Kiril Sokoloff (13D Research)

Tom Yeowart: Kiril, welcome to the podcast. Thank you very much for coming on. So, I believe you founded 13D Research in 1983, and I'd love to hear how you came to found the company but also how the company itself has evolved over the last 40 years?

Kiril Sokoloff: I was very lucky, and luck is a very important component in a career. As Napoleon said, I want my generals to be lucky, not smart. And of course, 1983 was the beginning of this massive boom in financial assets. And there also was a change in the way that institutions could pay for research. So independent research came into its own, and I had been studying 13D filings for a number of years, and my vision was, it seems very simplistic but no one never thought of it before, to study what the people who had made the most money were doing with their own money.

Very obvious, right? But no one had ever done it. And I'm not talking about insiders. I'm talking about, you know, outsiders. And at this time, equities were very cheap in the United States because there had been big inflation. They'd gone nowhere really since 1966, been in a long-term bear market. Interest rates went up to double digits at the long end and the short end. And stocks were selling at a huge discount to breakup value. And we started publishing analysis of 13D filings, which are a fantastic disclosure document. You had to disclose what your investment was. Your average purchase price, what your intentions were, and what you did over the last 30 days. Right now, you can look and see that Warren Buffett is buying Occidental Petroleum hand over fist and he's buying Chevron hand over fist.

And so, it's those kinds of insights that we offered. And the thing just took off. So, we were very lucky, that's how it started. But I had also written a book on the coming disinflation, predicting a huge boom in financial assets, so I understood what was actually happening. And I understood Reaganomics, which was essentially get the government out of the way and allow the private sector to do its thing. So, I was at the forefront of a 40-year trend, and I understood what was happening. So, it was luck with a little insight.

Tom Yeowart: On that point, you have had the foresight to predict a number of pretty significant paradigm shifts over your career. You clearly mentioned predicting the change from high inflation in the early eighties to an era of disinflation and even wrote a book about it such was your conviction. But also, in the early 2000's, you were early to the commodity and energy bull market. And more recently, in September 2020, you talked about the coming inflation, having previously been a disinflationist. What do you think has allowed you to have the intuition, to have a crystal ball that maybe is a bit clearer than everybody else's?

Kiril Sokoloff: Well, that's an awfully good question. I've thought about it a lot. Obviously, I made a lot of mistakes along the way on execution. Also, mistakes of omission. But I think I have a talent to sense the next big thing. I foresaw Reaganomics coming. I knew it was coming and I knew it was going to be big and the world was ready for capitalism. If you can believe it, in the seventies, capitalism was dead. The US economy was a hundred percent regulated.

So, an understanding of history, of course, is valuable. I understood that there are cycles of wealth creation and wealth distribution and there are periods when private incentive is stifled during wealth distribution. And then all of a sudden, the cycle changes. The chains are taken off and the populace just goes crazy. That was part of it and being able to see what's the most important thing. So, people get bogged down with distractions and too much noise and too much short-termism. But if you get the big picture right and you get it right a few times, you're just golden.

I'm almost the first person who brought western money managers to China. And I did this in 1992. And the unleashing of the suppressed demand and need in China was something we'll never see again. It was just unbelievable. Deng went to Shenzhen and said in March 1992, to be rich is glorious. This was a communist socialist country where you didn't even have the right to own property, and it was transformation overnight.

Another thing I saw was in 1988, I read this little paragraph and it said it took 70 years to put a landline system in the UK, 50 years into the US, 30 years into Japan, 20 years into South Korea, but you could put a mobile phone system in a year and a half, and the light bulb went off in my brain. This meant obviously that emerging countries would boom, and that all information would be available to all of humanity. So, in that little paragraph, I saw the future. Everybody else could have seen it, but they didn't. Or if they did see it, they didn't see the significance.

With the examples maybe I can answer your question. So, in 2002, I saw that Eastern Europe had 500-year floods, not 50, not 100, but 500-year floods. It's like, oh my God, this is huge. It was an anomaly, and the anomalies tell you the truth. And according to my theory of contagion, if you have another outlier event like that the next year or soon after, it is a contagion until proven otherwise, which is exactly what happened. We had the hottest weather in

France's history the following year, 2003. We had the tsunami, we had Katrina and just this endless, endless period of extreme weather events. Rather than get involved in climate change at that time, which is a very emotional subject, we just decided to focus on extreme weather events, and I was confident that what would put climate change on the map and make people concerned about the environment would be extreme weather events. And that's exactly what happened. So other people saw this, but they didn't see the significance. So, I think that's one of the differentiating characteristics.

Sebastian Lyon: Kiril, has the market become more or less efficient in the arc of your career, or does human psychology really not change, and the patterns effectively remain the same?

Kiril Sokoloff: Well, it's a very good question. Human psychology has not changed, and the human emotion has not changed. But what has happened is that algos control the trading. So, there's so many distortions. What the algos are not dominating, central banks do. So, up until a year and a half ago when the Fed started raising rates, the most important interest rate in the world was regulated by central banks, you knew it was going to end badly. Currencies are controlled. I mean, look at what Japan has done in buying ETFs and controlling the JGB market. The markets are not free. It's a joke to believe that they are.

Sebastian Lyon: And have passives affected that as well? I mean, on top of the algos and the central banks, the growth of passives in particularly the last two decades must have affected the price discovery of many assets, particularly equities.

Kiril Sokoloff: It's absolutely true. And John Bogle, who really invented the concept, sort of stepped away from it at the end of his career saying, this has gone too far. And we have not lived in a real crisis, where so many people are in ETFs, we just do not know what the liquidity would be. We saw a little taste of that during the Chinese devaluation, I think it was 2015 or 2016, when there was huge discrepancy between the ETF and the underlying asset.

And so, we haven't been in a world where machines are running markets and then you have a liquidity crisis and a crash. We just don't know how that will happen. I think it's a big risk out there that there's no way of discounting because it could never happen, or it could happen 10 years from now.

Tom Yeowart: Identifying trends, themes, paradigm shifts isn't the same as making money from them. How do you combine your top-down views of how the world is changing with bottom-up recommendations and making sure your timing is, maybe not exactly correct, but not completely wrong either?

Kiril Sokoloff: Well, as they say, timing is everything. Don't tell me what to buy, tell me when to buy it. And I've been pretty good on timing. Getting out, or I should say seeing the end of a cycle is very, very difficult. In the late 1990s, I turned bearish too early, and the speculation, the excesses were just, to me, mind boggling. And of course, we had this in 2020, 2021. And so, it seems like the excesses are getting greater and that makes it much harder to know when the cycle is going to end, but I think the conclusion is that cycles go on longer than we ever thought possible and go higher than we ever thought possible.

Tom Yeowart: Rather than on the way out, but on the way in, are you looking for market confirmation to validate your thesis? How does that work?

Kiril Sokoloff: We are rigorous in our evaluation of what the markets are telling us, and we'll change our mind. And I'm very tight on risk control. You don't want to be too flexible and just be whipped around like a weathercock. So, you have to have enough conviction, but also flexibility. But because a lot of what we do is contrarian, which means being very early, or it's a solution to an economic problem where the wind is at your back, timing becomes less of an issue. So, let's just say uranium, which we got into three years ago, it was hated, uranium just wasn't going to go anywhere. And it's been a phenomenal performer. Last fall, I just had this strong intuition after the party Congress when the Chinese and Hong Kong stocks sold off so much and said this is going to be a great buying opportunity. There's way too much pessimism.

But a lot of it is intuition, but it's usually very contrarian. I'm going against the grain. And the risk is of course that you're wrong and too early. But the way I look at things, I mean, a 20-year bear market in oil and commodities are starting to go up during recession. You had so much evidence that this cycle was turning, that you had a tremendous amount of confidence. And confidence is a lot of this.

Tom Yeowart: Over the four decades of 13D you have established a very strong network of exceptional investors who invest in very different ways and in ways that are probably suited to their particular personalities and temperament. But I'd love to hear whether you've observed any common character traits of the very best investors you know?

Kiril Sokoloff: Flexibility is certainly a key part. And being able to change your mind. One thing is very clear. If you can't change your mind you're not going to survive very long. I think humility is another trait. And someone who thinks that they're an investment genius is headed for the dustbin. I have a rule, which is the more the market goes my way, the humbler I must become. But I think a lot of the great fortunes are made from getting great buys, something gets blown up and really, really been through the ringer for a very long time.

Look at coal. Coal was the biggest dog on the planet. Who would want to touch coal. Then it comes back to life because no one was there. The late Sam Zell, who's a wonderful and dear friend and client, he loved to buy assets that had been just marked down so much. And there's a famous saying, bought well is half sold. So that's a very key component.

Soros, this is a funny story about him and Stan Druckenmiller, who was CIO for a long time, had his own fund and obviously he had Quantum, the Soros fund he was managing. And then George had his own private wealth. And Stan kept seeing that George was outperforming hugely. Stan and Quantum. So, he analysed why, and the answer was that George was just taking much bigger positions. And that's a famous George Soros trait. If you really like it, go in big. I tend to do that personally because I only go into things where I have very high conviction. I have at least as much information as everybody else. It's just a personal philosophy. But those moments when you can get the fat pitch, it's not a time to be tentative, but it'll normally be a time when everybody would be tentative. But if you're courageous, that's when you make the big fortune.

Sebastian Lyon: Yes. It's the old phrase of you make money when you buy rather than when you sell.

Kiril Sokoloff: Exactly. So, I think that's part of it. And anybody who's any good in this business, I mean, Charlie Munger says about Buffett that you just won't believe how much he reads. He's reading eight hours a day. He's just so informed. And how is it that Buffett happened to take these huge positions in these Japanese trading stocks just at the right time? How is that possible? How did Munger buy BYD the EV manufacturer in China, years and years ago? So, it's just reading and being open and listening and taking big bets when the time is right and believing and understanding that there is no infallibility. We're all going to make mistakes.

Tom Yeowart: In your latest publication of What I Learned This Week, you talk about how the current environment is one of the most challenging of your career. I'd love if you could expand on the reasons why that is.

Kiril Sokoloff: I'm a believer that free money and zero interest rates will be shown to have been probably the greatest mistake that the Federal Reserve and central banks ever made, because it created misallocation of capital. It created and encouraged enormous drawdowns of debt, and it lured people into thinking and believing it would be lower for longer. And sooner or later, all that monetary stimulus was going to seep in into the actual economy. You would have inflation and interest rates would rise. So, all this was foreseeable and now we're in a straitjacket because the Fed is giving all the appearances of being very convicted to ride this through.

But as Lacey Hunt told me last fall, the Fed doesn't understand what money is. So, they will not know whether they've gone too far or not far enough. And clearly, in my opinion, they've gone too far and their many fundamentals that you can see in the US economy that are really turning down and the financial economy in the US peaked in January of 2022. The GDP follows eight to nine quarters later. So, we haven't even yet begun to see the impact of this. Now, if the Fed makes a mistake and truly breaks something, then we can have a deflation. If the Fed just breaks something big and then comes in to fix it, as they will, then you'll have another big inflation.

So, it's very difficult to know which of these two it is. We are of the view and have been of the view that they are going to have to reflate and we're off to the races again. But it may be a much different type of recovery than we've seen in the past. So that's part of it. Then of course you've got the changing geopolitical order, you have the de-dollarization, you have political instability in many parts of the world.

So, we're dealing with a lot of variables we haven't faced. Then we have unfunded entitlements. Take the US, which is $200 trillion. And all that unfunded part is starting to trickle into the actual yearly fiscal situation of the US. Add to this the fact that the US is running these massive deficits even during times when it was a boom economy. And what happens when the US recession arrives and then there has to be more and more treasuries sold. Foreign central banks are not buyers. They're sellers. And foreigners are only going to be buying if they think the dollar will stay strong. But if the Fed is cutting rates dramatically, then the dollar will get weak, so you have a currency loss. So, it's a very murky picture and all we can do is just be patient and wait until the picture becomes clearer. We think the market is telling us at this particular moment that the ultimate outcome is inflationary, but we also think right now we're about to get a real whiff of deflation.

Sebastian Lyon: Kiril, have you been surprised by the resilience of the stock market? It's been the fastest tightening, I think in a century, that we've seen. Do you think that investors have effectively been anchored by the last decade and a half and haven't really realised the full implications of that? Or have those rates just really not taken effect yet and it's just something that we ultimately, as patient investors need to wait for?

Kiril Sokoloff: I think it's the lag effect has given an illusion that everything is fine. If indeed we are still in a bear market, which I believe we are, then that's very typical. Lure everybody back, water's fine. And I've called this the most insidious and most dangerous bear market that I have ever seen. And so, Silicon Valley Bank, was a negative event, but it was a positive event from liquidity and it's all liquidity driving these markets. And then the resolution of the debt ceiling, which is supposedly a good event, is a negative event because now the treasury has to sell all this debt.

So, things are not what they appear, but I think we're still going to start to see some resolution here. Of course, we have ChatGPT with seven stocks that really have created the performance. And I don't think market history has been obliterated by technology. And it's always, the new era, it's different this time. The four most dangerous words are, it's different this time. And it's not different this time. It's the same every time.

Sebastian Lyon: Yeah. We've seen echo bubbles like this before, haven't we? I mean, we saw them in 2000 when the dotcom bubble burst but then there was a very big wave of large cap tech stocks, particularly telecom equipment makers, Nokia, the Ericsson's, the Nortel's, the Lucent's had this phenomenal run for about a year or so after the dotcom bubble had burst as investors coalesced on the picks and shovels over the actual dotcom.

Talking about the sort of anti-central bank question, which is the role that gold has to play in a portfolio. I'd be very interested to hear, because you've been an advocator of gold for many years, but you called the bottom in sort of 2016/17/18 very well. I'd just like to hear as to your thoughts as to the role gold plays in a portfolio for an investor, the importance of it.

Kiril Sokoloff: Well, I was in Geneva not too long ago and had a lunch and or dinner with a bunch of my clients who were CIOs of major wealth managers. And I asked them, how much gold do you have in your portfolios? They said, well, 1-2%. 15 to 20 years ago, how much did you have? 15-20%. So that in a way says it all. Now I was in Singapore the day that the Singapore Monetary Authority announced their first big increase in gold holding and had a lunch with two Indian businesspeople who were very close to the government. I said, well, what do you think about this? He said, well, clearly the Indian government is seeing that Singapore is de-dollarising. So, we have the confiscation of the Russian Foreign Exchange Reserves. And no matter how you feel about it, it's a dangerous trend because of the rule of law. And if you are an owner of US treasuries and a foreign central bank, and you worry that somehow you might fall afoul of the US. Perhaps, you know, a really serious trade war begins between China and the US. And the US is saying, you're on my side or you're not. And meanwhile, you've got all these treasuries. So, what are you going to do to be prudent? You're going to sell them down.

And we're seeing a lot of trade being done in different currencies. So, there's a store of value, there's a unit of account, and then there is a medium of exchange. So, the medium of exchange is definitely accelerating very, very quickly. Why would China want to be paying in dollars when it can pay in RMB that it can print? And so obviously trade is booming now in the Middle East and China on this very thing. So, I think gold is a very important part for all those reasons. But the other reason is we are in a world of fiat currencies and given the demographics, given the terrible dependency ratios, given the fact that central banks are committed to doing whatever it takes, and the fact that the political system in democracies always bends to the will of the people, it's always going to have an inflationary outcome.

And what we're looking at is massively depreciating currencies, and therefore you want a real store of value. The other advantage about gold is that it can be moved around. It's movable wealth. And if you look at the demographic numbers and the way entitlement spending is locked in inexorably. You can see that there's going to have to be higher taxes, and the most logical is on the wealthy. So that means you want to be in an asset that you can move around if you want.

Sebastian Lyon: Kiril, that taxing of wealth, people have been talking about that for 20 years probably. I suppose it just must be getting closer. Do you think it's a few years away rather than a decade away? It's always a difficult thing to tax. That's the issue because it does move around the world.

Kiril Sokoloff: The cycle of wealth distribution doesn't happen instantly everywhere. So it began, I would argue, in 2009 in China. So, I was with my friend who at the time was head of the PBOC's Monetary Policy Making Committee, and I asked her about household savings because I didn't understand it. She said, well, actually it's lower than you think. All the savings is taking place at the corporate and government level and we're going to push it down to the people. So next month they announced manufacturing wage increases, mandated of 25%. They told the Japanese, you have to do this, otherwise you're out. Then we had Operation Carwash in Brazil, President Xi coming to power in an enormous anti-corruption campaign. We had Occupy Wall Street, we had Trump, we had Brexit. So, all the signs and signals are there that we're in this period. And the longer these extremes go on, the more dangerous it is. And when it comes, it'll be a long cycle. It'll be a 20- or 30-year cycle. I mean, I would argue it's here since 2009. It's just building steam.

Tom Yeowart: Taking a step back, you described the shift from an era of very cheap abundant capital to one where capital is scarcer and more expensive. And one of the implications of that is I think you believe that the winners in equity markets of the next decade are likely to be very different to those stocks that have won over the last decade. Can you expand on that and highlight the areas you 're most excited about?

Kiril Sokoloff: What I'm really thinking about is cycles and cycles always go from one extreme to the other. And I can't tell you why this is. I think it's just the nature of physics. So, I was thinking last decade, what's the opposite of free money and too much liquidity? It's not enough liquidity, not enough money. And you can see this already being expressed in the fact that cost pressure, revenues are trending down, people being squeezed everywhere.

There was an announcement last week that the number of houses for sale in the US are the lowest in history. And that's because if you have a mortgage at 2.5% or 3%, why would you sell and then have to finance at 6.5% or 7%? So, there's so much liquidity that is tied up in things like that.

And that has brought me to focus on free cashflow. So, when we started in business 40 years ago, we focused a lot on free cash flow and low free cash flow multiples, which is ideally the way to invest, unless it's a fantastic theme or company or business or individual you're backing. And so, this is drawing us to these free cash flow companies, and you just look at how much money they're making. Take BHP, they produce $20 billion in free cash flow. They return $10 billion to shareholders, and they invest $10 billion. What a deal is that? And no one's interested in the stock. So, I think it's a new world where free cash flow is going to be at a very high premium and the ability to have financial flexibility... so if you can pay down debt and that becomes very self-financing rather than other businesses that have to rely on equity markets or the capital markets. So, I think it's a time that you want a lot of financial flexibility, and you want to be in free cash flow businesses.

Tom Yeowart: One of the reasons why investors have shied away from some of the miners, BHP and others is because of the volatility around that cashflow. And you are either in periods of great cashflow generation or you are in periods where there's a real dearth of any cashflow generation. And I'd be interested to hear your views on why you think that is changing and why maybe because of supply / demand imbalances, the period of sustainable free cash flow generation will be longer than it has been in the recent past?

Kiril Sokoloff: Well, that's a very, very good question. One of my themes is that the bigger the scars people have, the less willing they're going to be to want to go into a space. So, the last decade was brutal in the mining and energy space. I mean, the shale guys lost what was it, $500 billion. And as usually happens with these mining companies, they get overly aggressive at the top and then management gets kicked out, new management sell these assets.

I have a friend who bought an aluminium smelter for free from Atlantic Richfield. He had assumed some liabilities and the next year it is generating a hundred million in after tax profits. This is so typical. But I think these guys have learned their lesson. And we have a couple factors. We have ESG, which has more or less been a huge barrier for investment in any of this stuff, whether it's mines or whether it's oil. So, you have that taking place. Then you have the fear that the green energy transition will take place so quickly that you'd be making investment in a stranded asset that won't be worth anything.

So, for that reason, there's massive underinvestment. And the CEO of BHP told me that essentially the copper miners need to invest $500 billion by 2030 just to have enough mines to avoid a total running out of copper. I'm not talking about all of a sudden you solve the needs for the electrical vehicle transition.

So, I think that this cycle has changed. And BHP is particularly interesting because the guy who runs it, Mike Henry, is brilliant and he's taken away the capital allocation decision from the local resource operations. So, he has eight capital allocators that have central power. And so, they made a huge investment in Potash about two or three years ago based on their vision for supply demand. And I think in the case of BHP, and I suspect others, the excesses that we've seen in the past will take much longer to develop. It's only going to be a vastly higher price that will bring forth the beginning of supply. So, I think we have a very nice window here.

Tom Yeowart: And it typically takes a decade or more to bring a new mine into production anyway, doesn't it?

Kiril Sokoloff: 15 years, 20 years, it's forever. And then of course you have resource nationalism taking place. Let's take the case of nickel, where Indonesia has, what, 30% of the world's supply. Indonesia's not selling raw nickel anymore. They're saying if you want to come here and build a processing plant or build an electric vehicle manufacturing facility using our nickel, we'd be delighted to have you because they understand that the profits are in the full spectrum of downstream.

And so that means the supply is much more constrained. And there's been a lot of talk about cartels, cartels for rice, cartels for lithium... I think which is very likely to happen. And so, you have a much different pricing situation. Now let's look at oil where MBS is doing everything he can to support the price of oil. And I can't tell you that oil isn't going to go lower if we have a hard landing in the US but it's certainly very advertised and there's a lot already in the market. So, I think you put it all together, it's a very interesting picture.

Sebastian Lyon: You've said in the past in your reports that leadership changes over very long periods of time. We had a period throughout the nineties where technology and growth performed incredibly well. In the noughties there was a very fallow period. Microsoft just went sideways for a decade or more. And then we've had obviously clearly the last seven or eight, maybe 10 years, have seen very strong performance in tech and large tech in particular. Do you see that leadership ultimately changing?

Kiril Sokoloff: If the view that a narrow market is a dangerous market turns out to be right once again, as it has countless times, then this means this is just another resumption of the old leaders coming to the fore. In this case because of ChatGPT. It doesn't really matter if you approach an old high. It's only if you exceed that high dramatically that things change. So, I do think we're in a leadership regime change, but as always, maybe I'm missing something and maybe I don't understand how big AI is going to be, even though I think we do understand, but I just wonder on the timing of it. So, everything that I see, what we've discussed today, I think lends support to a big regime change, particularly if the US dollar gets weak.

Tom Yeowart: Can I just turn back to your view on inflation and the reasons why you believe that inflation could be persistently higher than it has been. What are the fundamental drivers of that? You've obviously talked about the potential for commodity prices to be higher and you've talked about wealth distribution and the increasing power of labour. But can we expand on those subjects?

Kiril Sokoloff: So, I started studying demographics seriously about 25 years ago, and Peter Drucker called it the future that's already happened. And I authored a piece in 1997 saying more coffins and cradles in 78 countries. And Japan for me was a laboratory. And Japan went into a very deflationary period. You may not remember, but in the 1980s there was huge fertility in Japan, but it was the bursting of the bubble that caused fertility to collapse and went to almost nothing.

And so, I saw that as very, very deflationary. But then I read a book in 2020 arguing that there was going to be massive labour shortage and that in effect, from 2000 to 2020, the labour force had doubled because of China joining WTO, the collapse of the Berlin Wall, which brought in Eastern Europe to the job force and women joining the job force, but that is all behind us. In fact, it's going in the other direction because we have the largest retirement of the adult workforce in history. So, you have that. Then you throw in Covid where people were on the front lines getting underpaid for jobs that were crucial to survival of the economy and the country itself. And there was a lot of re-evaluation of what I want to do and where I want to live and then what I want to be paid. So, you have that going on.

And then the forces that created disinflation have dissipated. So, China was an exporter of deflation for a long time. Now China's an exporter of inflation. And we had the supply chains that were stretched as far as they possibly could be. We warned for a decade of the fragility of the supply chain, but no one was paying attention. And now you have re-shoring, friend-shoring, no matter what you say, it's very, very inflationary. The head of TSMC has said, frankly, this effort to re-shore semiconductors at the high end is going to be a dismal failure for the US. It just isn't competitive economically, which is the reason that outsourcing began in the first place.

Then we have the factor of commodity under investment, and we also have the fact that the world is moving towards economic self-sufficiency, which means not only building duplicate supply chains, but it also means spending a lot of money on things that are not necessarily economic but are viewed as national security.

So, all this is going on at the same time that the mindset on inflation has shifted because for 20 years, people believed that inflation was not going to come back. Now they've seen that it is here, and it can come back, and they understand what some of the causes are. So, you put that all together and I think you've got a long-term structural inflation problem.

Now, having said that, there's been a lot of cover stories and articles on... I think the Economist had an article on sticky Inflation and it just was too much for us. You put it all together. The recession is coming and there's going to be a deflationary scare, and then the Fed will panic and then we'll be off to the races again. So, we're getting closer to the resolution of this quandary that we've been trying to resolve for ever since the spring of 2022.

Tom Yeowart: Clearly a lot is happening on the world stage from growing tensions between the US and China, to the war in Ukraine amongst other things. And I'd like to hear your views on how the geopolitical landscape is evolving and the implications of a shift from a unipolar world dominated by the US to a multipolar one.

Kiril Sokoloff: Well, there's no question it's coming. We have this series called The Alliance of the Aggrieved and the Resurgence of the Colonised. And the term Alliance of the Aggrieved was first coined by Zbigniew Brzezinski, who was National Security Advisor under Carter, who said, my great fear is that Russia and China will be brought together through an alliance of the aggrieved.

And I started thinking about that. I started thinking about, in 1914, Europe controlled 90% of the landmass of the world and had done so for hundreds of years. And we started delving into a subject I thought I knew, but we went country by country from Indonesia, obviously Latin America, many parts of Africa. And the more you looked, the more horrific the exploitation was. This was well known and there were grievances but now you can join BRICS, you can join the Shanghai Cooperation Organisation (SCO). So not only is it a multipolar world, but it’s also a very quickly joining multipolar world.

Now it's a marriage of convenience. And countries will have several alliances. So, India may have an alliance with the US. It may have an alliance with Russia. It may have an alliance with China, but it's going do what's best for India. It's not going to allow America to say, here's what you have to do. This is not going to happen. That world is over. And that means that the influence of the United States is dramatically declining. And the influence of the so-called global south is dramatically increasing.

I asked Henry Kissinger in an interview I did with him, that these transitions to a new world order, did he think this would happen peacefully or would it be a cataclysm? He said, well, history is not hopeful on the subject. Anyway. I'm hopeful about it. But China / US has been a focus of mine since 2018 when I thought Trump would start to change things. And that's exactly what's happened. I think for the moment, tensions are peaking, and we may enter into a hiatus here. But you just don't know because there's some force somewhere who wants to do something else, or Biden calls President Xi a dictator and all the progress that was made on the last trip is thrown out. So, tensions are so high and so much mistrust on both sides, it's very hard to have any coming together. So, it continues to be a huge issue and countries do not want to get caught in the middle of that and they're going to remain nonaligned.

Sebastian Lyon: For equity investors like us, how does that affect corporates, particularly large multinationals that have assets and have profitable businesses in places like China? Would you be wary of those?

Kiril Sokoloff: I'm bullish on China for a lot of different reasons. The risk is of course, that there will be prohibitions on investing and there's huge pressure on endowments to not invest. I don't know how it plays out. You'll reach a point where it'll become irreversible and incredibly dangerous. And I think, frankly, that President Xi has been preparing for this for a long time and that China is drilling down, preparing for a serious economic war with the US. But that's not going to do anybody any good.

What does a multinational do? Look at what Sequoia did, it split off its funds, right? There are ways around this, through creative thinking because not investing in China is going to be a big disadvantage. And I'm of the view that China is just as innovative as it ever was. And I'm also of the view that a public private partnership for some of these big projects is better than just the private partnership. So, I don't see the top-down allocation as being a negative. Now, what Eric Schmidt said at one point, which I found fascinating, and also it was Jack Ma who said the same thing, that in China there's massive competition within an industry. And when the winner emerges, then the state backs it. So, it's not that the state goes in and chooses winners, the state goes in and chooses winners only after the winner emerges. That's a much different system than is perceived and we see these electric vehicles now and China is a ruthless price competitor. Incredibly efficient with its logistics setups and arrangements.

Tom Yeowart: Turning to our closing question. What piece of advice would you give a young Kiril at the beginning of his career?

Kiril Sokoloff: Well, I think that there is such a thing as fate. For example, I was fated to go deaf. It was genetics. I fought like the devil. Went everywhere, tried everything. I was taking so much calcium, that, you know, my teeth were just shiny, but nothing worked. I could do nothing about it. And when you accept, then you have peace.

You have to understand that there are cycles, and you have to move, okay. Equities in a bear market are something else. I've got to be flexible and move. A very dear friend of mine started a gold hedge fund in the early nineties called Sun Valley Gold. And I'm saying, you know Peter, you're really locking yourself in here. I'd have Sun Valley Commodities or Sun Valley Asset Management or something. And you're locked into that, you can't change.

So that's part of it. I think that patience, everything comes to him who waits. It sounds very trite, but it's very true and it will come.

Tom Yeowart: Thank you very much for your time. It has been a real pleasure.