FRMO Corp. Q1 2018 Conference Call
Tuesday, October 17, 2017

Operator

Good day and welcome to the FRMO 2018 First 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

Thank you, Matt. Good afternoon, everyone. This is Thérèse Byars speaking, 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 the 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. website at www.frmocorp.com.

Today's discussion will be led by Murray Stahl, Chairman and Chief Executive Officer, and Steven Bregman, President and Chief Financial Officer. They will review key points related to the 2018 first quarter earnings.

A summary transcript of this call will be posted on the FRMO website in the coming weeks. A replay of this call will be available beginning at 7:15 this evening until Thursday, November 16, 2017. To listen to the replay, you may dial the following number toll-free: 1-888-203-1112, or international toll: 719-457-0820. When prompted, key in the passcode: 8096032.

These dial-in numbers are noted in the FRMO press release dated October 12, 2017, which may be found on the FRMO Corp. website by clicking the link called Information Statements & Announcements. The press release can also be viewed on the OTC Markets website by typing in the ticker symbol FRMO and clicking on the News link. And now I'll turn the discussion over to Mr. Stahl.

Murray Stahl – Chairman & Chief Executive Officer

Thanks, Thérèse, and thanks everybody for joining us this afternoon. Today I'll cover three areas. First, I'll go through the balance sheet in more detail than I normally do, just to give people a sense of how to read it, because it's becoming a little complex, and some of the numbers are not so obvious. In the process of doing that, I may touch on one or more of the questions we received, but I'll answer them in greater depth later.

Second, I'll go through the balance sheet again, with respect to various things we're doing in Horizon Kinetics LLC (HK) and how they apply to our future progress.

Third, I'll directly answer the questions we received. You might get a little bit of an answer in the first two passes, but then I'll give you direct and much more detailed answers to the questions when we get to them.

Looking at the balance sheet, some items are obvious, like cash and cash equivalents. Nothing can be more obvious than that. Out of our $133 million of assets, we have $51.8 million of cash. The reason for having that much liquidity is because the opportunity set when markets around the world are at all-time highs—and probably all-time highs in valuations, not just index prices—is not as deep and rich as it is when markets are at some other level. I think that's only reasonable and, unless circumstances change, we're going to see a big cash number there.

Accounts receivable, I think, are fairly self-evident, as are prepaid taxes, of which we have none, at the moment.

Bond and equity securities available for sale are not so obvious, because we don't have a lot of direct bond and equity securities for sale. Primarily, that $21.6 million number represents the fund investments. In the various notes, you will see Polestar, Horizon Multidisciplinary, CDK, HK Hard Assets, and so on. Even though we do have individual securities, most of our securities investments are in the private funds; more about that later.

Moving on, you may think the amount in Other Current Assets is a minor figure, but actually it is not minor, because if you compare the roughly $187,000 in August of 2017, and the $138,000 in May 2017, that difference is really a prepaid asset of cryptocurrency mining equipment. On August 31, the equipment was in transit and was installed sometime in September. Now it's actually producing revenue.

By the time we have the next conference call, it will be listed as computer equipment. I only mention it because that's one of our cryptocurrency vectors. More about that when we go through the balance sheet on the second pass.

The South LaSalle Partners investment is $5.8 million. That is comprised of the Minneapolis Grain Exchange (MGEX). We call the investment South LaSalle Partners rather than the Minneapolis Grain Exchange, because the exchange memberships seats are held in this partnership.

Exchanges draw their value from volume, and if you visit the MGEX website (www.mgex.com), you'll see that its volume has been record breaking. You'll also see similar robust activity in the Bermuda Stock Exchange (BSX), for the securities it lists. Those exchange investments will take care of themselves in due course, and that's really what's happening in brief.

There are investments in other limited partnerships, followed by a list of our other exchange investments, including the BSX. In the next quarter, we will keep the BSX on a separate line, but we'll group the other smaller exchanges together on one line called "Investments in other stock exchanges," with the details listed in the notes.

We have Winland Electronics, which is a publicly traded security worth $773,000 at its most recent incarnation.

I left out Digital Currency Group (DGC) for a reason, because it is not an exchange, even though it has an exchange dimension within it. The best way to describe DGC is as a venture capital investment focused upon cryptocurrency. Among its assets, it owns Grayscale, the company that manages the Bitcoin Investment Trust (ticker: GBTC on the OTC Markets trading platform).

Next we have our equity ownership in Horizon Kinetics LLC (HK) and the participation in the HK revenue stream. You will recall that FRMO makes money from HK in two ways: One is from being an equity participant in the LLC, and the other is by a top-line payment that comes from the revenue of HK.

More about this investment in a few minutes, but you might recall that we made a lot of effort to move the HK business more towards funds with performance fees, rather than institutional investing, where we simply earn a management fee. I think it's better for all concerned but, since the performance fee is, in most cases, payable at year-end, that revenue number can be very lumpy. That can be a bad thing, but it can also be very good when things go right. It's important to be aware of that lumpiness, and I caution people against annualizing the revenue stream number for a given quarter, because it's not necessarily representative of what might happen.

Going to the liability side, some items are fairly self-evident, such as Income Taxes Payable and Accounts Payable. The short sales are under the Securities Sold but Not Yet Purchased category. Those are short sales of what we would determine to be dysfunctional exchange traded funds (ETFs), largely those that are path-dependent, and you can see what the profit is. Occasionally, we sell short a regular common stock, but we don't do a tremendous number of that.

We've actually made much more money than this entry shows, because part of this exercise over the years used options, and we've made money on quite a few of those options. We've had to cover them over the years or, in many cases, they just expired worthless, which is really great. At that point, the gains are realized, and we must pay taxes. From looking at this balance sheet, you really can't see what our cumulative gain is to date. However, it's fair to say that a lot of our illiquid assets were funded by this short selling activity. It has been a fabulous investment, and we hope to be able to increase it.

As for the Deferred Tax Liability, I'll say more about that in a minute, too. But, on these various investments, be they securities or funds, we happen to have a lot of unrealized gains. If we were to sell them, which we don't plan to do, there would be tax on the gains, and that theoretical tax is recorded as a liability. In the interim, that's basically a tax-free loan we get from the government for allowing our investments to stay in place.

The balance of the liabilities appear in the shareholders' equity line. Because HK Hard Assets has outside investors, you'll see a non-controlling interest line. You can see that our shareholders' equity is \$118.7 million. That's a record—the highest we've ever had for this company, and it's a big deal.

Now, let's go through the balance sheet again, and touch on some particular points. Looking at just the bond and equity securities and the investments in limited partnerships, you could think of them as long-term investments, but we could liquidate all of those investments, so you can get an idea of how liquid those investments really are. They could be thought of almost as current assets, but we have no intention of liquidating them.

We don't consolidate the partnerships themselves, which each have very high cash balances. For example, Polestar has probably something on the order of 50% cash. To give you an idea of the kind of liquidity we have, we have cash in the funds, we have cash on the balance sheet that's not in the funds, and then, both on the balance sheet and in the funds, we have a lot of borrowing power that we've never used. There's a lot of liquidity here, so if we want to do something important, we have the means to do it. We just don't want to do anything yet—but we could.

Cryptocurrency

Getting back to Digital Currency Group, as I said, it is just one dimension of our cryptocurrency exposure. We received some questions about this, and I'll go into more detail when we address them. But cryptocurrency is one of the HK vectors. When we talk about cryptocurrency, we should think about it as one of several dimension of the investment strategy of HK. The first is that the partnerships own a lot of our cryptocurrency investments. On the balance sheet, we have a line item called "Bond and Equity Securities Available for Sale," which includes some cryptocurrency investments, largely the Grayscale Bitcoin Investment Trust (GBTC), but most of the investments in that area are embedded in the funds.

That weighting might change a little when we have a "computer equipment" line on the balance sheet for the cryptocurrency mining equipment. We intend to hold the cryptocurrency that we mine.

For us, cryptocurrency has three or even four vectors. One vector is that we own GBTC in various funds and on the FRMO balance sheet. A second is that HK and FRMO mine cryptocurrencies for their own accounts. In the process of mining, cryptocurrency is created at a lower price than it costs to purchase it in the marketplace; therefore, cryptocurrency mining can be very lucrative if it's done right.

A third vector is that we have performance-based funds within HK that invest in cryptocurrency. Since cryptocurrency is doing very well right now, it helps our fund investments and, therefore, our performance fees.

A fourth vector is that we created an LLC inside of HK known as the HK Cryptocurrency Mining LLC. The idea behind that entity is to sell the cryptocurrency after it has been mined and then to pay it out to investors as dividends, so it is an income-generating entity.

The limiting factor in cryptocurrency mining is acquiring and installing the equipment, which is in high demand. Once ordered, it has to be shipped, received, and installed; then, the software must be loaded and tested. There are always issues, whatever they happen to be; some are minor and some are not so minor. Decisions must be made about hosting locations for the mining equipment. This LLC is much more akin to running a business than it is to investing in stocks.

Currently, you might say that the market is at a high, and it is becoming more difficult to find intriguing securities. Because of the universal condemnation of cryptocurrency, you don't have to invest or raise a lot of money to make a lot of money in cryptocurrencies. It's not without its risks, and its success is by no stretch of the imagination guaranteed. But, if you follow cryptocurrency even on a marginal basis, I think you can see that the potential upside far exceeds the downside.

For us, that's particularly true because—back to these tax liabilities—you can see how high our tax rate is. If an investment in cryptocurrency is down 10%, we're not even losing 10%, because we can un-accrue some tax liability. You might say there is nothing so bad that you can't find a little good in it. With that in mind, even though it's a terrible thing to have to pay that much in taxes, it's good in the following, perverse sense: in the event that we see some retrograde motion in some of our investments, we don't actually suffer the full downside from a balance sheet standpoint. I know that's small consolation indeed, but that's the way it is.

Looking at the funds, we have HK funds that invest in bitcoin. We are launching a fund on the first of November that will invest in Bitcoin Cash. Bitcoin Cash, you will recall, is one of the bitcoin forks.[1] At the moment, it trades at something like 7% of the bitcoin value. I believe that it has similar intrinsic value to bitcoin, because it employs the same monetary policy.

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[1] A bitcoin fork is more akin to a "save as" instruction on a personal computer, because holders of bitcoin before and up to the fork receive the new currency in amounts equal to their bitcoin holdings at the time of the fork. In other words, both currencies have identical blockchains up to the fork, then the new currency's protocol takes effect and the blockchains diverge.

Assuming I'm right—and I might be very wrong—I'm not elaborating on why I believe this because it's not really germane to this conversation—but, at the moment, Bitcoin Cash has nothing but selling pressure on it, because most bitcoin exchanges do not support it. At some point, that selling pressure will abate. I believe that its true intrinsic value will become self-evident. I also have great hopes for bitcoin, so it makes sense to have a fund like that.

Beyond that, we are thinking about creating a fund that's oriented more towards Asia and the cryptocurrencies. Asia, specifically Japan, is the only place where cryptocurrency is legal tender and accepted. It's the only place in the world you can find a relatively small number—maybe a handful—of publicly traded securities that are involved in cryptocurrencies. On or about October 1st this year, the Japanese government gave out something like a dozen licenses for cryptocurrency. I believe they will give out a dozen more. It won't be a large group, and it's certainly not reflected in the share prices of these companies. The securities in question, at least most of them, are not even in indexes.

The interesting point about indexes—and I sound like a broken record, because I talk about this on every conference call—but, basically, a seminal event happened in Japan, and certain companies there now have an entrée into cryptocurrencies. They're businesses that I think will at least be fairly lucrative but, from a stock market index standpoint, it's a non-event, and that creates an opportunity.

We have plenty more ideas for investments. If we do our job right, over the next couple of quarters, you should see more ideas, and not just in cryptocurrencies. There are other new investments coming.

The basic thing to remember is that we work to differentiate ourselves by finding unique investments and escaping the current monetary debasement system existing in the world. The problem is not just one of valuation, it is that most of the securities that we can buy are all part of the generalized monetary debasement system of the world. In that universe, no matter how much we diversify, we're still in the same risk vector. You can see that we've established other vectors.

But it's not merely about establishing vectors, although that's important; it's about establishing vectors that allow us to earn a reasonable return on our capital, which you really can't do if you're competing with indexes in a race to zero fees. We want to get away from that space.

I think that should give you a sense of how to read our balance sheet. You should not look at it in terms of categories, but rather in terms of vectors. Next quarter, we'll try to reformat it by grouping the various vectors to make them easier to understand.

Now, let's turn to the questions.

Question 1

Can you buy back FRMO stock? At what price would you consider buying back the stock? Do any of the Horizon Kinetics portfolios hold FRMO stock?"

Murray Stahl – Chairman and CEO

I'll answer those questions in reverse order. We will not put FRMO stock in HK client portfolios, because that would be a blatant conflict of interest. In any sensibly regulated world, we should not be the ones to tell our clients to buy FRMO stock, and we will not do it.

That said, HK itself has a certain amount of FRMO stock on its balance sheet, and it continues to buy shares. There are plans in which you commit to buying a certain number of shares during a certain period of time, and HK basically relinquishes direct control over the transactions. I don't recall the number of shares that have been purchased through that plan, but it's a meaningful amount.

Regarding the question of the price at which we would consider buying back the stock, I would say that it is about at the current price, since that's what we've been paying. I hope I've answered the question.

Question 2

Regarding HK Hard Assets, in the Third Quarter of 2017 Conference Call, you stated, "It is possible to develop a business by improving it a lot, and you ultimately might be able to get a double-digit rate of return on it. That's what we're trying to do in the HK Hard Assets business. We'll see if we can succeed." Would you elaborate on that? Is this a control investment? Is it possible FRMO might end up owning a markedly larger share of HK Hard Assets in the future?

Murray Stahl – Chairman and CEO

To begin with, at the moment, it's not a control investment. "Control investment," by the way, can be interpreted in two ways in this instance. The first way is, whatever holdings we have in HK Hard Assets, do we control that entity or investee? The answer in that case is that we do not. Is it a control investment in the sense that FRMO controls HK Hard Assets? Yes, it is.

During the last eight or so years, there has been a collapse, you might even say a depression—I don't think that's too strong a word—in commodities. Whatever commodity you look at, be it oil or gold or something else, you'll see that there are companies with more or less debt-free balance sheets, with a certain amount of cash flow, and a lot of value in the ground, so to speak. That value in the ground, if you think about it, is like a free call option on the value of the commodity.

What's been happening in commodities for the last eight years is not sustainable. I'll give you an example through a security that we don't own, so I'm at liberty to talk about it. If you look at the balance sheets of Newmont Mining or Barrick Gold, you'll see that in the last three years, about a third of their reserve base at current levels of gold prices has been depleted. That's just not sustainable. At current levels of gold prices, it's very hard to replace the reserves, so it's not happening. But there will be a point in time when the prices have to reverse themselves, if for no other reason than because the mining companies will have exhausted a lot of the reserves. There are junior miners that develop reserves, but not that much and, in my view, not enough to alter the ultimate outcome.

That situation will turn at some point. What point will that be? I really don't know. But you can probably see from our balance sheets that we've been increasing our exposure to HK Hard Assets. I think it's just as good an investment now as it was when we started, and we've had a fairly robust return on it so far.

Question 3

Do you see a role for FRMO in any potential recapitalization of the Renn Fund?

Murray Stahl – Chairman and CEO

The most I can say is that it's quite possible there will be a role for FRMO in any potential recapitalization of the Renn Fund. It's quite possible, but I don't think it would be prudent to go beyond that, for reasons that probably will be self-evident.

Question 4

Does the investment in Digital Currency Group include investment in bitcoin also, or in just the private company itself?

Murray Stahl – Chairman and CEO

Everything that Digital Currency Group does is involved with cryptocurrency in one way or another and, to a large extent, in bitcoin, not the least of which is the Grayscale Bitcoin Investment Trust (GBTC). So, there's clearly a bitcoin element to it.

Later, I'll give you a number in relation to another question about how much cryptocurrency we really have. When I give you that number, it's not going to include Digital Currency Group. By the way, I should also tell you that just because we have a cost basis for FRMO's investment in Digital Currency Group of $76,000 doesn't mean that would be the price at which we could sell it if we chose to do so. I hope you understand that.

Question 5

Would you please discuss your direct and indirect cryptocurrency exposure through various funds, revenue streams, or ownership?

Murray Stahl – Chairman and CEO

I'll pair that question, if I may, with a couple of other questions that are very similar. The two similar questions ask exactly how many shares of GBTC we own today directly, and how many indirectly. And, do we own any bitcoin directly or indirectly, through any investments? How many bitcoin, and at what cost?

First, I'll first tell you how I'll answer these questions, then I'll answer them. Obviously, I could do it on a direct and a look-through basis, which is my way of saying indirect. Although I could give you an answer of how many shares of GBTC we own directly and how many bitcoin we have indirectly, the reason I'm reluctant to do so is not to deny you the information, because I think you're entitled to it. The trouble is that it's contained in funds. In the event that someone added money to the funds, and we chose, for whatever reason, not to buy GBTC in that fund, it's possible, even though we wouldn't have sold one share, that the direct and indirect number could fall. Similarly, if someone pulled money out of the fund, we might decide not to proportionally sell that security, and the number could rise.

I can readily envisage how that the number could change, because either money will come in or go out of the fund, as almost always happens. The number would change even though we might not have transacted at all. Nevertheless, you would get the idea that we transacted in some way, which we have no intention of doing. It's theoretically possible that we would transact if we had a reason to transact, and it's theoretically possible that if we were overwhelmed with a huge supply of money, we'd have to buy a lot of it, and you would see that number change. I don't want to be misinterpreted, but I'll give you the functional equivalent of that number.

The best way to do it is on a direct and indirect basis. In round numbers, excluding Digital Currency Group, assume that 3% of our assets are bitcoin-related. That includes the bitcoin owned directly that primarily came from the mining operation, and it includes shares of the Grayscale Bitcoin Investment Trust (GBTC), owned both directly and indirectly through the private funds, but mainly indirectly. The cost basis is very roughly about a tenth or even less of the current market value. Whatever the market value is, if you divide it by 10, it might even be a little bit too high for the cost basis, but it gives you the idea. There would be a fairly large gain whenever we try to harvest those investments.

Then there's the question of the Bitcoin Cash, which might be an investment opportunity, because it's priced, at the moment, based on its illiquidity and the current limited Bitcoin Cash mining activity (which is a small fraction of bitcoin mining). But those two factors might change radically at some point in time.

The lack of liquidity is partly attributable to most of the bitcoin exchanges requiring participants to either sell their Bitcoin Cash or transfer it out of their wallets. As a result, right now there are more sellers than buyers, because most of the bitcoin exchanges are unable to process a buy order in Bitcoin Cash. Investors who want to buy it have to find an exchange that transacts in Bitcoin Cash. In many instances, even if they find a place to buy it, they then have to find a place to store it. There's no Depository Trust Company like there is for an ordinary security. It's actually quite different and, at the moment, it requires some degree of effort to purchase and custody Bitcoin Cash.

As I said earlier, of the 21 million addresses on the bitcoin blockchain, believe it or not, about 12 million of them hold only about $1 worth of bitcoin. If Bitcoin Cash is 5%, 6%, or 7% of that number, those owners would have 5¢, 6¢, or 7¢ worth of bitcoin cash. How many of those people will try to obtain the private keys and figure out a way to self-custody 5¢, 10¢, or even 15¢? It's probably not worth it to go buy the equipment to custody Bitcoin Cash that's worth only pennies. In my view, they're very likely to abandon it. I could be wrong but, at least to my mind, it seems a reasonable outcome.

Remember, if you lose your private keys and you don't properly custody bitcoin, or Bitcoin Cash, then that's it; that bitcoin becomes inaccessible for eternity. No one has really figured out a way to compute the how many lost private keys exist, but I suspect that number is high.

The monetary policy of Bitcoin Cash is the same as that of bitcoin, and there are similar quantities of each outstanding, at least on a nominal basis. The reason they're not identical is that for a very brief period of time, Bitcoin Cash had a very low difficulty rating, and miners were completing blocks for Bitcoin Cash in a shorter time than for bitcoin, so they managed to issue a handful more Bitcoin Cash than bitcoin. If you're willing to go out enough decimal places, you'll find that Bitcoin Cash, at the moment, has a slightly lower inflation rate than bitcoin.

Steven Bregman – President & Chief Financial Officer

From one particular critical perspective, in terms of what might make a cryptocurrency valuable as a store of value, which is that it's got a fixed issuance, meaning it can't be diluted, Bitcoin Cash is functionally identical to bitcoin itself. In that sense, on a kind of parity basis, one could conjecture that they should eventually have the same market capitalization. Would that be a correct line of thinking, or does is contain a flaw?

Murray Stahl – Chairman & Chief Executive Officer

I think that line of thinking is correct. They should have the same market value, but their market values won't be identical. The first minor reason is that they will have ever-so-slightly different nominal amounts outstanding, but the functional supply might be radically different, because some people might abandon their Bitcoin Cash. Then there are some people who, quite incorrectly, think that the issuance of Bitcoin Cash is dilutive.

Many people will ask the following question: If the maximum number of bitcoin outstanding is capped at 21 million, and they create another digital currency like Bitcoin Cash that is based on the same historical blockchain as bitcoin, with the same maximum number of 21 million, arithmetically, doesn't that make the maximum number of units outstanding of the two genres 42 million? There's no denying that it's mathematically true. So, they say, "Aha. Is it not true that there is dilution, because there were 21 million and now there are 42 million potentially outstanding, which doubles the number of bitcoin?"

I'll explain the difference using a stock example so everybody can understand it. Let's say that you own 10% of a company that has 21 million shares outstanding. If the company issued another 21 million shares to other personages, you would no longer own 10% of the outstanding shares; you would own 5%. But if the company gave 21 million extra shares, collectively, to all the owners, then you would still own 10%. The question to ask in relation to dilution is: How is the original security distributed? If it's a sale to other owners, then you're being diluted. If it's being given to you, you're not diluted.

If, like many people, you decide to sell your Bitcoin Cash to take whatever fiat cash you can for it, maybe that's a wise decision or maybe it's a very foolhardy decision; time will tell which it is. That might end up being the decision that provides less value, but it's your decision. That has nothing to do with the characteristics of the currency. But it might be true that the two will ultimately have identical values. At the moment, one has a lower value due to intense selling pressure, which is really a function of the current operational realities that might be very different 90 days from now. That situation could be one in which Bitcoin Cash might rise a lot. That, by the way, is one of the reasons we started a fund for Bitcoin Cash.

I'll wrap up this part of the discussion by turning back to the balance sheet and everything else I talked about before. Let's say that we raised something like $2.5 million for the Bitcoin Cash fund—I'm just picking that number out of a hat. That doesn't sound like a lot of money to raise. You might think, "How can you make a lot of money by raising $2.5 million? What could that possibly do for a company with over $5 billion of assets under management?" Here's what it could do. If I'm right, and Bitcoin Cash appreciates 20x—I choose that number because, crudely speaking, it currently has 5% to 7% of the value of bitcoin.

If Bitcoin Cash were to go up 20x, the $2.5 million would become $50 million. HK would earn a 20% performance fee on that $50 million which would be $10 million. I'm ignoring the $2.5 million cost to keep it simple, so it wouldn't be quite as much. You know what FRMO's revenue share percentage is, and you know the percentage of HK that FRMO owns. There's no meaningful expense associated with that performance fee, and you can see what it does to the bottom line of HK. That's nearly $10 million of revenue, but also nearly $10 million of pretax income to HK, crudely speaking.

How many dollars of assets under management would I need to raise, institutionally, at a fee of 20-25 basis points in a year to generate $10 million of revenue? Well, just for the sake of argument, at a 25 basis points fee, the coefficient of expansion would be 400x. So, you would take the $10 million of revenue and multiply it by 400, which is $4 billion. That's how much money you would have to raise to generate $10 million of revenue in conventional asset management.

From our narrow perspective, it would mean increasing our AUM by not quite 80%. To increase our AUM by 80%, can you imagine how many meetings, how much travel expense, how many employees, how many requests for proposals, and other back office work that would entail? There's no way, even if we accomplished that feat, that we could ever obtain that kind of profit margin. Now you get an idea of our strategy.

It's worth mentioning that we had this strategy a couple years ago, but it was not actionable until an idea was formed that gave it life. We basically had to spend 24 months with a large cash balance, waiting for an idea where we could actually practice what we preach. Hopefully, we'll have more ideas. We're not going to get them every day, but they do come along periodically.

This should give you a sense of the operating leverage of this business. Sometimes we don't call it operating leverage; we call it optionality. Now you understand how powerful it really is. And that's just one vector. We want as many vectors as possible, and we want them to be differentiated. In the fullness of time, if we have enough of them, there will always be at least one or two that are working.

We are hopeful that we can eliminate this lumpiness of profitability if we have enough successful vectors. That brings me to the next question.

Question 6

What do you hope FRMO Corporation will look like five years from now, and how do you hope to get there?

Murray Stahl – Chairman & Chief Executive Officer

To recapitulate what I just said, we'd like to have a greater variety of vectors in the investment management business, so we could eliminate the lumpiness in the cash flow. If we were to achieve that goal, we'd have much more liberty of action into possibly acquiring a controlling stake in a business enterprise from which, if it were available at the right valuation, we would get value for the cash outlay. Then we'd just have more cash flow.

It would be a business that we would know something about so, for instance, it won't be biotechnology, but some business that we are familiar with and in which we could have a modest management role, leaving the day-to-day operations to the management. We would basically have a business from which we could generate a lot more cash and invest much more aggressively, taking much larger positions in the few areas that interest us. That would be the idea—that's what we hope to look like in the future.

At some point, if we have enough cash flow, we might pay a dividend. It's quite possible, but we're not there yet. If you pull out an FRMO balance sheet from not that many years ago, you'll see how different it is from this balance sheet, both in the number of categories as well as the magnitude of the total assets. It's a big change. I daresay—I'm sure you'll ultimately have to agree with me—that if you look at the companies listed in the United States, you'll see plenty of them that don't have anything remotely close to this balance sheet, yet they have pretty robust market capitalizations from what I can see.

Mr. Bregman has written me a note to remind me to answer the question regarding a number for FRMO's GBTC investment. I didn't provide the number of GBTC shares, I simply said, "Assume the market value of FRMO's GBTC exposure, directly and indirectly, is roughly 3% of our investable assets." If you take our investable assets and divide it by 3%, you'll get the idea.

The number I would use as the denominator is the shareholders' equity attributable to the company. The reason I would do that is that the non-controlling interest, which is HK Hard Assets, has no bitcoin in it. The shareholders equity attributable to the company is $105.6 million. If we take 3% of that, it comes to roughly $3 million-odd. If you divide that number by the current price of GBTC, it won't be exactly right, but you'll be very close to the actual number.

Then there's the handful of bitcoin that we generated from mining, which I'm excluding. For a broader view of our cryptocurrency exposure, although I don't think it changes anything, you could include the investment in Digital Currency Group in our cryptocurrency vector, and you'd get a pretty good idea of what it is.

I'll thank you once again for your interest in our company and for the many good questions you sent. We will reprise this in three months. Thanks again and good afternoon.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation.

DISCLAIMERS: