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Value, as in 'valuable'

Mountain Lake Partners, L.P., a value-themed investment fund situated in close proximity to, but at a distant analytical remove from, Silicon Valley, jumped by 26.7% net of fees and expenses in the second quarter, compared to a 20.5% gain for the S&P 500. The first quarter had dealt a net 35.4% loss, nearly double the S&P 500 drawdown of 19.6% (*Grant's*, April 17).

It's the kind of blow you'd typically associate with a head-on auto accident more than with a few down months in an orderly market, though Bernard M. Baruch, a great investor of yesteryear, said he'd borne stock-market losses "that would make the average married man go out and shoot himself." The husband-and-wife team of Mitch Cantor and Patricia Coronado, general partners of Mountain Lake, appear similarly stoical, notwithstanding their lack of experience in losing money. Up until the first quarter of 2020, returns on their 19-year-old partnership, net of fees and expenses, had been running ahead of the S&P 500 (substantially over the first 10 years, narrowly by the end of those not-quite-two decades).

"We begin the third quarter with only 5.8% cash compared to 16.9% at the beginning of the second quarter," Cantor and Coronado wrote to their limited partners in late July. "This is the lowest cash balance in our 19-year history."

Coming to the phone on Monday, the GPs said that the paucity of cash (which had subsequently fallen to 3% of assets under management) was the result of an improving opportunity set; they were finding more worthwhile ideas (meaning ones that, between purchase and disposition, would deliver internal rates of return of more than 10%) than they had the immediate resources to analyze and model.

"We bought six stocks in the second quarter," said Cantor. "They are all hard assets in one form or another, even though they are in different industries. We do think that the money-printing spree will ultimately express itself in inflation," although, he added, such top-down conjecture is not the way that he and Coronado build their portfolio. They rather invest from the bottom up, stock by stock.

"What we see," Cantor went on, "is that there are a lot of opportunities created by the pandemic, as opposed to pandemic beneficiaries. Everyone is after the beneficiaries—the Amazons, etc.—and some of them are great companies. It is not a dig against them, but we are looking for the opportunities that were uncovered by the pandemic as opposed to the ones that are directly helped, and they are primarily in hard assets."

Covid-induced lockdowns destroyed demand and, while they were at it, scrambled supply. "But," Cantor continued, "we think a policy response is likely to produce inflation, at least in those commodities and products where there is some independent reason to forecast purchasing power."

The half-dozen new additions to the approximately $130 million portfolio include EOG Resources, Inc. (EOG on the New York Stock Exchange), which the partners call "the best run E&P company in the country"; Martin Marietta Materials, Inc. (MLM, also on the Big Board), a cement and aggregates producer; Sprott Physical Gold Trust (PHYS on the NYSE Arca) and Sprott, Inc. (SII, on the Big Board), a Canadian gold-management company; and a pair of uranium miners, Cameco Corp. (CCJ, on the Big Board) and Kazatomprom GDS (KAP in London).

Uranium was the fund's biggest capital allocation in the April–June period, said Cantor (it has likewise been on the *Grant's* radar—see, most recently, the April 17 issue). Last week's news that each company will shortly reopen formerly mothballed properties sent both stocks lower, a case, Cantor contends, of Mr. Market leaping before looking: "Kazatomprom indicated in their release that they've been in the market buying uranium. Think about that. They have a 40% worldwide share, they are not producing and they are buying uranium, and they can't get to their targeted inventory levels until the end of next year."

The partners' second-quarter letter did not stint at acknowledging error. "We liquidated our investment in the second quarter," they wrote of Spirit Airlines, Inc. "We lost money."

The missive closed with a borrowed page from a presentation on the uranium market by another bullish investor. In its entirety, it read:

Uranium Market Presentation
Demand > Supply
The End.

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