KAIZEN GLOBAL
Investments

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KAIZEN INTERVIEWS

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JIM ROGERS INTERVIEW – April 2015

Before Jim Rogers travelled around the world (twice) he had a very successful investment career. He co-founded the Quantum Fund with George Soros in 1973 and over the next 10 years delivered an incredible 4200% gain v a 47% gain in the S&P. He taught at Columbia Business School and has written several bestselling investment books: Investment Biker, Adventure Capitalist, Hot Commodities: How anyone can invest profitably in the world's best market, A bull in China, A gift to my children, and most recently, Street smarts: Adventures on the road and in the markets.

He is one of the true contrarian investors and has an ability to explain and distil complex investment concepts into simple, common sense terms. We thank him for this interview.

If you began over again – knowing that you loved markets – how would you start your career?

I would do the same thing, as that is what I am fascinated by. What I'd say to anybody is figure out what you love most and do it - even if other people tell you you're doing the wrong thing. If you love it you're going to be successful, and if you aren't successful you're going to be happy doing it anyway because it's what you love. If I didn't know what I love, then areas of the world that I think are going to be promising in the next 20-30 years are agriculture - I'm very excited about that, North Korea, and there are other areas that one could go. But if you aren't excited about going out in the sun and planting seeds then agriculture isn't for you. You should find something that you love.

How would you start out today?

I'd get a job in a research department, because if you understand how it all works you can do anything you want. You can become a broker, a fund manger, banker, or trader. For most people start in the research department because that will give you exposure to everything that is going on.

Once you'd completed that, would you try and find another George Soros and start a fund?

If I found I was good at it, I would try and go out on my own, either with somebody or on my own. Most successful investors don't have partners, or many partners, as it is a very individualistic thing to do.

How would you invest?

Most of the time you should not do anything. Wait until you find a great opportunity and then act. Most of us, me included, after a good run think we need to do something. You don't need to do anything. You should just look out the window and see what's going on. But then, when you find something that you know is right then act. If I told you 'you only had 25 investments in your career' you'd be a lot more careful. By the way, if you find something and invest in it, then wait too. Let it develop and mature. Don't be jumping in and out, hang onto it, look out the window again. Do nothing, unless something is going wrong or it's time to sell. There are always opportunities – it's a huge world out there. If you miss an opportunity don't worry about it, I assure you there'll be plenty of others coming along. There are 7 billion people in the world and a couple of hundred countries. Don't worry about missing something just stick to your path and wait.

In the next 20-30 years where would you invest?

Certainly agriculture, China and Russia. There are very few things that last as long as 30 years, even 20 years is stretching it. North Korea, Ethiopia, Columbia, Myanmar, and Angola – they are places I would investigate.
Ethiopia has over 100 million people, has natural resources, and is opening up to the world. Angola has few people but plenty of resources; it was ravaged by a 30-year war; they will be one of the largest oil producers in Africa. It used to export plenty of food to the world. Angola has plenty of land, it's half the size of Europe, but buy some land, open a hotel.

What about Sri Lanka?

Certainly opportunities there, but we're not the first to think of it.

What are the patterns that you've seen that people miss?

Nearly always after a war you should invest in the country, especially the ones that lost the war. There is no energy and things are depressed. You should certainly explore it and then buy.

Any sectors that you particularly like in those situations – how about banks because of their leverage?

Banks are certainly a good play but the regulation around the world has changed them. You should look for the biggest industry and investigate that; if a country is big in cotton then look at that. There's lethargy, apathy, no one cares, especially if a country loses a war. People aren't thinking we should go and buy stocks. People don't have the energy or capital; that's why things are cheap.

Do you look at those countries in a hard currency/Gold?

Yes, therein lies the opportunity. The shares will go up and the currency will go up too. As an investor you need to look at everything and the currency is a major thing to understand. It is extremely important to investors and investment.

What about Africa?

Zimbabwe could be exciting and interesting depending on what happens with Mugabe.

Asia?

North Korea is extremely exciting. I'd put all my money there if I were allowed. When North Korea opens up – anything you want to invest in, you are bound to do well. If you stick to what you know. When Myanmar opened, when China opened – everything was attractive. I'm sure Samsung will do very well when North Korea opens up, but it won't make much difference to Samsung as it is such a big company already.

Any other patterns you see over and over again?

Yes, things get depressed, people go bankrupt, people throw their stocks out the window and swear they'll never invest again as long as they live and they give up. Bottoms all look the same and they don't last. Even if companies go bankrupt they might still have valuable assets. You look at Japan, it was blown apart in 1945 – that was a serious bottom, but it still didn't last.

Market levels are high and one could normally buy government bonds or corporate bonds to protect capital if there was a downturn. But yields are so low now (i.e., bond prices are also so high) where can you hide if the wheels come off? How can you hedge?

It is very difficult. Bonds are at all time highs; we've never seen yields like this. There's cash - but you've got to have the right cash – no good if you're in the Euro or the Yen. Productive farmland has always been a good place to survive, but there are huge cycles. You need to be in the right country, where they aren't going to take it away from you. Precious metals, if you can buy at the right time and place. Tangible assets offer protection – but art etc. can fluctuate massively in value – your heirs may benefit but not you, there's no income and fashions change. You may wind up growing broke with hard assets where fashions change.

How about buying listed farmers/farmland? You would have some productive yield.

There are a lot of if, if, ifs: if they're good, if they're competent and in what part of the world. You can buy tractor companies, seed companies, and fertilizer companies. There are companies in Indonesia, Malaysia, and Australia etc.

In 2007 expectations of the commodity boom were high and enormous amounts of capital were committed to bring on new supply in pretty much everything. The word is now growing slower than expected back then, so realized demand is lower but supply is higher – hence the fall in commodity prices. Is the commodity cycle over? Or is this like the 70s where you had a shake out of weak hands in the middle on the way to the top in 1980?

Well, my view is that we have a major correction in an ongoing bull market; I just don't see enough permanent supply coming on. I might be wrong. But look at oil; the world hasn't been discovering enough oil to keep up with demand apart from fracking. But the fracking wells are short-life wells. Fracking will slow enormously now – it has been operating on negative cash flow with oil prices falling so rapidly. In the US there hasn't been much supply. In iron ore there is supply for some time, but in other commodities I just don't see the supply. In the equities bull market of 1982 to 2000, there were many periods where people were convinced the bull market was over - in 1987, 1989, 1994 - where stocks had big drops or were depressed for long periods, people gave up. I'm not giving up on commodities at the moment – maybe and I got it wrong.

What about gold with all the money printing?

It's had a pullback. I own gold; I've hedged some of it, thinking about hedging more. There might be one chance to buy gold again below $1000, but if Iran goes to war with America I'll be begging to buy gold at $1500. I'm not a buyer of gold at the moment; it went up 12 years in a row, which is very unusual. I think the correction could be very unusual too. There are still too many gold mystics who think gold can't go down; when they throw it out the window I hope I'm there to catch it.

What about wars?

At the beginning of wars, people are enthusiastic. They say 'don't worry the boys will be home by Christmas' but they rarely are. Go somewhere else until the war ends. I've told my girls in 'A gift to my children' that if there's a war, get out.

Do you always want to own gold?

You should always own some gold as an insurance policy. Everyone has health insurance, car insurance, life insurance, and gold is like that; how much depends on the person, the country, etc. You hope you never need it, but if you need it there's not much you can replicate with gold. If your country is collapsing all around you, I assure you, you will find gold has some use.

Small pieces?

Yes, easily divisible and transportable. I prefer coins as they are easily liquidated if anything else.

You've talked in the past about liking raw land in developing countries. What about buying commercial REITs where they have a yield and over the long-term as cities grow this land increases in value?

If you find smart people in any field you should invest with them.

You're a self made man, education has been the tool that you have used to conquer the world. How do you make sure that your girls grow up as smart, hungry and open-minded as you?

I try to address some of that in my book 'A gift for my children', but I've never been a parent before, so I have no idea if I am doing it right or not. It's not easy to make your children hungry. I try to teach them to save, make deposits from their piggy bank.

If you took your children to 3 countries to teach them about how the world really works where would they be?

China would certainly be one of them, because of its long history of ups and downs, maybe Russia and North Korea.

You can't learn that much on a tour – especially as a child – you need historic perspective, economic perspective. I'd love to drive them around China, around the world, but not until they're older.

LONG/SHORT QUICK FIRE

Euro survives?

I'm neither long nor short at the moment. It's not going to survive, as we know it. I hope it does survive.

Greek exit?

I have no idea. What they should do is go bankrupt within the European Union.

Inflation or deflation?

Both. At the moment because of oil prices deflation, but that won't last forever. But inflation will come back.

Japan?

I'm long stocks - not bonds - and hedged in the currency.

A big 'thank you' to Jim Rogers for his time and insight.

Important note

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