

You can see major valuation gaps in companies. You can see companies that, in a financial sense—I could name them, but you can probably guess what they are anyway—in a financial sense, they're relatively immature. They don't have a lot of revenue; they don't have well-established products; they don't have long lifecycle products; but they do have, generally speaking, weak balance sheets. But they have huge market capitalizations. They don't even have big shareholders' equity. They routinely use their stock to pay their employees, and there are thousands of companies that do this.

The more they pay their employees with stock, the more liquid the company becomes, meaning the companies eventually distribute the stock to the employees, the employees sell it, the stock ends up in the marketplace, the stock is more liquid, it has a bigger float; therefore, it becomes a bigger part of the index, and it's a virtuous cycle for a while. The more expensive the stock is, the more able the company is to pay the employees in stock.

[1] exchange-traded funds

That's a big problem, in our opinion. One day, it's going to end. Whether that's a week from now or 50 years from now, I don't have the slightest idea. I hope I've answered your question.

Steven Bregman: Murray wrote a piece recently on bond ETFs. With stocks, you can claim that some stock is overvalued; it could be 100 times earnings. But it's such a multivariable model, anybody can legitimately argue with you that they think the valuation is justified. They have a different timeframe for how long revenues could increase or what margins could be, and so forth. So, they really set your opinion alongside all the other opinions, and they all get a kind of equal play.

A bond, however, is much more objectively valued. The most you're going to get is 100, by a certain date, and there's a certain coupon, and there's a certain legal obligation to pay. There are certain fairly observable supports for that, in terms of balance sheet structure, cash flow, and so forth.

I think you can identify some very, very interesting bonds. For example, in the Emerging Markets High Yield Bond ETF, one of the bond indexes, you might find the Republic of Lebanon six-year bonds. And do you know what the yield of those are?

Questioner 1: 15%

Steven Bregman: Okay, 15% is a good guess. But, without going through a really colorful laundry list of what's going on in Lebanon, I'll just tell you that it's a low single-digit yield to maturity. Now, why is that?

When you see that these bonds are held in an index, and that there are only about $230-odd million of assets under management (AUM) in that particular ETF, think of a smaller public pension fund with perhaps $10 billion—a tiny one that wouldn't make a list of the top 300 pension funds by size. If that pension fund decides to put one half of 1% into an ETF comprised of emerging market bonds because it makes sense from an allocation point of view, well that's 20% of that fund. And the money's just going in automatically, and Lebanon gets its fair share, and Lebanon happens to be the 10th largest allocation in the fund.

When Murray talks about the securities in an index or an ETF simply being the raw material to gather assets into it, that's what we mean. It's much easier to see in the world of bonds, because there are many fewer obfuscating and confusing variables. "Don't confuse me with the facts," right? I would say that about bond ETFs.

Murray Stahl: Actually, thanks for bringing that up. The yield on Republic of Lebanon bonds on the day I wrote the report was 5.45%. That was the yield. To illustrate this point, let's say that we moved FRMO Corp. to Beirut, that we wanted it to be a Beirut-based company. We registered in Beirut and wanted to borrow a little money. We'd like to sell you some FRMO bonds. Now we're a Lebanese company, and we think a fair interest rate for us, for, let's say, 12-15 year paper—

whatever you'll allow us to do—should be 5.45%. Anyone who wants to take that deal, please see me at the end of the meeting. We may move to Beirut.

Steven Bregman: Or we'll send somebody.

Murray Stahl: Oh, we'll probably send somebody. We're not going. [laughter]

Questioner 2: This question is about the corporate credit cycle, where we are, and what opportunities may arise as a result of a credit-led deflation.

Murray Stahl: First, I should say that we're not experts on corporate credit or any other kind of credit. But I'll give you two answers, one from the narrow analytical point of view, because we look at indexes, and one from the more macroeconomic point of view.

From the narrow index point of view, when you look at an index, let's say a high yield index, you might watch credit spreads to figure out where we are in the credit cycle. But even a simple calculation like that is now problematic. Why? Because if you look at the high yield index, you will observe that there are bonds in it that yield 4%, which is not very high. What you usually will not observe, because they're not the top 10 holdings, are the bonds in the index that yield anywhere from 60% to 300%. They're in the index.

Obviously, bonds that yield that much are going to default. They're not defaulting today, for the simple reason that the interest isn't due today. For example, a high yield bond like the coal company, Alpha Natural Resources, had some astronomical yield. Clearly, it's going to default, but what's the point of defaulting before the interest is due?

When they calculate the yield of the index they say, "Well, high yield bonds yield 6%, and 10-year Treasuries yield 2%, and the option-adjusted spread is 4%—the difference between high yield and Treasuries—and that's normally what it is; therefore, we're where we should be and it's no problem." Except the number isn't 6%, because for that part of the index that yields 30%, 60%, 300%, you're never getting that money, ever. It's just a question of what day those bonds will default. The effective yield is much lower and, therefore, the option-adjusted spread is much lower than it appears to be. It's a great danger that you can't even use the numbers.

This is what I mean when I talk about how pernicious indexation is. The index was historically a benchmark, a reference point. Compare a manger to the index; they're either better than the S&P 500 or worse than the S&P 500. A bond manager might be compared to any number of bond indices. It's a reference. But, if people are going to use the reference as a product, it creates a problem, because their activity is altering your ability to measure. So, it's hard to even know where we are in the credit cycle.

Regarding the Federal Reserve—and, again, I can't stress enough that I'm no expert on the credit cycle—the Federal Reserve is approaching a moment of truth. What's the moment of truth? The governors can either raise rates or not raise rates. That's obvious enough. If they don't raise rates—

and let’s say they don’t—there are insurance companies, pension funds, endowments, foundations, banks, among others, that need to have a higher rate to fund their liabilities. If clients bought annuities and were promised a certain rate of return, then they better get it. And if they can’t get it, it’s going to come out of the insurance company’s capital.

Certainly you might have seen last month that the City of Chicago lost a landmark case against the municipal pension funds. The City of Chicago sought to unilaterally change the pension fund payout, not for future employees or newly hired employees, but for existing employees, even if they were weeks from retirement. The courts in Illinois ruled that they can’t do that. How are pension funds going to pay the pension liabilities when a goodly portion of the fund is invested in bonds and they can’t earn the required rates? So, if the rates don’t go up, it creates a whole set of problems.

On the other hand, if interest rates do go up, that creates another whole other set of problems, because the valuation of the bond indices and the valuation of the equity indices are all based on lower rates. If they are higher, that will affect asset prices. That will affect real estate values. It’s not just residential homes, but commercial structures as well. It’ll affect the value of residential and commercial mortgages on bank balance sheets.

When you’re at very low rates, there’s this idea of convexity, which means your sensitivity to rates, or how much the market value goes down for every move in rates. The lower the rate, the greater the convexity, which means the more sensitive you are. That’s another set of problems.

Where are we in the credit cycle? In my opinion, we’re in an impossible condition, and something bad is going to happen in relation to the credit cycle. I don’t know what it will be, because I don’t know if rates are going up or down.

Now, having said all that, I have to stress again that I’m not qualified to say any of this because I’m not an expert on the credit cycle. But you at least have my opinion, untutored and unschooled as it is.

Questioner 3: Would you explain a bit more about the thesis behind the OneChicago investment? Single-stock futures have been around for a long time; OneChicago has been around for a long time. There hasn’t ever really been any adoption, so how do we expect to make money on that?

Murray Stahl: To begin with, single-stock futures have been around, I think, for six or seven years. It started at a very low base, so low that there was no way OneChicago could make money. But it’s been growing for the entire six or seven years. Something that has aided its growth is that the big banks like Goldman Sachs and JPMorgan—the big prime brokers have been very reluctant to extend credit historically, especially to smaller funds. As a matter of fact, there are a lot of smaller funds that are actually being asked to leave the big prime brokers.

As a result, it’s hard to get credit if you’re there, and it’s impossible to get credit without. A single-stock future is an alternative. I see the growth of the industry being spurred by that situation.

OneChicago is growing at a fairly respectable clip. If you go to their website, you can get some statistics to further that understanding. It's really a function of the pressure on funds by prime brokers. Some of it is the Volcker Rule; some of it is Basel III, because these loans ended up being on the banks' balance sheets. The easiest way to make the banks' balance sheets more conservative is to withdraw from lending to funds.

It's all part of that cycle, and I think it's growing at a fairly respectable pace. If we were to enter the cycle, I think all that would happen is that the big banks would withdraw capital, just like they withdrew capital in 2008, although they're doing it already. If you want to buy a small, special situation, they'll lend you less money than if you want to buy something on the scale of Exxon. It's all part of that cycle. It could be a multi-decade cycle, so I'm actually pretty enthusiastic about single-stock futures, although I haven't traded any myself and don't intend to.

Questioner 4: I apologize for this being a relatively esoteric question but, given that you have investments in exchanges, have you had the chance to examine the potential implications of the block chain technology? If you haven't, that's fine.

Murray Stahl: Well, I'm not conversant with the technology you refer to, so I can't offer an opinion on it.

Questioner 5: In one of the conference calls, you alluded to the corporate tax rate in Bermuda, and had an offhand discussion about that. I'm wondering whether or not the corporate domicile might be moved there at some point, and also whether a majority ownership in that stock exchange would facilitate that happening. In other words, would it be easier to do that if you increased your current holding above 50%?

Murray Stahl: Let me take the second part of the question first. If we wanted to do that, we wouldn't have to increase our ownership in Bermuda; we could just start a company in Bermuda. It's actually relatively easy to do. We could be done by Friday morning, if we started right now. We could do it.

The taxes are a problem, in several respects, for a company like ours. The biggest problem is, when we make an investment—and no investment is forever—then, when we want to sell it and reinvest the proceeds, we have to pay some of those proceeds to the government. That's the law. We want to be mindful and obey the law, but there's no law that says you have to like it. Therefore, we're always looking for ways to find the appropriate vehicle where we can make investments and roll over the profits. All I can say is it's always possible to do that in Bermuda. If we were making a lot of investments right now, that might be an avenue. At the moment, however, we're not making a lot of investments; therefore, it's not necessarily an avenue. But there may be a time when we are making a lot of investments, and I won't exclude the possibility.

Questioner 6: In Note 4 on the financial statements, there was a pretty large unrealized gain of almost $15 million. I was wondering if that was composed of equities that you will hold. The tax on that would be a lot. It looked like you had harvested very carefully and had that gain just sitting there while you judiciously waited to pull the trigger on taking it. Maybe you're not rushed, or maybe these are holdings you're going to continue to hold for a longer period. Would you comment on that?

Murray Stahl: Well, to begin with, I actually made reference to Note 4 in the letter. Yes, we have some big realized gains. A lot of it is in the funds, and some is in individual investments. Over the last year, we've sold a lot of our closed-end funds. Though we've realized some gains there, they're bond funds; the real money was made in the early years, and the rest was interest income on which you pay taxes as you go.

We're reluctant to realize gains if we don't have to. Of course, like any gain, one day you're going to have to pay your taxes. It's just the way it works. Those investments are domiciled in the United States and, if we decide to sell them, we're going to pay a tax. There's nothing we can do about it. It's not going to affect shareholders' equity, because we've already reserved against the tax. But we'd rather husband the cash and not pay it until we have to. Hopefully, we won't have to. But if we need money to make other investments, assuming our cash is inadequate or our lines are inadequate, we might be compelled to do that. But, at the moment, Note 4 is Note 4, and it is what it is.

Questioner 7: Just two real quick questions. First of all, on the OneChicago, what's the total capitalization of that enterprise? And then, on the Minneapolis Grain Exchange, could you explain how, if there were a liquidity event or a merger or something along those lines, how it would be voted on, and then the breakdown of how that would be distributed?

Murray Stahl: We own a very small proportion of OneChicago; it's a little over 0.25%. I can't tell you what the balance sheet looks like inside there, because it's a private company and I'm not at liberty to disclose that. But, if you multiply what we paid for it by roughly 400, that'll give you an idea of its value.

In the case of the Minneapolis Grain Exchange (MGEX), it's fairly easy, because the seat holders are the equity holders. Some years ago, MGEX was converted to a corporation, so if it were sold, or some type of value-enhancing transaction were done, the return is apportioned to the seat owners pro rata. For example, if we owned 10% of the seats and they sold the exchange, we would get 10% of that money. There would be none of the usual things that happened with exchanges in their pre-public phase, like whatever happened in NYMEX or CBOT. There's none of that. There's just seat holders and nothing but. Consequently, a seat holder is, for all intents and purposes, a shareholder. It's very straightforward.

Questioner 8: My question is on the social fabric of the country. We're a polarized society now. Do we continue down this track, or do we become more centrist? And, by the same token, do we become more like Europe with embedded entitlements and perhaps the imposition of a wealth tax? Or, do you think the profit motive will stay with us? Broad-brush question, thank you.

Murray Stahl: I thank you for the question, because you're ascribing a lot more knowledge to me, because you're really talking about political science and history, but I'll try to answer it anyway. To begin with, you make the remark that we're a polarized nation. Let's just think back to the founding of this country. We had Loyalists and Patriots, or Tories and Patriots if you like, and they were fighting each other. That was the founding of the country. That was the era of George Washington and John Adams, and we were polarized.

In the American Civil War, we actually fought a war with each other. In the South, they call it the War Between the States. There's the Vietnam period. I have a set of books called *The American Election Campaigns*. Sometimes I read about the election campaign of Thomas Jefferson or Andrew Jackson and others. How should I put it? They were kind of nasty to each other, and it seemed like a polarized society then.

I'll give you one more example, and then I'll get to the substance of your question. I just happened to read a biography of Harry Truman and the 1948 election. Harry Truman alienated the liberal wing of the Democratic Party because of how he handled a threatened railroad strike. It didn't come off because Harry Truman said that if the nationwide railroad union went on strike, he would draft them all into the Army. And if they didn't come to work, he would court martial them. In response, at the Democratic convention in 1948, the liberal wing of the party walked out and supported Henry Wallace.

He also had alienated the conservative wing of the party, which was the Southern wing—the Dixiecrats—before the convention, Harry Truman had integrated the armed forces and the Southern states didn't like that; so, they walked out and supported another candidate: Strom Thurmond. So, the Democratic Party broke into three pieces. The Republicans didn't like Harry Truman very much either. The pollsters of the time, such as they were, gave President Truman a zero chance of winning the election.

I love reading this over and over again. Truman decided to go on a nationwide rail trip to drum up support. In the tradition of that era, President Truman was standing in the caboose as the train was leaving Union Station, and Alben Barkley, the Vice-President at the time yelled out, "Give 'em hell, Harry!" He gave it to them, and he won the election.

I go through this lengthy exposition to tell you that, in a democracy, you're never going to get a consensus. It's a rarity. If it occurs, it lasts for a very brief period of time, and it's usually in the wake of some national emergency such as a war, or an attack like that of World War II. Even then, it doesn't last very long. That's the way of people. That's the way political campaigns are produced. It's always nasty.

When it comes to the profit incentive and the capitalist system, I believe in what Winston Churchill said about capitalism and democracy: it's the worst system there is, except for everything else. It's an imperfect system; it has its faults, but we haven't thought of anything better. Consequently, there isn't a viable alternative.

Look at what China has done; look at what Russia, formerly the Soviet Union, has done. It's a nice concept, in theory, to talk about the end of the profit system. The profit system has its imperfections; there's no question about that. It's a nice idea to talk about socialism and a more egalitarian society. The problem with it is the incentive. The government is left in the position of planning what's going to be produced, how many blue shirts we're going to have, how many white shirts we're going to have, how many tractors we're going to have, and so on and so forth. And the government, not infrequently—maybe almost always—gets it wrong.

I don't worry about polarization. When we're talking about a societal view, if you want well-being for all, and you want societal advancement, in my humble opinion—and it's humble, because I don't really know—I think it comes from technological innovation.

For example, let's make believe that electricity had never been invented, and antibiotics were never invented. They don't exist. I don't care if you have a socialist society or a democracy or a republic or communism or any other modality, we would not have the standard of living that we have today. This standard of living is made possible, and a certain amount of productivity is made possible, by having electric power. Without it, we're Ethiopia. We had an example of that a couple of years ago when we had Hurricane Sandy and the island of Manhattan, at least the southern part of it, was without electric power. It got pretty nasty pretty fast.

The world is on the verge of, I think, really great technological breakthroughs. In the longer run, in not very many years, I believe that we're all going to live at a much, much higher standard. But when it comes to the elections and it comes to politicians, of whatever stripe, negative campaigning is more effective than positive campaigning. It's a lot easier to argue against something than to argue for something. Politicians are always going to do that. I don't think they're going to change in the slightest.

Questioner 9: I have three questions. First, any comments on what's going on in the reinsurance industry, where leading reinsurance companies are also going into the insurance business because of the degree of competition in insurance? Does this have any effect on what you're doing in the Bermuda situation?

The second question is much broader. You say you don't know; you're humble; you have great humility, and I respect that. But everything you've suggested from accumulating all of this cash is indicative of some deep-seated belief that you're going to have a great opportunity at some reasonable point in time to put it to work. I'd like you to put that in the context of what's been going on in the marketplace in the last several days, and give us some timeframe in which you realistically think that you'd be putting this to work.

The third question comes from your last comment on technological advances, which makes a great deal of sense. Why is a guy like you, who feels so strongly about that, not making different, more dramatic, technological investments outside of the financial area?

Murray Stahl: Okay, three great questions. Let's address the reinsurance one first. We'll do the reinsurance one, we'll do the technology last, and then in the middle we'll do the current market environment, opportunities, capital, cash, what have you.

Regarding reinsurance, at the margin—all these things happen at the margin—what's going on in reinsurance helps Bermuda. Basically, there's a tremendous amount of capital that came into the insurance industry, and it's not going away. The reinsurance companies, at least some of them, have actually begun to expand beyond reinsurance and have started offering conventional insurance. When an insurance company expands, it needs to raise capital.

Insurance companies have found that they can expand into new business lines more efficiently if they lay off some historical risks that they don't want to take. Maybe they're taking on the risk of an earthquake or a hurricane. Usually, what's happening in insurance-linked securities (they used to call them catastrophe bonds) is that they're not really interested in automobile accidents or conventional building fires. They're interested in potential liabilities that might occur in a broad swathe, like an earthquake in California that might cause hundreds of billions of dollars in damage.

The idea is that, if they want to expand and control risk at the same time, a big payout resulting from a catastrophic event somewhere in the world, like an earthquake, would immediately disrupt their expansion plans. Therefore, the logical approach is to take certain catastrophic risks and lay them off on the market. Ironically, the market is willing to accept that, and that's actually a pretty good thing for the Bermuda Stock Exchange, at the margin. All these developments are at the margin. That's sort of a nice thing, and I think that it's going to continue. I hope I've answered that question.

Now let's talk about the current environment, the capital: the cash. To begin with, everything we do is animated by valuation. The valuations of interesting companies have to be reasonable. What do I mean by reasonable? It means that there's got to be a margin of safety if something goes wrong. Sometimes something goes wrong temporarily in a company, and the managers work it out. As a matter of fact, not infrequently, something goes wrong, because no business is perfect.

The valuation has to be low enough so that you're not going to suffer a catastrophic loss if something really does go wrong in the business. The rise of the price-indifferent buyer, driven by indexation, has really made that impossible.

I didn't want to give examples, but I'll give examples, just because I think that's the best way to crystallize the understanding. I have nothing against Amazon.com, for example. I have nothing against it; I use it myself. I buy things on Amazon; it's very convenient, very useful. I think the business is going to expand. It's got something like a $230 billion market capitalization. That number means nothing except it's bigger than Wal-Mart. In value, Amazon is bigger than Wal-Mart, but Wal-Mart makes $17-odd billion a year and Amazon makes nothing.

You could argue—and some people have argued this point with me—that, one day, Amazon is going to make a lot of money. When is "one day?" Is it a quarter from now? Is it a year from now?

Is it five years from now? Let's say I could buy one of these companies—the whole company. The question is: if I had a choice between Wal-Mart and Amazon, and Wal-Mart makes $17 billion a year, how much better does Amazon have to be in its growth for me to forego an indefinite period of time of giving up $17-plus billion a year of earnings? And Amazon already trades at a higher valuation.

I didn't have to say Amazon; I could have said Facebook. The other day—this might amuse you—the other day, I was talking to someone about Facebook. I said, "You know, Facebook has"—it's a little bit less now but, on the day I was speaking, which was before the last couple of days—"a $270 billion market capitalization." That would put it more or less on the size of General Electric or Johnson & Johnson.

Now, Facebook makes some money. It doesn't make a lot, but it does make some money. So, I said I thought it was overvalued. My interlocutor replied, "Well, you know, Facebook has almost 1.5 billion people who use it, and that number is growing all the time," which is true enough. "And, in the fullness of time, I think they're going to make $20 billion, pre-tax, because they have $20 billion of revenue and they have no expenses." This is what the person asserted. "They have no expenses." I think they have expenses. Maybe they're not a lot, not in the billions of dollars, but they do have expenses. I was prepared to ignore that fact for the sake of argument.

"I think they're going to have $20 billion of revenue," that would be orders of magnitude above what they have now. "And they're an international company, so they're going to be in the 30% tax rate. They have no expenses; therefore, take 30% away from $20 billion, which is effectively its pretax income, and they're going to make $14 billion. I think it's going to trade, when this is achieved, some number of years from now—I think it's going to trade"—this is the person saying this, not me—"at a 20 times multiple."

I said, "Are you not aware that 20 times 14 is 280? You're predicting a $280 billion market capitalization." And he said, "Yes, indeed. It's going to be very successful." But I said, "The company already has a $270 billion market capitalization. Therefore, you can't make a very high return." His rejoinder to me was, "Well, in that case, I think it's going to be traded at 40 times earnings." Well, if you can say that with abandon, it defies analysis, because I could pick any company at random and say, "I think it's going to trade at 100 times earnings." It's just my opinion. It may be right; it may be wrong.

The problem is that there are so many companies in the indexes that trade at ridiculous valuations, not because people have exaggerated expectations, which was the modality in historical periods, but because they don't have any expectations. They're buying the index, and the index is just raw material. They don't care what they pay for it. As a matter of fact, they don't know what they're paying for it and that's not a salutary set of events.

Moreover, and maybe more importantly, let's say, for whatever reason—and Steve and I were talking about this one this morning—let's say that people, rightly or wrongly, want to lower their equity exposure. Maybe it's because the economy is weak, maybe because they find some bonds they want to invest in, whatever the reason happens to be. Historically, somebody would say, "I want to lower my equity exposure; maybe I'll sell Exxon. Maybe I'll sell Johnson & Johnson." If you're an index, you have no such choice. You sell the complete set.

If you buy the index, it's like going to a diner and saying, "Give me two eggs over easy," and they bring you two eggs over easy with a mountain of hash browns next to it. And you say, "I didn't order any hash browns." "I'm sorry, it comes with it." You're buying the complete set, which means, when you exit, you sell the complete set. But that presupposes somebody wants to buy the complete set. How do you achieve market equilibrium when you have to sell the complete set?

That's actually a very dangerous thing. More to the point, there are elements of the complete set that trade at valuations that are nonsensical, not in an absolute sense but in a relative sense, such as in my example of Amazon versus Wal-Mart. I view that as not problematic; I view that as potentially problematic, and I would rather miss the opportunity—if it is an opportunity—I'd rather forego the opportunity of investing in things like that and have the cash instead.

Usually, valuation dislocations like that have to be resolved one way or another, and there are only two ways they can be resolved. Either Amazon will make enough money to justify its valuation, which is one way to resolve the problem; or, alternatively, its valuation has to reflect its profitability, which is problematic for the marketplace. Either way, the valuation anomaly has to be addressed. I could give you a list of 150 companies—or even 500 companies if we had enough time—that would serve in this example.

When a valuation anomaly is addressed, it not infrequently is problematic for the marketplace. We would rather not be there when it happens, because it doesn't stop at fair value, unfortunately. Theoretically, it should, but it never does; it goes way past fair value. All sorts of companies get dislocated in the process, and usually there's an opportunity, like there was in 2008. We'd have made a lot of money in 2008 if we'd just waited.

If there's going to be a dislocation—I don't know that there's going to be—but if there is, we need to be ready for it. That's the logic of having the cash. When you're waiting through the valuation dislocation on the upside, it seems like an eternity; however, very infrequently is it an eternity. The internet bubble in 1999-2000 seemed like it was going up forever, but it wasn't forever; it was only two years. You didn't have to wait long. And then there were opportunities. In 2008, we saw the same sort of thing.

And now, who knows? If it's tomorrow or hours from now or a year from now, I have no idea. But it usually doesn't stay long, because of an old adage of the marketplace that I learned many years ago: once everyone's in, there's only one more thing that can happen: they get out.

As to your third question, which is technology: indexation plays a role in that, too. Let's take something like cyber security. It sounds fascinating. There is hacking into all sorts of computer systems. We need protection against it. There are cyber security companies; ergo, a cyber security index was created. I don't want to harp on the people who created the cyber security index, but the companies don't have any earnings. People are buying the index, and most of the companies in the index don't have very much earnings, but people are paying ridiculous valuations for it.

I like technology; I would like to invest in it, but I need a reasonable valuation. Can't get a reasonable valuation? No investment. It's that simple. So, we just have to wait. I think there will be opportunities. But at the moment, we see what we see. We might have overlooked great opportunities. We might be wrong. But that's what animates our thought.

Questioner 10: Two questions: one is I agree with you that the valuations now are problematic, and I totally support your approach of waiting for the opportunities. But I've found that there actually are some opportunities with net-net stocks, deep in net-net. Many of them are in China, which some people consider problematic. But are you interested in sheer deep value, net-net plays? That's question one.

Question two is: you were talking about your aversion to paying tax, and, as you probably know, there are many companies now that are shell NOLs, or there are companies like Leucadia that somehow, in a way that I never quite understood, managed to acquire net operating losses and didn't pay tax for many years. Is that an approach that you would take?

Murray Stahl: To begin, let's take the latter question first, the NOLs. In theory, it's a great idea. In practice, it's easier said than done to transfer an NOL to your books and actually use it. We've explored a number of opportunities and, at least the ones we've found, if there was an NOL there, we might have been able to use it, but there was some other liability there that we just didn't understand. If we don't understand it, we're not going to get involved in it.

It was interesting; it doesn't hurt to look at it, and we're still studying some of them. But it didn't seem like the opportunity that we thought it was. Maybe there will be an opportunity one day. If there is one, we're sure going to take advantage of it. We don't exclude that possibility at all.

Regarding the subject of net-nets—net-net, by the way, is a company that trades at a discount to its cash and marketable securities, net of any liabilities. After a very thorough investigation, we think the only safe source of net-nets is Japan, because you have a couple of problems with net-nets. The first problem is: how do you realize the value? Because they can sit on it forever, and some people call that a value trap. If you have to be an activist to go after the net-net, there are a lot of jurisdictions that won't even let you be an activist.

In Japan, in the last couple of months, not the law, but the attitude of the government has changed about companies that sit on big piles of cash with necessarily very low returns on equity. The government is pressuring companies to manifest at least a 5%, and maybe an 8%, return on equity and doing something with the cash. So, there are actually net-nets there. We're exploring that possibility. We'd like to create a fund to invest in the net-nets.

To find the net-nets in Japan, you need to be conversant in the Japanese language, because they have no annual reports in English. Happily, we have two Japanese-speaking analysts, and we are actually in the process of compiling a list of companies. We'd love to raise a fund to invest in net-nets. There are other net-nets in the world, but the home of net-nets in the way we think of net-nets is a company with a lot of cash, minimal if any liabilities, and a business that's actually profitable. That's the place they're at. Hopefully we can manage to do something there. And if anybody wants to invest with us, we'd love to talk to them.

Questioner 11: I'd love to hear about how you think about concentration and diversification of the company when considering how much to invest in a new investment for the company. Is there a framework that you use? How do you think about that?

Murray Stahl: Right now, we have investments in our funds, but they're diversified. The only really big concentration we have that you can speak of is cash. That's our biggest investment. I don't call that a concentration.

We're expanding into new areas and, when you're expanding into new areas, it's better to make very small investments, and to be well acquainted with them before you undertake a concentration. Consequently, we're not going to undertake any concentration in anything unless we're very sure of ourselves. Right now, we're expanding beyond the realm of conventional equities but, even in the context of conventional equities, the only time we ever had a big concentration was when we had a company that, itself, was very diversified. It might have owned a variety of stocks, and we were buying more of a portfolio than anything else.

That said, in the future, I expect we're going to make fewer investments in our regular equity portfolios and be more concentrated. That's not by preference; that's because we believe the market environment is going to change. As equity investors, we're not going to have the wind at our backs in terms of lower rates and higher valuations. We're not going to have the wind at our back in terms of massive government fiscal spending to bring up the earnings. We'll have to find fewer, but well-positioned companies that necessarily are going to be bigger positions than we had historically. I believe that's actually going to happen.

Questioner12: I don't know what the cash position of Berkshire Hathaway is, but I'm assuming it's not 50%. If it were, it's my guess that there are probably very few people in this room who would have invested with Berkshire Hathaway, even though they have the highest respect for Warren Buffett. But they're anxious to invest in FRMO because of you. There is a general sense that you're brilliant, and Steve ever so slightly less brilliant.

Murray Stahl: That's not true!

Questioner 12: Oh, it is true. And with every day that one looks at the stock price, and every quarterly call, and certainly the annual meeting, there is the hope that Murray Stahl and Steven Bregman will have come up with some brilliant way to invest the money. There is a general belief that you're crazy like a fox, and that the day is going to come when we're going to wake up and, all of a sudden, there it is: the reason that you've accumulated cash. And it's to do something not just average, but something extraordinary.

I'm going to guess that everyone in this room has that same belief, that same hope, and, even more importantly, that same faith in you. The question is: is there something deep in your mind that you're really looking for and that you're really waiting for, and that we can get really excited about during this wait?

Murray Stahl: Let's just assume there really were some investment; we'll call it X. Don't you think I would be a little less brilliant than you give me credit for—thank you very much—if I said, "Oh, yes, there is this investment, X, and it trades at this price, and I'm just waiting for a 5% correction and I'll be all over it?" Obviously, if there were such a thing, I couldn't, I shouldn't, and I wouldn't even tell you, because it would defeat my whole purpose in raising the cash in the first place.

I really admire the people at Leucadia, and I remember vividly, in the mid-1990s, when the internet bubble was just getting started, and they reached the conclusion that there was nothing to invest in. They built up a tremendous amount of cash. And I think in their case, it took 24 months or something like that. Then they put the money to work very ably, and for a lot of years, it was a good stock. As a matter of fact, it was a great stock.

I can't tell you if it's going to be weeks or days or years or months or whatever. I'm just saying that, when there's a dislocation, it's frequently followed by a buying opportunity. So, we have lists of things we're looking at and, if something were to happen, we would do something. But it's just a list, which obviously I can't share with you anyway. But we do have lists.

Consequently, we're not simply waiting for a theoretical opportunity. We have a reasonable idea of what we would do, were the opportunity offered. I can say that much. But, obviously, I can go no further. But that was a nice question, though, and a good compliment.

Steven Bregman: For some reason, your question—I'm in dangerous waters here—puts me in mind of a film called *Being There*, which was based on a book written by Jerzy Kosinski. The main character, played by Peter Sellers, was a simpleton. Now, I'm not drawing direct analogies but, in a general sense—maybe he was me—but he was a simpleton. Because of his straightforward response to people, which was completely without guile, they perceived all sorts of clever machinations going on in his head. They perceived metaphors and similes that he was using so cleverly, and they labeled him brilliant.

There's an idea in physiology that has been demonstrated that human beings are incapable of not seeing patterns. Organically, we're pattern spotters. You can put somebody in front of a television screen with white noise, and they eventually see patterns. Same for listening to white noise. And so, if you're presented, I suppose, with a tabula rasa, somebody who says, "I don't know; I'm open to ideas," people read something into it. Anyway.

Murray Stahl: Anyway, we might be the useful idiots. It's quite possible. So, you need to consider that possibility as well. Any other questions?

Okay, we've probably exhausted your patience anyway. But thank you for a very lively question-and-answer session. Thank you for being shareholders and for attending this meeting. We look forward to justifying your confidence in us, because we got a lot of compliments today, all unmerited, I might say. We'll reprise this in mini form in the next quarterly conference call. And we'll be here next year for the 2016 Annual Meeting. Thanks again.

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