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*Ruminations of*  
**The Contrary Investor**

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### **A Case Where You Might Want to Get Gas**

A lot of attention is being paid to a whole range of commodities as the prices for everything from corn and wheat to (recently) crude oil have skyrocketed. One under-the-radar commodity is the element helium. Most of us know helium as the gas that floats party balloons, blimps, and giant superheroes in the Macy's Thanksgiving parade, and makes you talk funny. But helium also purges rocket engines for NASA and the military, and is crucial for diving equipment, particle accelerators, and MRIs. (MRI applications make up almost 30 percent of demand for helium in the U.S.) Helium actually has an enormous range of applications in both its very cold liquid state, as well as its gaseous state which features inertness, high heat conductivity and very light weight.

The problem, according to the National Research Council, is that we're running out. Most of the world's helium comes from beneath America's Great Plains, where it's trapped in natural gas and extracted using low-temperature liquefaction. Helium may represent the second-most-abundant element in the universe, but existing technology cannot harvest the low amounts of helium from the Earth's atmosphere at economically reasonable prices.

Although helium had been detected in the sun back in the mid-1800s, the first deposits were found in a natural gas field in Kansas in 1903. Within two decades, the U.S. military was using helium in dirigible aircraft, which led to it being managed by the government as a strategic resource. Even as technology

changed, helium found new and equally critical roles, first as a component of large balloons that protected ships from air attack in World War II, then to purge rocket fuel tanks before loading them with hydrogen and liquid oxygen.

To ensure a stable supply, the U.S. government gradually built a pipeline system that paralleled the one for natural gas and brought helium to a salt dome for storage. The site, called the Bush Dome for reasons that have nothing to do with the politician, has a liquefaction facility on site and a huge fraction of the world's total supply of helium.

That's where things stood in the mid-1990s, when Congress decided that the government needed to get out of the business of managing helium. Ostensibly, this would allow market forces to set a price proportionate to its remaining supply. But Congress dictated that the supply had to be wound down within about 20 years, even though the Bush Dome had enough helium to supply the entire globe for most of a decade, even if all other sources were cut off.

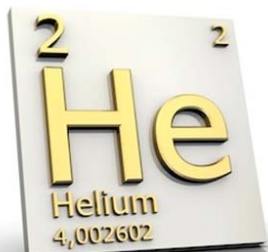
The result has been low prices for the gas even though, at 2008 rates of consumption, we had only a 25-year supply. The good news is that, in the U.S., usage has stabilized; for instance, argon, which is one percent of the Earth's atmosphere and is equally cheap, has started displacing it in applications like welding.

Helium usage elsewhere has continued to rise, though, driven in part by its artificially low price. Even with the lower rate of use, however, we'll go through the remaining supply within a century.

One solution is to rework the management of the Bush Dome stockpile once again, this time with the aim of ensuring that helium's price rises to reflect its scarcity. In practical terms, it would be

better to deal with a 20-fold increase in price now than to deal with it increasing by a factor of thousands in a few decades when supply issues start to become critical. The U.S. began stockpiling it in the 1960s, but in 1996 opted to recoup its investment and sell off the reserve by 2015. After that, other producers—including Russia, Algeria, and Qatar—will control what's left of the global market: perhaps a mere 40 years' worth.

Many scientists think increasing the price would help conserve the element. It would also encourage the major helium users, like NASA, to recycle—and help the world hold on to what we have.



The U.S. Geological Survey says the United States represents about 20 percent of the world's known helium reserves, it produces about 75 percent of the world's helium, and is the single largest consumer of the gas. So if we are facing a situation where the government has left the business, and those engaged in helium production will see significantly rising prices, where are the opportunities?

Investors wanting a piece of the helium action have two main options. First, they can hit up the natural gas industry, where the element is found. The Contrary Investor weighed in on the disconnect (and opportunity) offered by the disparity between the price of crude oil versus the price of natural gas last month. But a more exacting bet might be investing in the helium suppliers themselves.

Air Products (APD) and Praxair (PX) are two of the stronger players in the market. Air Products, the

world's largest helium supplier, has been slowly growing over the past 25 years, and in 2010, it posted record sales and earnings. Plus, 55 percent of its business is overseas, *and* it supplies argon, another gas in tight demand.

While not as large as Air Products, Praxair has also done well during the helium crisis. They posted a 17 percent growth in their fourth-quarter 2010 profits, and have made a recent string of acquisitions and savvy, cost-cutting business moves. Plus, they recently upped their prices from 2008 by 15-30 percent.

These are just two examples; there are several other players, especially overseas (Linde AG is a large German supplier with additional resources dedicated to helium recovery). Plus, some big energy companies - like ExxonMobil - also deal in helium, though not in the same volumes. Generally, the large helium companies are also in the hydrogen business, with additional opportunities there as alternate fuels continue to gain momentum.

By the way, the Contrary Investor had a difficult time not taking advantage of the plethora of puns associated with rising helium prices, but I believe I succeeded there!



*Price of a helium balloon: 75 cents.  
What some say it should cost: \$100.*

□ Alex Seagle

## American Idol Part Deux?

A lot of investors watch what other bigger, more successful investors are buying and selling in hopes of mimicking their winning ways. Warren Buffett most notably comes to mind. He has legions of folks following his every move. In a somewhat similar fashion, early February of this year presented perhaps the most spectacular rise in a stock's price ever.

Robert Sillerman is a media entrepreneur best known for owning the "American Idol" franchise through a company called CKx. He has had many successes, and a few failures along the way, including the development of a resort property in Anguilla that recently went into receivership, costing Mr. Sillerman a boatload of cash. Still, investors track his investing for ideas and inspiration.

So when Sillerman announced in early February that he had recapitalized (bought) the non-operating shell of Gateway Industries, a pink sheet traded stock going for \$0.03 per share, putting in \$3.6 million for 120,000 shares, the stock took off, and I mean took off in a big way. It gained some 20,000 percent *in one day*, trading at over \$6 a share. The Contrary Investor has been studying this game called stock-picking for a long time, but I cannot ever recall a move this dramatic. And this for a company with no revenue, no product, nada. He immediately changed the name to Function(X), trading under the symbol FNCX.

Sillerman said he made his investment in the Company to "establish a new platform for investments in media and entertainment, with a particular emphasis on digital and mobile technology. Things have gone less well since the opening salvo, and it would take a financial analyst of considerable skill to unravel where things stand now after a reverse 1 for 10 stock split, additional capital raising and other shenanigans. But reverse mergers typically lead to the ability to acquire other companies with FNCX stock as the capital.

As William Topley once said, "God only knows, and God rarely says" what will happen to those people buying into the old entity at \$6 a share on

day one. But Mr. Sillerman had a really nice payday, essentially based on his reputation and others following his lead. This is indeed a crazy business!

□ Alex Seagle

## El Niño Televisión

Hispanic spending power in the United States is leading the way, and predicted to only increase in the coming years. In 1990, according to a 2006 University of Georgia study, Hispanic spending power stood at \$200 billion a year. In 2007 Hispanic spending power had risen to \$860 billion a year according to that same study. In 2011, Hispanic spending power is estimated at \$1.2 trillion a year according to the U.S. Census. In 2010, Hispanic spending power represented 11 percent of the total spending power of the U.S. population according to HispanTelligence. And note, these figures do not include the buying power of undocumented immigrants. Said another way, the Hispanic demographic in the U.S. is now a larger market than Spain or South Korea. This is a situation with the same growth dynamics as an emerging market (the darling of growth investors lately).

One of the biggest factors affecting future demographics is that Hispanic population growth is being driven now by birth rates rather than immigration. "A new Spanish-language TV viewer is more likely to have been born and raised in the United States than to have come here from somewhere else, bringing old viewing habits with him," explained a Miami Herald writer recently. Strangely, over half of U.S. advertisers do not target Hispanics in the marketing efforts, and over 80 percent say they have no plans to include or increase efforts aimed at Hispanics. Making this marketing decision even more puzzling is the fact that Hispanic internet access in the U.S. has increased about 650 percent in the last four years alone.

Investing in the growing strength of Hispanic consumers can be a challenge. Not a lot of publicly

traded companies exist focused on the demographic. For example, Hispanic media darling Univision was taken private a couple of years ago at a stunning valuation. But more and more, discerning companies are waking up to the possibilities – Coca Cola (KO) and Verizon Communications (VZ), for example, are increasingly courting Hispanics. Perhaps the biggest opportunities to invest lie in the media space.

A Nielsen study found that spending on Spanish television networks jumped by 24 percent in 2010, nearly triple the rise on English-language networks. And since that trend looks set to continue, companies like Grupo Televisa (TV) look strong right now. Comcast (CMCSA) is set to gain too after obtaining NBC Universal, which owns Spanish-language channel Telemundo.

Even more interesting might be Liberty Acquisitions. The special purpose acquisition company merged with Promotora de Informaciones, or Prisa, which will soon be listed in the U.S. Currently listed in Spain, Prisa is the world's largest Spanish-language media company. Most analysts see Prisa's shares as undervalued right now. And they think Liberty Acquisitions' investors stand to benefit greatly from the merger. Prisa plans to expand rapidly to take advantage of the U.S. Hispanic population. For one, it is forming a unit specializing in bilingual education.

Another possibility is DISH Network (DISH), who announced in February the launch of BabyTV, a channel with 24 hours per day of commercial-free programming dedicated to babies and toddlers, into its Spanish language suite of packages (DishLATINO). Now that's one way of establishing a loyal audience that will stay with a company throughout their lives! "DISH Network is proud to be the exclusive provider of BabyTV, a channel that delivers 100 percent original programming in Spanish featuring an abundance of baby- and toddler-specific learning and entertainment content not offered by any other channel," said Alfredo Rodriguez, vice president of Marketing for DishLATINO. "BabyTV will add another dimension to the already wide variety of high-quality Spanish-language children's programming offered in our DishLATINO packages."

"Baby and toddler content have been a huge success

on DVD over the past decade in the U.S., with parents showing an appetite for well-designed, well-produced content from a trusted brand," said Maya Talit, Global Marketing Director and co-founder of BabyTV. "BabyTV has been able to deliver this kind of content successfully to parents and children through its global TV channel, and is happy to now provide its unique shows to parents in the U.S. on DISH Network."

Beyond media companies, other sectors are presenting opportunities. The Contrary Investor's portfolio includes Gruma SAB de CV (GMK), North America's largest tortilla maker. The corn tortilla maker suffered heavy losses on derivatives contracts during the 2008 global financial crisis that substantially increased its debt load. But in January, the company addressed this issue by selling its stake in Banorte in a secondary offering valued at \$724 million, near historical highs.

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Financial services companies that focus on Hispanics are set to be big winners. Last November, the 10th Annual Latino Economic Summit was held in Washington, DC, and included influential Latinos like Henry Cisneros, former HUD secretary and Roel Campos, former SEC commissioner.

While many financial firms might have had an interest in tapping into the Hispanic population, few actually knew that there were pockets of deep wealth among the masses. These highly successful people had accomplished great things and if represented in the right way, they could do their bit to further wealth building and increase the financial inclusion of a population that's become the fastest growing minority in the United States.

Opportunities are there, and growing. Such investments will prove profitable in the years ahead. As Univision CEO Joe Uva said, "America is transforming into a new majority of minorities."

□ Alex Seagle

## Chasing Yield

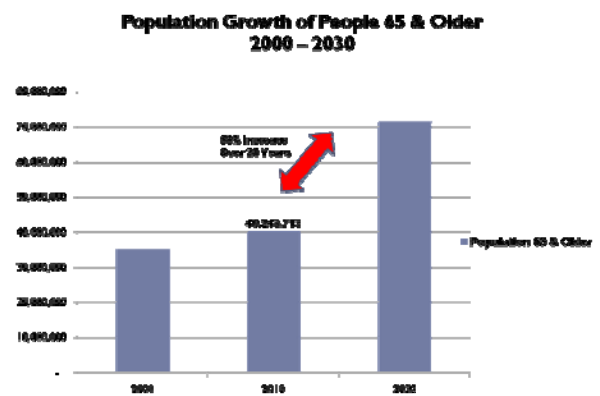
In today's zero interest rate environment, fixed income investors are going increasingly far-afield in their search for yield. Folks who in the past laddered a portfolio of U.S. Treasuries have investigated options they never considered heretofore. It is just as important to realize where not to invest as it is to identify good opportunities.

Serious questions about the safety of municipal bond issues have been raised, despite their being insured by AMBAC, MBIA and others. One place the Contrary Investor would definitely stay away from would be Real Estate Investment Trusts (REITs) focused on strip malls. In 1990 there were 18 square feet of retail space per person in the U.S. By 2010 the figure had more than doubled to 40 square feet, and the owners of these properties are scrambling to find tenants — from political candidates to ethnic enclaves. This does not bode well for these REITs' ability to continue

to pay the dividends that originally attracted investors. Most issues like Weingarten Realty (WRI), Equity One (EQY) and Developers Diversified Realty (DDR) boast dividends of around 4 percent. Time will tell if they can maintain these payments. It is true that not much space was added in 2010, and little is likely in 2011 and 2012. But the strip malls that were once the place to get one's dry cleaning or have your hair styled are increasingly under pressure.

Perhaps a better type of REIT would be those leasing to healthcare interests. Based on stability of the tenants' cash flow alone, healthcare REITs like Health Care REIT (HCN) and Ventas (VTR) would seem to be the better bet.

REITs generally carry a high dividend yield because they are required to pay 90 percent of their earnings (technically their "funds from operations, or FFO") to shareholders in order to be exempt from federal taxes. Share prices take a hit from time to time as the companies dilute existing shareholders' by issuing new shares to raise capital, and investors should take this into consideration.



One huge factor going in favor of healthcare interests is the certain growth in the number of people aged 65 or older — those most in need of healthcare. Demographics matter...you gotta know when to hold 'em and know when to fold 'em!

□ Alex Seagle

## Words to Consider

If the Queen asks you to a party, you say yes.  
If the Italian Prime Minister asks you to a party, it's probably safe to say no.

~ David Cameron  
British Prime Minister

Here's to a long life and a merry one  
A quick death and an easy one  
A pretty girl and an honest one  
A cold beer and another one!

~ Irish Saying

Be careful about reading health books. You many die of a misprint.

~ Mark Twain

My life has a superb cast but I can't figure out the plot.

~ Ashleigh Brilliant

Pressure can burst a pipe or pressure can make a diamond.

~ Robert Horry

Teaching a child not to step on a caterpillar is as valuable to the child as it is to the caterpillar.

~ Bradley Millar

It is better to be beautiful than to be good, but it is better to be good than to be ugly.

~ Oscar Wilde

America is the paradise of lawyers.

~ David J. Brewer

We know an age more vividly through its music than through its historians.

~ Roseanne Ambrose-Brown

### ***A Blatant Plug***

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