Old West Investment Management, LLC

April 12, 2019

Dear Investor,

Now that the stock market bull run has celebrated its ten-year anniversary, I must admit I often wonder how and when it will end. We got a glimpse of how it would feel when the market fell just shy of 20% in December. I wasn't terribly surprised by the December swoon, as I have been concerned about many red lights flashing over the past couple of years. What has surprised me though, is the strength of the snapback rally in this first quarter of 2019. Not only has the market recovered, but there is a bit of euphoria not seen since previous market tops. On the last day of March, ridesharing company Lyft went public. Lyft's $911 million loss last year is more than that of any U.S. startup that has ever gone public. Lyft shares were up 8.7% on their first day of trading to much fanfare. Soon to go public is WeWork Inc, America's new-age office leasing company. WeWork's 2018 net loss of $1.93 billion (double the previous year) exceeded their revenue of $1.82 billion. Read this again to be sure you got it right. By contrast, Facebook, Google and Apple were all profitable years before they went public. I smell a whiff of market euphoria. As you can see in your enclosed statement, we had a strong first quarter and April is off to a great start for us.

If I jog my memory of our past U.S. presidents, I have a good recollection of them going back to Kennedy, who was elected when I was seven years old. Most of our presidents had a legal background, and they have had limited interest in the stock market. That has changed with Donald J. Trump. This man is obsessed with the market, and I understand he spends a fair amount of time watching CNBC. He views the market as a measuring stick of his success, and so far, he has a lot to brag about. There is no doubt that the tax cuts he pushed for, and the regulations on business that he has loosened have contributed to increased profits and a higher market. The big question is, "can the market continue this run until the 2020 election?" There is no doubt he will use every trick in the book to keep the rally going. However, Mr. Market has a mind of its own and the next nineteen months have a lot of hurdles and potholes.

As I have stated many times in past letters, one of the biggest problems facing our country and the world economy is excessive debt. Debt strangles growth, and without sufficient growth the market will struggle. Debt has accelerated worldwide for the past thirty years, partly due to historically low interest rates. From 1950 to 1980 the ratio of debt to GDP in the U.S. averaged 1.5 times, but this number has steadily risen since 1980. The ratio rose to 2.4 in 1990, 2.9 in 2000, and 3.6 today.

Debt has risen fifteen-fold since 1980 compared to a sevenfold increase in GDP. Servicing this debt is manageable thanks to low interest rates, but what happens when rates rise? Our annual budget deficit in the U.S. is approaching $1 trillion per year, with total government debt at $21.5 trillion. Imagine what will happen to the annual deficit if rates were to rise to 6%, which is the long-term average.

All major countries in the world are setting records for borrowing, including Japan, China, Italy, France, the U.K., Brazil and of course the U.S. As I have said many times, the most worrisome of these is China, where financial institution debt has risen to over $40 trillion, eclipsing all other countries. The world has never witnessed leverage like this. You don't hear a lot about this issue in the daily news, but in my mind excessive debt will limit growth and prosperity for years to come.

When you look at the holdings in your portfolio, you will see significant weightings in commodity-based companies, along with real estate companies and other hard asset plays. Our team feels these positions offer protection if inflation rears its head. Other than outright default, the only way out of the debt dilemma is to inflate our way out of it. Rising inflation reduces the value of debt over time. Currently there are no signs of inflation and interest rates seem like they'll stay low forever. I am concerned we have higher inflation and higher rates in our future. There is nothing central banks can do to reduce leverage. These are issues that keep me up at night, while most people are popping champagne bottles celebrating the stock market near all-time highs. I know I sound overly negative about the future direction of the market, so I must point out the many good things I see. Unemployment in our country is at a multi-generational low, American companies are competing globally with vigor, and America is the lone superpower in the world today. We are finding plenty of undervalued and overlooked investment opportunities.

In my year-end letter sent to you in January we wrote about our investment in uranium mining companies. Old West partner Brian Laks has done a tremendous amount of research in the nuclear power area, and there is a current situation regarding uranium and Section 232. Section 232 investigations help to determine the effects of imports on America's national security and give the President the ability to address any threats to national security by restricting imports through tariffs. Last year we saw Section 232 involved in the steel and aluminum industry. Brian writes the following regarding a possible new Section 232 ruling regarding uranium, and how it might affect our portfolios.

Section 232 and Uranium

The United States is the world's largest consumer of uranium with a fleet of nearly 100 reactors that require about 50 million pounds per year. Domestic production is only a small fraction of that, at roughly 1 million pounds per year, which means our country is almost entirely reliant on imports to satisfy our needs. Complicating matters, a significant portion comes from former Soviet Union countries, namely Kazakhstan which is the world's largest producer. Given the current political climate, there is understandably some concern about this supply arrangement.

In January 2018, two of the remaining US producers filed a petition with the Department of Commerce to investigate the national security implications of this reliance on foreign imports. They proposed a remedy that would see a 25% domestic quota on purchases, which would offer a lifeline to an industry that has all but collapsed. In July, the Department of Commerce accepted the petition and initiated an investigation into the matter. This started a 270-day timeline with their findings due in mid-April of this year, after which the President has 90 days to act. Electric utilities, the main purchasers of uranium to feed their nuclear reactors, have largely held off on signing new contracts while they wait for a decision to be released.

We believe a positive decision (some form of assistance) will greatly benefit both US producers and companies with development assets. Regardless of the outcome, however, we believe that reaching a decision will be a positive catalyst for the industry overall because it will provide the utilities with the clarity they need to begin contracting the volumes they need for the coming years. With the cost of new production globally well above the current price, utilities will be forced to pay a market-clearing price to secure future supplies from whomever they choose to contract with, whether US or international suppliers.

Our funds are well-situated to participate in the rebalancing of this industry with significant exposure to some of the very best projects in the world, both domestic and global. Our uranium-focused fund is particularly well-positioned with a majority of its assets in a diverse portfolio of producers and developers that we expect will see a substantial upward revaluation in the coming years. As always, we would be happy to discuss this opportunity in detail with current and prospective investors interested in learning more.

Thank you for your continued loyalty and support, and we look forward to growing your money the balance of 2019 and beyond.

Sincerely,

Joseph Boskovich, Sr.
Chairman and Chief Investment Officer