Operator

Good day and welcome to the FRMO quarterly conference call. As a reminder, today's call is being recorded. At this time, I would like to turn the conference over to Ms. Thérèse Byars.

Thérèse Byars – Corporate Secretary

Thank you, Connor.

Good afternoon, everyone. This is Thérèse Byars speaking and I'm the Corporate Secretary of FRMO Corp. Thank you for joining us on this call. The statements made on this call apply only as of today. The information on this call should not be construed to be a recommendation to purchase or sell any particular security or investment fund. The opinions referenced on this call today are not intended to be a forecast of future events or a guarantee of future results. It should not be assumed that any of the security transactions referenced today have been or will prove to be profitable, or that future investment decisions will be profitable or will equal or exceed the past performance of the investments. For additional information, you may visit the FRMO Corp 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 2021 third quarter earnings.

A summary transcript of this call will be posted on the FRMO website in the coming weeks. Now I'll turn the discussion over to Mr. Stahl.

Murray Stahl – Chairman & Chief Executive Officer

Thanks so much, Thérèse. Before I start, Steve, do you want to kick it off or should I?

Steven Bregman – President & Chief Financial Officer

No, please, you go ahead.

Murray Stahl – Chairman & Chief Executive Officer

Okay, great. Thanks to everybody for joining us on the FRMO call. As you can probably see from our financial statements, we managed to get record shareholders' equity, record total assets, and I'd say we're doing okay. Let me just point some things out, some that are obvious and some that are not so obvious. As you can see from the financial statements, the cash level remains relatively robust. We intend to keep it at about that level. I don't expect any radical changes there. There are some aspects of the balance sheet that are not so obvious, but are worth talking about, and then we'll actually go to some interesting things about Horizon Kinetics.

The short sale positions, at the moment, are about 99% hedged. That doesn't mean if something really bad happened we couldn't take a mark-to-market loss on them, but there are hedges on virtually everything. We have always had some hedges on, but at the moment—for all intents and purposes—we're fully hedged. The reason for that is the market's valuation is very high and there is some market exposure there and we don't want to have too much.

The next item that's not so obvious on the balance sheet, as you can see in the line under Total Assets, is the Investment in Horizon Kinetics, which is a $12.9-odd million figure. Horizon Kinetics itself has over $160 million of cash and marketable securities on the balance sheet—and that might be a conservative statement. For instance, just like Horizon Kinetics itself carries its investment in Digital Currency Group at cost, FRMO carries its investment in Digital Currency Group at cost. When I quote that Horizon number, or cash and marketable securities, I'm quoting the number at cost. The cost basis in Horizon Kinetics is virtually identical; the difference is a rounding error.

If we own, in round numbers, 5% of Horizon Kinetics—we actually own a little less than 5%—that would include 5% of its $160 million in cash and marketable securities. Conservatively stated, that's about $8 million. So when you subtract $8 million from that $12 million Horizon Kinetics investment listed on the balance sheet, that implies 5% of Horizon Kinetics is worth $4-5 million, which suggests the entirety might be worth $50 million. One might question whether that is an appropriate valuation..

Another financial element that goes to Horizon Kinetics but impacts FRMO is that there's a fair amount of uncrystallized performance fees. Who knows if we're going to get it, but if everything holds up, we might collect those incentive fees in Horizon Kinetics. That would significantly impact FRMO's cash flow and you might wish to think about the revenue stream and what that is worth in the valuation. We don't know what the revenues are going to be year by year because performance fees are, of course, variable. That's why they're performance fees.

Last but not least, something else that's not so obvious: On January 12, 2021, we launched an ETF called the Horizon Kinetics Inflation Beneficiaries ETF, and that's done remarkably well. Not just in performance but in collecting assets. As of last night's close, we had $268 million in assets under management just in that fund alone. In the last couple of years, we haven't had positive cash flow in terms of AUM; we had negative cash flow. That's reversed itself in 2021, and we now have, I would say, not inconsiderable inflows.

That's how the financials are doing. As I said, we carry Digital Currency Group at cost. Now you might want to know the values of the key assets—I'll give you them verbally and we're going to put this in tabular form on the website so you don't have to remember it.

There's implied exposure to the Bitcoin Investment Trust (GBTC)—and I should tell you that Bitcoin Investment Trust actually trades at a discount to net asset value. The reason that's important is that if it becomes an ETF, which it might, it's going to trade at net asset value. In any event, the implied share count is 560,564, and the implied FRMO share of that market value, as of the date of the financial statement, is $28,050,000 in round numbers.

Even though this next one is not a new position—it's small enough that we never really broke it out, but it has relevance to the Bitcoin Investment Trust position—we own, also via the funds, 5,776 shares of something called the Bitcoin XBT or Bitcoin Tracker. It's actually a Swedish security. As of the last reckoning, it was worth about $1.6 million. And then there are lesser positions that we own in the funds. We own a little bit of Bitcoin SV, which is one of the forks. It's only worth, at the balance sheet date, $19,000, but it's worthwhile mentioning. We own, indirectly through the various funds, 1,565 shares of the Ethereum Classic Trust. This is a Grayscale Digital Currency Group product. It's only worth about $18,000 on the financial statement, but it's there.

We also directly own a piece of the Bitcoin Investment Trust, another Grayscale product. We have 23,620 shares, rounded to the nearest share. That was worth about $114,000. We own Digital Large Cap Trust, and that was 1,374 shares worth a lesser amount, $25,000. We own a piece of Litecoin Investment Trust, 5,375 shares worth about $96,000; 549 shares of the Zcash Investment Trust worth, at the date of the financial statement, $7,700—these are all Grayscale products owned through the funds. I'm rounding, obviously. We own some Bitcoin Gold indirectly through the funds. I might talk about Bitcoin Gold a bit later. It's one of the forks. With respect to Bitcoin Gold, FRMO owns 210 actual coins worth about $8,000.

The following coins we have owned directly in FRMO itself. We have 88.5 bitcoin that we mined. We own directly 7,644 shares of the Bitcoin Investment Trust (GBTC). We own 714 Litecoin. We own 35 Ethereum coins. We own 661.7 Ethereum Classic coins and we own 55.6 Zcash coins.

There's one more asset that needs to be considered: We own 28.4% of Winland Holdings, formerly known as Winland Electronics, and there's mining going on there. This is not FRMO's share, but Winland itself owns 18 bitcoin. Multiplying FRMO's ownership interest by that quantity gives us an implied quantity of 7.3 bitcoin. Those are the major holdings. Now, I believe there are some questions on the nature of the holdings, which we'll get to in the Q&A, so I won't cover it.

You can't forget that one year ago we were in the throes of the first stages of the Coronavirus pandemic. And I think I made the statement to someone that we don't really have a lot of people involved in Horizon, we don't really have a lot of overhead, so we're not going to be negatively affected in the way a lot of businesses are. A lot of our assets are, more or less, immune from the pandemic effects. If anything, if it results in inflation, that will probably be a positive factor for us, not a negative one. So far at least, that's what's happened.

In terms of Horizon, a lot of what we do continues to be special situations. We've got some ideas on other products, new approaches that might be taken in the world of ETFs, and other fund ideas. Among them: we did a private placement a year ago for the Canadian Securities Exchange. That's done reasonably well. That's actually a private investment. We also did a private placement for something called Diamond Standard, which you might see in our financial statements. We actually own a little bit of Diamond Standard itself, which we haven't talked about before. Diamond Standard is a private company that's engaged in creating coins, not unlike crypto, except the coins will actually hold diamonds.

The idea is to take a physical sampling of diamonds and put them in the coin. The difference is that they've developed a way to make every physical sample statistically identical so they have the same value in terms of gross clarity, carat weight, color, and so on and so forth. Ultimately, the idea is to create an ETF, or maybe more than one ETF—actually holding diamonds. In other words, make diamonds a homogenous asset class, as opposed to a heterogeneous asset class like it is now, and actually create a new, tradeable asset class, making diamonds a real investment for people. So, we started a fund to just invest in Diamond Standard. We at FRMO bought a little Diamond Standard ourselves and Horizon Kinetics has a little Diamond Standard, so we'll keep you updated, and we'll see how that goes.

I think we've been fairly busy. We're working on another deal, which I'm not going to talk about right now, but we're in the process of doing another capital raise for another interesting investment. When we complete it, I'll certainly disclose it to everyone. Those are the main points. Steve, did you want to add anything?

Steven Bregman – President & Chief Financial Officer

No, I'm listening avidly.

Murray Stahl – Chairman & Chief Executive Officer

In that case, I don't want to take up too much time because I know there are a lot of questions. I don't know what they are, but I'll try to answer every one. If I don't answer them or if I go overtime, we'll do an overflow call like we did last time. We want to get every question answered.

Questioner 1

What is FRMO's investment in Digital Currency Group? What is that investment on a look-through basis to Coinbase, net of any fees or promotion, to Digital Currency Group? If or when Coinbase goes public, do you expect Digital Currency Group to distribute the shares, and then will those be held on FRMO's balance sheet as public securities?

Murray Stahl – Chairman & Chief Executive Officer

Okay, so let's go backwards. Coinbase is public right now. As far as I know—and it might change—it appears to be the intention of Digital Currency Group to hang on to the Coinbase shares. The only ownership we have on a look-through basis to Coinbase is via Digital Currency Group. So, at the moment, there's no reason to believe that we're going to end up with any shares of Coinbase. We own, as best as I remember, 353 shares of Digital Currency Group. The number of shares outstanding is about 700,000. You can figure out our ownership interest. Horizon Kinetics itself owns, give or take, the same number of shares.

There's a lot going on in Digital Currency Group, not the least of which is that there are tens of billions of dollars in assets under management at Grayscale, the biggest of which is the Bitcoin Investment Trust. But there are other trusts as well. It's a very valuable entity. The general rule of thumb in the world of investment management is to say an asset management company is worth 3% of assets under management. In the case of Grayscale, you'd probably apply a higher standard, but one can debate that. In any event, let's just use that figure for our purposes.

Let's say there are $30 billion of assets under management at Grayscale. I'm just giving you a number that's rounded, and deliberately rounded down so we can work with it over the phone. You can look up the exact number on their website and apply the same calculations to derive a little more precise result. Right there, with 3% of $30 billion, you've got $900 million. I personally would say it's a bigger number, but even at 3%, it's bigger than the investment in Coinbase, even at the elevated Coinbase market value. There are a lot of private placements in Coinbase. There's also cryptocurrency that Grayscale owns directly. There's a tremendous amount of value in Digital Currency Group from what I know. I don't think the investment will stand or fall by what happens in Coinbase. Of course, we're very gratified there was a big success in Coinbase. That's about as far as I can go without disclosing anything that's proprietary to Digital Currency Group, but I hope that's enough information.

Questioner 2

Does FRMO own any crypto exchanges and, if so, which? And how are they valued?

Murray Stahl – Chairman & Chief Executive Officer

To begin with, we don't own any crypto exchanges. That's deliberate. The reason is because what is almost universally called a crypto exchange is not an exchange. In the Security & Exchange Commission parlance, exchange has a precise definition. An exchange, among other things, is an SRO. SRO stands for Self-Regulatory Organization. I'm using terminology at this point a little more loosely just to illustrate the point—an exchange actually has a regulatory aspect. It applies rules and enforces those rules with regard to those who trade on that exchange, and it does it in conformity with the existing securities laws of the United States of America. If it's a commodity exchange, then it'll be the securities laws and regulations that are promulgated by the Commodity Futures Trading Commission.

In the world of crypto exchanges, there's no regulation. Really, they are brokers. They don't have a self-regulatory government function in that sense of the world. Therefore, it's too early to be involved in what people call cryptocurrency exchanges. All I can tell you about the so-called crypto exchanges is that, in the last year or so, there's been an enormous consolidation. Again, I prefer to call them brokerage firms. They're just matching buyers and sellers, unlike an exchange, which regulates the players and has rules and enforces them.

It's not clear how many of the crypto brokerages have the scale to survive. A lot of them will do something an exchange would never do: They'll maintain the securities inventory for the purpose of facilitating transactions, just like a market-maker would. You could say that market-makers facilitate transactions but they're taking market risk. One of the characteristics of a true exchange is that it doesn't hold securities, an exchange doesn't take market risk, it doesn't hold inventory. Why not? If the exchange were to hold inventory, then it becomes part of the market, in which case, how could it possibly be a self-regulatory organization and administer the rules and regulations with the level of objectivity that is required? It would have positions either long or short, and there'd be an inherent conflict of interest. That independence and objectivity permits it to immediately and, as they say, without fear or favor, close out positions of traders who can't maintain their margin balance. Participants take risk, but the exchange doesn't.

One of the required characteristics to be a regulated exchange is you've got to have no securities inventory and you've got to have no short positions. You have to be neutral. None of the cryptocurrency exchanges, none that I've seen anyway, are that. They can benefit or not benefit from certain trends within the cryptocurrency markets. That's why I haven't invested in them and, at the moment, we have no plans to do so. We had an opportunity some time ago to invest in one of the cryptocurrency exchanges—I should say so-called cryptocurrency exchanges—but we declined for reasons that I just enumerated, and I think we're pretty glad that we did.

Questioner 3

Does FRMO own any Coinbase directly or indirectly?

Murray Stahl – Chairman & Chief Executive Officer

We don't own any Coinbase directly. As noted previously it appears to be the intention of Digital Currency Group to hang on to the Coinbase shares. The only ownership we have of Coinbase is on a look-through basis via our Digital Currency Group shares.

Questioner 4

What impact has the IPO of Coinbase had on the valuation of FRMO's investment in the Digital Currency Group?

Murray Stahl – Chairman & Chief Executive Officer

Well, I would say it's nice that it's appreciated a lot. But there are so many wonderful things happening in Digital Currency Group, it's not the major driving force, I would say. The major driving force is the expansion of the business of management, and there's a very extensive investment portfolio in Digital Currency Group. Many good things could happen with that portfolio, and some have already. I wouldn't rate the failure or success of Digital Currency Group on what happens in Coinbase, although Coinbase is really a big success. There's a lot more going on in Digital Currency Group.

Questioner 5

Since Mr. Stahl is an expert on and a holder of bitcoin, would he share with the listeners how many years before one bitcoin Satoshi is worth one cent of USD? What are the greatest risks to not reaching a valuation whereby one bitcoin Satoshi is worth one U.S. cent? Would Mr. Bregman respond to this question with his thoughts as well?

Steven Bregman – President & Chief Financial Officer

I will just say, as I said yesterday during an hour and three-quarters talking about our large investments in Texas Pacific Land Corporation and Bitcoin—and I hope this doesn't scare people—I believe in fuzzy thinking. Meaning, I'd rather be correct as to direction and order of magnitude than with precision per se. You can be pretty precise, if you're targeting driving 35 miles an hour or 37 miles an hour, but maybe you're going the wrong direction on a highway onramp. I never even considered thinking about exactly when the price of Bitcoin relative to U.S. dollars will be at a certain level or not.

What I'm concerned about is that conditions and circumstances continue to change in a way that lessens the risk of holding bitcoin and increases the success of it. That, to my understanding, is really governed by the major risk of Bitcoin, which is whether it's accepted or not by people, because that's what makes it money. All the evidence is that, day by day, there are more people and more institutions—and, importantly, institutions that now have vested interest in its success—that keep building and proliferating. Beyond that, there are certain kinds of calculations that, to me, seem not to be the best use of time. As long as things are going in the right direction, I'm satisfied. That might be a little vague. You might have a better idea about specificity, Murray.

Murray Stahl – Chairman & Chief Executive Officer

I'll give you my view. We don't know how Bitcoin is going to be successful, but we're pretty confident it's going to be successful. How can you say you're confident it's going to be successful if we don't know how it's going to be successful? I wrote something a while ago in one of the Compendiums and it dealt with the fact that there are 40 cryptocurrencies that have essentially the same monetary policy as Bitcoin. Some of them are actually forks of Bitcoin, like Bitcoin Cash and Bitcoin Gold.

Therefore, you have two possible outcomes. The first is that in the other cryptocurrencies you just don't get network effect. If they achieve network effect, they may have some value, but they won't have a lot of value. You might make money on those, but the bulk of the value is going to reside in Bitcoin. If that happens, you'll have some truly remarkable value in Bitcoin.

I personally don't believe that's the way it's going to happen for Bitcoin. I believe that many of the cryptocurrencies—of that 40 that have essentially the same monetary policy—are going to be adopted. They might not develop as big a network effect as Bitcoin, but essentially they have the same monetary policy. As such, they're not going to have radically different valuations than Bitcoin, even if Bitcoin has the same market capitalization. Ultimately, what's going to have to happen—or what should happen—when crypto ETFs are created, is that there will be much more logical ETFs for crypto. For example, rather than just a selection of the largest cryptocurrencies, there could be an ETF for all of the coins that have the same monetary policy, meaning, those 40. No one's done that yet. I don't want to intimate any product ideas, but that's the way it should be done. Let me give an example of why that's so important.

To repeat the premise, you have two coins that have the same monetary policy. By the law of no arbitrage, they really shouldn't have radically different valuations, although they might have differences in valuation. Let's compare Bitcoin and Bitcoin Gold. Bitcoin Gold is a tiny fraction of the market capitalization of Bitcoin. Bitcoin Gold, of course, was a fork of Bitcoin. You might assert that a fork, in very general terms, is kind of like a spinoff, and it is, but it has some important differences. Unlike a spinoff, you have to collect a fork. In other words, if ordinary Security A, which is cleared by DTCC, does a spinoff, you might like the spinoff, you might not like the spinoff, you might retain it or sell it, but everything else happens automatically. Your ownership record of Security A, and how much of the spin-off you're due, and the delivery of the spinoff to your brokerage address of record are all taken care of for you.

In the world of crypto, you've got to go out and get it. When the Bitcoin Gold fork occurred, many people didn't want it. A lot of what people call exchanges and I call brokers refused to support it. Many people didn't know how to get it. So, there are as many Bitcoin Gold coins on the Bitcoin Gold blockchain, give or take a few, as there are on the Bitcoin blockchain—roughly, 18.6 million. But it's been over three years since that event, and a lot of people who didn't collect their Bitcoin Gold are probably never going to. I don't know the number; I'm just making one up—let's say, ultimately, 4.5 million of the 18-odd million were collected. That's 25%. If Bitcoin Gold, ultimately, is going to have a comparable market capitalization to Bitcoin, well, as a practical matter, you can only get a quarter of the coins, not the entirety of the coins. So, to get comparable market capitalizations, each coin would have to be worth 4x that. But that's just one valuation differential.

There's also the factor that the Bitcoin Gold market capitalization is an insignificant fraction of Bitcoin. Again, I'm making up a number—I don't think it's far from reality, but I just want to make it easy to explain on the phone—but let's say it's 1% of the Bitcoin market capitalization, although I think it's actually less than that. Bitcoin Gold has to appreciate 100x just to get to the Bitcoin current market capitalization, and you've got to multiply that by four because we're going to learn that only one-quarter of the coins actually got collected, then that's 400x appreciation just to get to the Bitcoin level. Let's say Bitcoin appreciates 100x; that's 400 x 100, that's 40,000x.

Theoretically, somebody could put $1,000 into Bitcoin Gold and, if my theory is right, that $1,000 can appreciate 40,000x. Ultimately, that's how I believe it's going to happen. You have to make the same calculation for the other 38 cryptos whose monetary policy was, in one way or another, derived from Bitcoin. Each one has a slightly different number. In the case of Zcash, for example, it wasn't a fork, so more people got the coins, so you have to do an adjustment for that. On the other hand, if the market value is a different percent of the Bitcoin market capitalization than Bitcoin Gold is, you have to make those calculations as well. Zcash is also not as far advanced in the total coin issuance to date, because Zcash was put out in the market some years after Bitcoin.

All those things being said, I think, ultimately, a whole bunch of Bitcoin-derived or related coins are going to have comparable market capitalizations. So, you can make a lot of money on Bitcoin; you might make much, much more money on the others. That's the way I would choose to answer that question. I believe it's going to happen.

I'll take the liberty of rephrasing the question: When do you think it's going to get a much more broad reception? I would say within 12 months of the major countries releasing their own digital currencies. China plans to do it, the United Kingdom plans to do it. I don't think the other major countries are far behind. Once the central banks of the major industrial powers release digital currencies and people are comfortable using and transacting in digital currencies, I think there will be a huge move to acceptance of the cryptocurrencies, at least the limited-issuance ones, and that's how I think it's going to evolve. I hope that's a thorough answer to the question.

Questioner 6

I've read a lot about Bitcoin mining operations being attracted to Texas for various reasons that seem quite natural for the state. I wonder if Murray and the team have ever discussed or thought about how TPL's assets may or may not have opportunity to leverage this development. It seems like a possible, and maybe even unintentional, collision course with the realm of FRMO's varying businesses. Any opportunity to obtain a comment about this from Murray or the team?

Murray Stahl – Chairman & Chief Executive Officer

Obviously, given my position as a board member of TPL, I can't really say anything about it. All I can say is this: there's a lot of gas in Texas that's being flared. But if you have a royalty and your gas is being flared—if you get nothing for it anyway—you have the right to ask for your gas in kind. You can actually ask your gas to be delivered to some point. If it's delivered, you can do whatever you want with it. That's about as far as I can go. That's intrigued a lot of people with the state of Texas and with the natural gas market. Obviously, many people are thinking about it.

Questioner 7

Similar to the gold rush period, where selling the picks and shovels was a good way to profit from investor appetite for mining, what are some ways that investors can profit from the current interest in crypto assets?

Murray Stahl – Chairman & Chief Executive Officer

The short answer is, at the moment it's not really easy. It sounds great that you're going to sell the picks and shovels, but you're not going to take the risk of actually owning the crypto. The primary reason this is being done right now is—and you can see this being done in some publicly traded companies—in the financing element, meaning, trading, or custody of deposits, or lending the crypto. There's really no barrier to entry. The only barrier at the moment is the reluctance of major institutions to be involved, because they're not sure it's going to be successful. Within a year or two, I think there's going to be a plethora of institutions involved, and that might radically change, in a negative way, the profit dynamics of those who want to try the picks-and-shovels theory.

The mining is a necessary part of crypto. It's not the only way you can validate transactions, but it's an important method to pay people for validating the transactions. We're involved in the mining part of it. Anybody can be involved in mining. Anybody can buy what they refer to as a rig. It's really a server, but they call it rig. You don't need to have the whole paraphernalia of mining; you can just put your rig in a hosting facility, and your rent, so to speak, is primarily your electricity cost, and you get billed for it. You can even arrange for the hosting company to sell enough coins during the mining, on your behalf, to pay your so-called rent. Then the rest of it is free, so to speak.

If you're looking to enter, I would say the best way is through mining. If you're only going to have one rig or not very many rigs, you probably want to join a pool to make sure you're paid every day, but that's the way it is right now. There are a lot of companies developing software. Those are going to be the picks and shovels. It's not clear at all which software is going to be needed, and who's going to get paid for it, and what's going to become industry standard. We're a long way from that. One of the big risks in taking the software route is that the really great software, including the Bitcoin operating protocol itself, is open-source code. You might develop some brilliant product and you may be paid nothing for it, although humanity might thank you as being a benefactor of civilization. That's where it stands.

Questioner 8

Under Note 4, there is now listed "Investment A" and "Investment B." In the past, there has only been one investment that has been greater than 10% of total equity. Can you tell us the name of the new investment? Or, if not, some background on what commercial space it operates within?

Murray Stahl – Chairman & Chief Executive Officer

I'll give all the background. It's no great secret. Just to refresh your recollection, "Investment A" is good old TPL and "Investment B" is good old Bitcoin Investment Trust. We probably should say "Investment A" is TPL, "Investment B" is Bitcoin, but in accounting parlance they just don't do it that way.

Questioner 9

From my reading of the third quarter financial statement, there appears to have been a large investment whose name was not disclosed. The most recent statement references an "Investment A," which is present on the prior statements. Now there's a large "Investment B." Since "Investment B" is such a large percent of equity and, thus, very material to future returns, will Mr. Stahl disclose the name of "Investment B" and discuss a bit about why this particular investment was made?

Murray Stahl – Chairman & Chief Executive Officer

To begin with, I obviously disclosed what it is. It's not a new investment. It's just that it appreciated to the level that, under the accounting rules, required some type of disclosure. As I said, the way the world of accounting works, you're not required to talk about the name. The reason is to accommodate a situation like this—let's just say Investment B was some different investment, not Bitcoin, and that I was in the process of buying some more. Obviously, if you're in the middle of buying it, you don't want to tell the world what you're doing. That wouldn't be very bright. So, the accounting rules provide for that type of terminology.

But we bought pretty much what we're going to, of TPL, at least for the time being. As far as bitcoin goes, we're creating more through mining and we're trying to figure out how to get more involved in mining in a variety of ways. It might increase in a different sort of way. Or if we end up mining a lot of coins, at some point we'll have to footnote that and state that the coins are worth X. We may even combine the coin balances in some way to make it clear, like we just did in the more prepared remarks, where we disclosed both XBT, the Bitcoin Tracker and GBTC. Economically, XBT is basically the same thing as GBTC, but XBT is not part of Security B, it's a different security. Anyway, the accounting terminology would refer to "Investment B" as GBTC, but would actually be somewhat misleading if represented that way, which is why we decided that we'll break out the XBT. And it's worth about $1.6 million, as I said. Analytically, when you think about it, I would combine the two.

Questioner 10

What is the second large equity investment FRMO is invested in?

Thérèse Byars – Corporate Secretary

Murray already disclosed that as the Grayscale Bitcoin Investment Trust.

Questioner 11

Can the precise amounts of each cryptocurrency vehicle that is owned be broken out in future earnings statements?

Murray Stahl – Chairman & Chief Executive Officer

We broke it out in holdings. As far as its appreciation goes, this would appear in comprehensive earnings, meaning, it just appreciated. We can look and see how much Bitcoin appreciated in a month, in a quarter, in a year. I can certainly tell you that, but I think it's self-evident what happened positively or negatively. That's why we don't say, "Investment B" appreciated by X percent because I think it's fairly self-evident. But we can do that if people really need it.

Questioner 12

No doubt this will be covered in Mr. Stahl's opening remarks but, just in case, can we get a breakdown of the crypto positions and where they are distributed through the balance sheet of the Limited Partnership lines?

Murray Stahl – Chairman & Chief Executive Officer

I would say that the cryptocurrency stuff is in the cryptocurrency category, except it's not entirely accurate to say that because of how the accounting works. Just to show you how accounting sometimes makes things very clear, and sometimes makes them a bit more complex than we would like, kindly go to Note 4.

In Note 4, we have Cryptocurrency Mining LLC. That's a cryptocurrency investment, even though it's a little different than owning GBTC, and that's a little different than directly owning cryptocurrency itself like Bitcoin. Similarly, we have Cryptocurrency Mining LLC II, which is, again, a bit different.

Another little footnote about that: let's take the HK Cryptocurrency Mining LLC. You'll see a May 31, 2020, value of roughly $38,000 value, and a February 28, 2021, value of $31,000. The LLC assets are the mining machines, and those balances show that the value is down. Yet, the LLC is more profitable than it's ever been. In the most recent quarter, which ended March 31, we had the most profitable quarter we ever had by far in that LLC, and that's continuing so far through April.

What those figures reflect is that we depreciated the machines; they run down. We have machines that we bought more than three years ago, and they're fully depreciated. We have no value in them whatsoever. If, instead of zero, we assigned them the value of a penny, the return on assets would just be astronomical. But their accounting value is zero and you just can't use zero as the denominator.

Anyway, in answer to your question, I think we read out all the cryptocurrency amounts in detail and, at the moment, the mined currencies are not that much money. If they get big enough, we're going to create a category for them. We'll just say Mined Currencies. It'll be on the balance sheet somewhere and it'll be clear to everybody. Right now, it's just not very big. Let's put it this way: if you take all the mined currencies together, they're worth something like $5.4 million.

Questioner 13

Can you provide an inventory of cryptocurrency and shares of securities owned by FRMO and entities?

Murray Stahl – Chairman & Chief Executive Officer

Well, I think we pretty much did that. We have some small holdings of different securities. It's not like it's a great secret. Most of our security holdings are through the funds, and the funds don't make any great secrets of their holdings. The securities you're likely to see—there might be the odd exception here or there—are those that you would see in the Horizon Kinetics Inflation Beneficiaries ETF. We just own them directly, because we bought them before there was a Horizon Kinetics Inflation Beneficiaries ETF.

Lately, we've been buying shares of Horizon Kinetics Inflation Beneficiaries ETF. It's not a big number. If it gets to be big, I'll certainly break it out and disclose it. Right now, it's just not a big deal so we leave it the way it is. But we've been buying shares of it. You shouldn't forget that we also own shares of the RENN Fund. That's another security that we don't break out because the actual share amounts are disclosed on the SEC Form 4 filing, which is pretty much daily, but we can do that if people require it.

Questioner 14

In the last conference call, Murray Stahl said that FRMO would provide a table of its holdings, including crypto, Horizon Kinetics Hard Assets, Texas Pacific Land Trust, etc. That would be nice as we could follow quarter by quarter the evolution of these holdings and have a clearer idea of the weight of each holding in FRMO's net asset value. Are you planning to publish such a table?

Murray Stahl – Chairman & Chief Executive Officer

I actually have the table. It was prepared for me. When I read the numbers, I was reading off that table. What we're going to do, whatever day the folks get around to doing it, they're going to put that table somewhere on the website so everyone can see it.

Questioner 15

On the last call, I had sent in a question. Instead of only reviewing it verbally on the conference call, can you also please begin to list exactly what the exposures are of the major assets that everyone wants to know about? A small table that shows the number of look-through shares of TPL, bitcoin, mining equipment, Winland Holdings shares, etc. would be very helpful. If that is not possible for some reason, my question is what specifically prevents you from doing this? Choice? Specific regulation? Murray mentioned that he was amenable to something like that and that they would look into it. Obviously, I opened up this quarterly report hoping to see something like that and it's not there. Is there any update on that?

Murray Stahl – Chairman & Chief Executive Officer

Well, the update is that the table will be somewhere on the website. I'm not going to figure out where on the website they're going to put it, but there are other people who will put it somewhere on the website. It'll be obvious to everybody it's there. It'll be properly marked and you'll be able to click on it and see the same table that I'm looking at.

Questioner 16

We see a new section to Note 4 under Investment Concentration that identifies an "Investment B" as a concentrated investment for FRMO. It is appreciated you may not want to, or be able to, divulge exact details at this point if it's a new investment. But any insight on "Investment B" would be appreciated.

Murray Stahl – Chairman & Chief Executive Officer

Obviously, we're reading every question, even though some are very similar to others—we want to make sure we're answering them all. For this one, I guess, as the lawyers would say, asked and answered. I think we gave you the information, and we'll provide the table. If anything is unclear in the future, we'll make adjustments. We've revealed what "Investment B" is, and I can't state enough that it's been around for a while. Its appearance just reflects that it has appreciated to the level where the accounting standards required mention of it. Now you know the way they do it.

Questioner 16 (cont.)

The fair values of some of the limited partnerships have exploded, presumably due to TPL featuring heavily in those portfolios. Would it be possible to indicate what other investments and relative concentrations those portfolios are comprised of?

Murray Stahl – Chairman & Chief Executive Officer

Well, the concentrations are pretty similar in percentage terms to the concentrations you see in FRMO. They're not radically different. There are two securities, at least as far as the Polestar Fund goes, that we're in the process of buying. Right now, they're not big positions, but one day they will be and we can explain more in detail what they are. I'll just say that, in one way or another, they're in character of all we've been doing thus far. Little by little, we're adding those positions. In the fullness of time, we'll disclose it. You know, it's just our policy that when we're in the process of adding to something, we don't talk about it much. But you won't be shocked when you find out what we're up to.

Questioner 17

I've noticed Horizon Kinetics files a Form 4 almost daily for the RENN Fund. The form lists FRMO, Fromex, and HK Common. Who is the beneficial owner and how many shares does FRMO own?

Murray Stahl – Chairman & Chief Executive Officer

The number of shares that FRMO owns is on that Form 4. What you need to do is add the shares held by Fromex and the shares held by FRMO, and that's on the Form 4. I can be off by a thousand shares because I don't remember every number exactly—FRMO must own, say, 70-ish-thousand shares. Horizon Common is not owned by FRMO. Horizon Common is a separate company. Horizon Common is owned by the original partners of Horizon Asset Management in the original weights when we established the company.

If you want to know what those ownership rates are, and you're interested in the names of the people, if you look at the original Form ADV of Horizon Kinetics, you can see the numbers. Basically, we all owned about 16.6% each. I may be off by a few basis points. But my personal holding was something like 16.6%, and that's the weighting it is right now.

It is also observed that Horizon Common is a big partner in HK Hard Assets, but that's as far as the relationship between Horizon Common and FRMO goes. Also, I should say, Horizon Common owns some shares of FRMO. Crudely speaking, let's say, roughly 60% is owned by FRMO and its subsidiaries, and the balance is owned by Horizon Common. That'd be about right.

Questioner 18

What does the Diamond Standard asset represent for the RENN Fund? Regarding diamonds, how are FRMO and RENN Fund going to invest in this asset class, and what does the Cayman entity in the RENN Fund invest in? Any general updates on the RENN Fund?

Murray Stahl – Chairman & Chief Executive Officer

The RENN Fund is a closed-end fund, and that's one of the reasons we established control. It's an ideal structure for investing in a private company like Diamond Standard, because we don't need to maintain daily liquidity for redemptions, the way a mutual fund or ETF does. If Diamond Standard is as successful as I personally believe it will be—and I could be wrong—let's just say it can successfully create the diamond asset class. Incidentally, not that many weeks ago, it did its first coin offering; they actually offered the diamond coins. I believe—again, I'm going to be off by a few bucks—they sold $23 million-$23.5 million worth of coins.

Diamond Standard's strategy is to create the coins first. You have to put enough coins in the marketplace so that it's actually an investible asset class and an ETF can actually buy, trade, and retain the coins. The first step is the coin offering—it was a pretty good success, I would say.

Better than I thought was possible. There are always the growing pains and the technical details. It's a brand-new asset class, after all. I won't bore you with the technicalities of custody and transfer, but there are always the little issues that you could never have anticipated unless you actually start. They're really little issues and they're all being worked out.

I look forward to the next offering. If it works, think about the RENN Fund, being a very small fund, but with exposure to an asset class nobody else has—if it works, it's going to be more than meaningful to the RENN Fund. It's going to be a very, very big deal.

The cost basis of the investment to the RENN Fund is not big. I don't remember the number exactly—there are too many numbers to keep them all in my head—but I think the number was about $80,000. I may be off by a few thousand dollars but something like that.

The Cayman entity has one primary investment: it owns shares in the Mesabi Trust. FRMO owns some shares in Mesabi Trust. It's not that big an investment. The Mesabi Trust is in some ways like what TPL was when it was a trust. One difference is that whatever the Mesabi Trust income is, it just pays it out. The second difference is that it's not oil and gas; it's iron ore. It ended up being a good investment because iron ore prices are just about at their record high.

A company called Cleveland Cliffs Mining operates their property, and whatever they take out of the ground, they pay Mesabi Trust their pro rata share. Mesabi doesn't require a lot of operating personnel, it doesn't require a lot of work. And it's in the RENN Fund. In fact, there's a problem holding Mesabi in the mutual fund, because—and you'll think this term is ridiculous; this is actually a term—it generates what's known as bad income.

The dividend is actually very good because it's not taxed at the dividend rate—it's taxed at the capital gains rate and you also get a depletion allowance. So, it has a really good tax structure. But in the mutual fund, it's considered to be bad income; mutual fund regulations say you can only have a certain amount of bad income.

This wouldn't have been a problem were it not for the fact that iron ore prices went up a lot, so the dividend rose to a level that was beyond what is permitted by the mutual fund rules. You can look at their website, you can see how much the dividend went up; it went up a lot and it might go up more. That would be a problem because it'll be taxed at a much higher rate. We don't want that.

What is the remedy? If you buy the shares, you can choose to transfer them into a corporation in the Cayman Islands, and then you take the dividend and you either send it out to the corporation itself or you just leave it in there. Then it's considered to be good income, because now it's the income of a Cayman Islands corporation. The Cayman Islands corporation was created so that we wouldn't have the bad income problem. We didn't create something to be hidden; we created it to avoid this tax problem. Now we don't have a tax problem with the Mesabi Trust. That's pretty much the fact pattern.

Questioner 18 (cont.)

What are the mining economics as of today for FRMO?

Murray Stahl – Chairman & Chief Executive Officer

Depending on the type of equipment, the mining economics might be a little bit better or a little bit worse. For example, in some of the crypto entities, we're still operating machines that we bought over three years ago. Technically speaking, they're obsolete, but they're fully depreciated so they have no balance sheet value. In terms of return on capital, the return is astronomical. It's hard to imagine that it could get any better in the mining of crypto.

Before you get too excited about that, just bear in mind that in about 1,118 days or so, we're going to enter the period known as the Bitcoin halving. What's going to happen, assuming the Bitcoin price doesn't change, and everything remains constant—which is probably a bad assumption—is the revenue's getting cut in half. But the expenses will remain, more or less, the same. And the mining economics won't be so great unless the bitcoin price goes up a lot, which might actually happen. In that circumstance, it would be just as great as it is now. That's basically what's going on in mining.

In terms of the cost of the equipment, because mining profitability is so great at the moment, the equipment is expensive. I'm reluctant to buy a lot of equipment because we're approaching the halving. Unless things change, the economics of the equipment is going to decline. That said, it's not like we're not going to buy any equipment—we might buy some parts to build our own machines, like we did previously. We might do it that way. We might find a deal on used equipment, because we have our own repair facility in HM Tech. There might be new generations of equipment. We might buy that just to try it out. A lot of possibilities. Anyway, I hope that's comprehensive.

Questioner 19

One Chicago is still listed as a security exchange investment. My understanding is that the exchange is no longer in business. Why is it still listed?

Murray Stahl – Chairman & Chief Executive Officer

Because as of the 28th of February—or maybe it's the 29th—we didn't get our liquidating distribution and we didn't know what it was. Since then, we've been told what the liquidating distribution is I don't know if we got it. That's why we kept it on the balance sheet, because we didn't know what the amount was as of the financial statement date. At the end of the day, relative to the totality assets, it's pretty insignificant. So, rather than estimate it, we just left it and will wait until we get the actual numbers. The liquidation amount, whatever it is precisely, is a small percentage of what we paid for it.

The reason for the small liquidation payment is that there wasn't a lot of cash on the balance sheet. What happened is that One Chicago's controlling investors just stopped operating the company. In that scenario, whatever you can get out of it, which is mostly liquid assets, you get out of it. The real value is the license and they're not using a license. We ended up not doing as well as we wanted. The problem for us was the big holders. Basically, we were partners with three big companies: Interactive Brokers, the Chicago Mercantile Exchange, and Cboe. We were a tiny rounding error in that investment, so we didn't have any power to change the outcome. I guess, to us, it was very interesting. The three large companies didn't want to continue and there's not a heck of a lot we could do about it. I thought it was a worthwhile project to continue, but that was just my opinion.

Questioner 20

Any update on the up-listing of FRMO?

Murray Stahl – Chairman & Chief Executive Officer

No, there have been so many things to focus on, we just didn't focus on that. Not because it's not an important project; there are only so many hours in a day and we just didn't have the bandwidth to focus on it. Between crypto mining and all that that entails, and running the business of Horizon, and a new product, which is the Inflation Beneficiaries ETF, and doing the research and the writing and some other stuff—Diamond Standard being one example—we just didn't have the bandwidth. That's really the truth of it.

Thérèse Byars – Corporate Secretary

Well, if I could add a little something. We also did, a couple years ago, a cost analysis of an uplisting and it was more than twice as expensive as being on OTC Markets, in terms of listing fees, accounting expenses, and regulatory filings.

Questioner 20 (cont.)

Could you provide a status update on ETF offerings after the success of the Inflation Beneficiaries (INFL)?

Murray Stahl – Chairman & Chief Executive Officer

I'll tell you this much. Obviously, I'm not going to announce I have this wonderful idea, because then somebody else will do it first. I think I have one very good idea on what to do. I think I've got another, too, that's good, though I don't know if it's very good. Then there are some others that are not far enough along yet to know if they're good or not. We're working on a variety of ideas.

See, the basic problem/opportunity is that our fund business was the mutual funds. Mutual funds have a lot of disadvantages, just as a structure, relative to an ETF. The problem for us making use of the ETF structure is that the ETF structure was designed for indexes, and we didn't want to be in indexes; we wanted to have actively managed funds. The Horizon Kinetics Inflation Beneficiaries ETF, even though it has very low turnover, is actually actively managed. We can discuss more of that if there are any questions about it. But we weren't going to do anything in ETFs unless we knew we could do it in the active management realm, and it took a while before the regulations were clarified sufficiently so that we were able to safely undertake an active management venture.

It was only within the last 12 months that it became apparent that we could do it. Before then, very, very few people attempted it, and the few who attempted it failed. There were all kinds of reasons for that and not all entirely because of the regulations—although part of it was the problem was that the laws were very unclear. When we felt the time was right, we decided to move. Obviously, there's a period of analysis that has to go into that decision. Then once we said the word "go," it took roughly four months until the creation of an ETF. There's some fair amount of operational work that has to be done.

Anyway, as I said, we have a number of ideas. I look forward to the next opportunity of doing one. When that happens, of course, there'll be full disclosure along with everything else. But at the moment, it's an idea. We haven't filed anything yet.

Questioner 21

For what it's worth, my humble suggestion for a new name, per Murray's idea of taking requests on the call, would be Kinetics Chain. It speaks to both the legacy HK Assets, as well as to the marketable blockchain assets, together conveying the timeless message that the whole is greater than the sum of the parts. "A kinetic chain is the notion that these joints and segments have an effect on one another during movement. When one is in motion, it creates a chain of events that affects the movement of neighboring joints and segments.

Murray Stahl – Chairman & Chief Executive Officer

It's my first time hearing it, so I need to reflect on it. But I certainly will give it due consideration. By the way, I should mention that there were people who emailed in suggestions, and they were pretty good. We would've used one of them. The only problem was, when we actually had our attorneys research the names, each and every name that was suggested to us—and we actually liked them very much—was already being used. We would've used one of those ideas, but it wasn't legally permissible.

The first step, before we devote too much time to any proposed fund name, is to look and see if anybody's using it. You'd be surprised the names that people claim proprietary interest in. We actually had an experience in FRMO many years ago—I won't even say the name because I don't want to start this controversy again. But it was a name we were using for a certain product.

Someone claimed that it was a proprietary name. We said it's a name that's part of popular parlance; it can't be proprietary. It took a few months to resolve that. You never know. You've just got to be careful. Anyway, we'll certainly give it due consideration. Sounds pretty good, but now you know what the first step is.

Questioner 22

Would you discuss your views at length about how the increase in money supply will lead to more dollars chasing the available goods and services to consume? For the available goods and services for consumption with those dollars, what metrics do you consider worthwhile? Specifically curious if there are any readily available metrics besides GDP that you like to use to make that comparison?

Murray Stahl – Chairman & Chief Executive Officer

Well, that's a deep question so I'll give a deep answer. Let's begin with this. It all starts with the budget, the United States budget, or budget deficit, I should say. It's the same problem in other countries, it's the same everywhere, but I'll just use the United States as the example. There's a huge deficit, and it's the funding of that deficit that basically leads to a lot of the growth in the money supply. The U.S. Treasury funds the deficit by issuing notes and bills, which are borrowings. The Federal Reserve then has to buy those securities because no one else is going to buy them at almost zero interest, otherwise the government wouldn't be appropriately funded. The Federal Reserve has to create money in order to buy those securities.

What's the problem in correcting that? Understand how difficult it is to correct. By the way, it doesn't matter who is in the government. You could be for Party A or Party B, it doesn't really matter. Here is what the problem is. I'll use this illustration—this would never happen; it's just taking an extreme proposal just for the purposes of discussion—it's a preposterous idea. But to show you how difficult it is to control the budget, let's just say the government decided that we're going to take Social Security and make it zero. Everybody's check, whatever it is, you're just not getting it. It's now zero. Theoretically, that saves over $1.2 trillion.

Secondarily, we're going to take the defense budget and cut that to zero immediately. If you work for the Department of Defense, whether you're a civilian employee or military employee, you're fired and we're just not going to do anything with the military anymore. We're going to save another $700-plus billion. Now interest on the federal debt is a little bit less than $400 billion—let's just call it $400 billion for this exercise. Let's just say that we passed a law and said, you know what? I know the bond has a coupon on it. We just passed a new law. It's now zero. You add all that up and you say, we'll save $2.2 trillion. If you did that, you'd still have a trillion-dollar deficit. Now you understand the magnitude of the problem. But not really; it's both worse and more complex than that.

Let's say you actually promulgated those laws. Would you, in point of fact, save $2.2 trillion? You wouldn't save anything close to it—you might not save anything. Why? Because the people who get Social Security, a lot of it is taxable. So, you can't cut out that $1.2 trillion and save $1.2

trillion, because some of that goes right back to the Treasury as tax revenue. As a matter of fact, there are people who work for the Social Security Administration and they're computer programmers, they're administrators or whatever, but their income is now going to go to zero. They pay taxes. You're going to lose those tax revenues.

If you really want to take it a step further, there are companies that are not part of the government budget, not government employees, but they're consultants, they sell equipment. Their income is going to zero because their client is the Social Security Trust Administration. The same angle is true with the Department of Defense. For the people who work for the DoD, either civilian or military, their incomes are going to zero. You're going to lose all that tax revenue. Then all the enterprises that sell goods and services to the government—General Dynamics, Lockheed, many other companies—that's going to zero. So, you might not save anything.

And if you look through to third order effects, well, there are companies that do business with General Dynamics and their income's going to go to zero, or nearly so.

You can't solve the deficit problem that way. The same holds true, by the way, for interest expense. You're not going to get rid of $400 billion of interest expense by mandating that all Treasury coupons become zero, because people pay taxes on that interest. As a matter of fact, think about all the banks that own treasuries, and their income on that is going to go to zero, and that—because the interest spread is their income and they're leveraged 10 to 1—would be a disaster. So, you can't do it, much as you might say you'd like to do it.

The most important point, which should be obvious, but I'll state it anyway, is that those deficit expenditures—which the Federal Reserve has to finance by buying the securities—that's a big part of the GDP. Take the three areas of government—not branches like Legislative, Judicial or Executive, but areas—but federal, state, local. Add it all up and those three tiers of government are spending over $10 trillion a year. The GDP is about $21 trillion. So, cut the expenditures, you cut the GDP in addition to cutting the tax revenue. That's what makes controlling the deficit so difficult.

In math they have a term for that. They call it trapdoor mathematics. What do they mean by that? It's a door that works one way, but not the other way. Normally, arithmetic and multiplication and addition is commutative. So, 2x3 is 3x2. It works in both directions. In this case, spending doesn't work in both directions—if you can increase the expenditures, you can increase the GDP, but if you reduce the expenditures by that amount, you might collapse the GDP. Do that, and you make an even worse deficit. You can't get out of it. The bigger the economy is, the more serious the problem is, because you have to spend so much to keep it growing at the 2% or 3% or whatever the policy rate is. It's pernicious. We're past the point of any solution that's reasonable.

Yes, you could take $2 billion off Program A and $3 billion off Program B, but in the context of the numbers I cited, that doesn't mean anything. That's why it's a fairly good bet that currency is going to lose its purchasing power. In point of fact, it is already is, because all you have to do is look at the CRB Index, which is the Commodity Research Board Index. It's up, if memory serves, about 15% year to date and we're not even to the one-third mark yet for the year. If you go to the supermarket, if you pay attention to prices, you'll see they're up on lots of varied items. If you look at the CRB Index, you'll see why they're up. Beef is up something like 15% year to date, poultry is up something like 7%, lumber—I don't even remember the number—is up some enormous number.

One other area that's important is what's called strategic materials—meaning, things that we normally didn't think about or didn't use a lot in the past because we always had adequate supplies. Now they're coming into everyday usage, an example being lithium, which is used in the batteries of your iPhones and your iPads. It's also used in electric vehicles. I wouldn't even dare to quote the price change in lithium year to date. It's so big that every person on this call would just think I'm just making up a number. But it's an outlandish number and it's not even four months old. That's how much it's up.

There are materials you haven't even heard of like neodymium. Those go into electric motors, and create magnetic fields. You've got to have them. Neodymium is up an outlandish amount, too. You just can't move society in some ways, at least not as rapidly as seems to be the current expectation, if the ready supplies just don't exist to fulfill this scale of demands. So, we're getting inflation. That's all there is to it.

When you talk about monetary inflation, you want to reference the theory of Sir Thomas Gresham, Gresham's Law, which is well-documented history—that bad money drives out good. It was designed to describe monetary behavior in England in the 16th and 17th centuries. If you had a recently minted coin on the realm, if you had an old coin that was worn and clipped—meaning, in the old days people would shave off a little silver from the coin and keep it for themselves—you'd always sell a clipped coin before you sold a regular coin. If that behavior goes on long enough, everybody wants to use the debased money and the good coins go out of circulation. It ends up being a problem.

Ultimately, that gets overwhelmed by Thiers' law. Thiers' law is actually the inverse of Gresham's law. It's hard to imagine that both can happen simultaneously, but it does. Thiers' law says good money drives out bad. How is it possible? Well, at some point, people won't even take the bad money, like a store owner who doesn't want to accept the clipped coins that customers are trying to get rid of.

You can see this in the world of cryptocurrency. It's already happening, though most people don't realize it. You can tell, because when most people think about Bitcoin, their remark is always, "How much did it go up?" And it's the wrong metric. The measurement shouldn't be how much it went up. To see what's really happening, you need to take that chart and turn it upside down. Then you see that what's actually going on is the dollar is collapsing relative to Bitcoin. If someone says, "What is Bitcoin? It doesn't represent anything." Well, it could be so argued, but nevertheless the dollar is collapsing relative to that.

The more negative the statements are about Bitcoin, I would say by logical implication, the more negative those same things are for the dollar, and it also applies to the euro and the yen and every other fiat currency for that matter. Those currencies are collapsing relative to these digital bits and it's a very serious problem. At some point, people won't take the fiat currencies, and that's basically what's happening.

The only alternative to the fiat currencies are the cryptos—at least the ones with a reasonable monetary policy—and hard assets. You could say tangible assets, but we say hard. What's a hard asset? Oil, gas, gold, silver, iron, stuff like that. In reality, there's only one underlying hard asset and that asset is oil or, I should say, energy. Why just the one? What about gold, what about silver, what about platinum, what about tin, what about zinc, what about copper?

Well, each and every one of them has the common feature that the biggest cost of mining those assets is energy. But understand, that it's not just mining, narrowly, because you've got to smelt it, too. You don't find iron in a mine; you find ferrite, which is iron oxide. You've got to get the oxide out. As a matter of fact, you don't even find silicon to make solar panels; you find quartz. What is quartz? Silicon dioxide. How do you get the pure silicon out of there? Well, you've got to smelt it, you've got to heat it—just like you would gold, or silver, or iron, or anything else. When the price of oil rises, the price of everything else is going to rise as well.

Basically, that's where we are. Unless somebody can do something about the money creation, so long as the money supply is rising faster than the supply of goods and services, then it's just a question of the law of supply and demand. The purchasing power of that currency is going to decline. Interestingly, just lately the Federal Reserve changed the metric for even measuring the money supply. Until a couple months ago, they'd give us M2 statistics. Now they have something called M2SL. It's not radically different than M2, but they only release the number once a month. They used to release it once a week.

If you go on the St. Louis Federal Reserve website and look at M2SL, you will find the following shocking observation. Roughly 25% of all the money created, 25% of all the dollars—because this is a dollar-based currency—created in the history of the United States of America was created in roughly the last year. Since the supply of goods and services is not rising by 25% annually and the supply of money, at least for the moment, is rising by 25% annually, then if you believe in the law of supply and demand, the currency must lose its purchasing power. It's that simple and it's inexorable. And there's not a lot that anybody can do about it. That's why the situation is so horrific, in my humble opinion. That's why FRMO and Horizon Kinetics are positioned, in an investment sense, the way we are.

We've been positioned that way, as people probably realize, for a number of years. The world was not of that mind, so it didn't do wonders for our performance until the last few months. But that's the way the world was looking at it and we looked at it a completely different way. And that's the way it is. It's not a happy state of affairs, in my view.

Anyway, I hope that gives you an idea of where we stand on the great inflation question and what metrics you want to look at. To summarize, the CRB Index, you want to pay close attention to that. You want to pay close attention to M2SL, and keep your eyes open when you're at the supermarket, and the rest is in the process of happening, as they say. So, I hope that's thorough enough.

Murray Stahl – Chairman & Chief Executive Officer

Steve, do you want to add anything to anything I said?

Steven Bregman – President & Chief Financial Officer

We're in a time that is at so many fundamental inflection points. Usually people have enough trouble just dealing with one, and changes are afoot. When changes are afoot, what used to work stops working. It's very difficult to speak to people who don't have the background to even understand it. There's going to be a shift of wealth, a shift of performance, a shift of fortunes—a shift of fortunes amongst businesses and a shift of fortunes amongst investment managers and companies. It's kind of difficult to even foresee over the next five and ten years, the depth of change I think there'll be. I think FRMO is on the right edges of some of these changes.

Murray Stahl – Chairman & Chief Executive Officer

Thanks, Steve. I guess it remains for me to thank everyone for your attention and your support and all the great questions. And, of course, we'll reprise this in about three months and I look forward to answering your questions at that time. Thanks again for joining us this afternoon.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.
