



**Kinetics Mutual Funds
Conference Call with Peter Doyle
July 1, 2010**

Disclosures:

Kinetics Asset Management, Inc. (“Kinetics”) is pleased to announce that on July 1, 2010, Peter Doyle, Chief Investment Strategist for Kinetics Mutual Funds, Inc. hosted a conference call to financial advisors. The below transcript is intended to provide a summary of Mr. Doyle’s remarks.

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Kinetics Mutual Funds 2nd Quarter 2010 Conference Call

Chris Bell: Hello everyone and thank you for joining us on this call today with Kinetics' Chief Investment Strategist, Peter Doyle. I would like to remind everyone that under the Financial Professionals section of our website, www.kineticsfunds.com, you will be able to access a variety of power point presentations describing our methodology and with the family of funds we offer. Updated fact sheets with quarterly commentaries, along with a listing of the June-end top 15 holdings of each fund will be available after July 21st under the Financial Professionals section as well. With that, I would like to turn the call over to Peter Doyle.

Peter Doyle: Thank you very much. We appreciate your time. After what I think are going to be very brief remarks, please feel free to ask questions, and if there are pointed questions, please do not hold back. One of the first things that I want to hammer home is that we are of the belief that the stock market is very efficient longer-term, but wildly inefficient in the shorter-term. As an investor, you ultimately achieve the business returns of the companies that you own if you hold your portfolio long enough, because you are not buying some abstraction. You are buying a real interest in a real business, or a collection of businesses. A lot of people have tremendous concern and are very focused on the macro issues. Macro issues, by and large, are not particularly relevant to your success as an investor in a company. I say that because, even in a very difficult macro environment, you are going to be able to find businesses that thrive. If you are good at finding those businesses in a difficult macro environment, you are going to do reasonably well as an investor.

The recent quarter that just ended was a fairly difficult, and it was difficult from an investment standpoint, but not particularly from an operational standpoint for a lot of our



companies. One of the most striking elements of the 2nd quarter is how much interest rates have come down. Obviously, that is driven by the fears in the market with the European debt crisis and the potential slowdown of China, which not too many weeks ago, was being talked about as potentially overinflating and basically overheating. Now you have a situation where the 10-year treasury is below 3%. It is roughly 2.90% today. On an after-tax basis, on a 35% tax bracket, that is 1.88%. Now, it is hard to envision that you are going to have less than 2% annualized inflation, so your real rate of return is likely to be negative, looking out if you were to buy that investment today. I personally believe that there is a de-risking of investors looking to find a safe haven, and not a reflection of what they believe of the inflation or deflation that is coming down in the future. The reason I say that is if people really believe that deflation is going to be a problem, then you would not see the 30-year treasury having a higher yield than the 10-year. You would see the 30-year having a lower yield than the 10-year, and there would be an inverted yield curve. You are not seeing that, so really what is going on is that it is a flight back to safety, and people perceive the 10-year treasury as being a safe haven, and the yields have come down as a result of that. Ironically, as the investment community does that, it means that other assets – riskier assets – become more attractive. Lower the interest rates, and in theory, the higher the value for riskier assets. Yet you are not seeing that. You are seeing the stock market coming down substantially in the last quarter. The S&P 500 Index year to date through yesterday is down 7.5% without dividends reinvested. Our flagship fund, the Paradigm Fund, is down slightly more than that, slightly over 8%, so more or less in line with what the market has done.

When I look at the investments that we own, it is hard not to become excited. We believe we have been able to find world-class companies. I am not talking about risky companies. I am going to use a very prominent example – Berkshire Hathaway. Berkshire Hathaway has an operating history going back 40+ years now. The return on equity or the growth in compounding of



book value is exceeding 20%. I think it is actually close to 22% per annum. The company trades at a discount to the S&P 500. The S&P 500 trades at roughly 2.3x book value. Berkshire Hathaway trades at about 1.4x book value, but anyone that is even slightly familiar with Berkshire Hathaway knows that Warren Buffett says that the intrinsic value of the company is worth substantially more than that. The reality is that you are buying the company at adjusted book value. If you wanted to adjust for properties that he has held for a long period of time that are not reflected on the balance sheet, you are buying Berkshire Hathaway at about 1x book value, maybe even less. Now, as he has actually grown his book value at 22% per annum, and the S&P 500 has only done slightly over 10%, you would think that buying Berkshire Hathaway at such a substantial discount, a 50% discount to the S&P 500 with a much higher rate of return in the businesses that they own versus the S&P 500, you are going to do exceedingly well, and yet most people do not seem to care about that. That is just a complete mispricing of risk, in my opinion, and something that is not going to last for long. When I was very new to the business, going back 25 years ago, I used to see Warren Buffett's actions, and I would say, "How did he know to buy General Foods? Why did General Foods get taken out at a 100% premium and was sitting there for 2 years before anyone recognized it?" And it came to me many years ago that he was paying attention to the business operations. The business operations were compounding quite nicely, yet the stock prices were going down. He thought it was foolish, and it was foolish, and he thought he was going to be rewarded handsomely for it, and in many circumstances he was. That is the situation in which we find ourselves today. We believe that we own a collection of businesses that are compounding and growing their business operations, and have been over the last several years. In many cases they are approaching or exceeding peak earnings. The interest rate environment is far more benign today, so you would think the valuations are higher, yet it is easy to find many of our companies that are being priced 20%, 30%, 40%, 50% below where they were in 2007. It does not make sense, and I do not know what the catalyst is



going to be, but at some point, I believe the world is going to stop de-risking, and they are going to realize that an earnings yield of 12% or 13% in a high quality equity is a lot better than getting a negative rate of return in a 10-year treasury.

Market Opportunities Fund Top 10 as of May 31, 2010	
Franco Nevada Corp	6.61%
CME Group Inc	5.62%
IntercontinentalExchange Inc	5.45%
Hong Kong Exchange	4.83%
NYSE Euronext	4.35%
Jefferies Group Inc	3.56%
Ping An Insurance	3.36%
Singapore Exchange	3.06%
China Life Ins Co Ltd - ADR	2.71%
JSE Limited	2.41%

Paradigm Fund Top 10 as of May 31, 2010	
Hong Kong Exchange	6.15%
Leucadia National Corp	3.47%
IntercontinentalExchange Inc	2.91%
Brookfield Asset Management Inc	2.90%
Canadian Oil Sands Trust ADR	2.86%
Wynn Resorts Ltd	2.82%
CME Group Inc	2.43%
Canadian Natural Resources Ltd	2.36%
Suncor Energy Inc New	2.36%
Franco Nevada Corp	2.30%

Tactical Paradigm Fund Top 10 as of May 31, 2010	
Hong Kong Exchange	6.15%
Leucadia National Corp	3.47%
IntercontinentalExchange Inc	2.91%
Brookfield Asset Mgmt Inc	2.90%
Canadian Oil Sands Trust ADR	2.86%
Wynn Resorts Ltd	2.82%
CME Group Inc	2.43%
Canadian Natural Resources Ltd	2.36%
Suncor Energy Inc New	2.36%
Franco Nevada Corp	2.30%



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With that, I am going to stop, because that is really our belief, and a lot of the same themes we have had in the funds are similar, because, operationally, they are doing what we hoped they would do. The financial exchanges, the Canadian Oil Sands companies, the gaming stocks, as an example, if anyone wants to ask about those companies, I think they are very exciting right now. We still own them, because, operationally, they are doing everything that we hoped. The intrinsic values of these companies are approaching or exceeding what they should have been in 2007, and yet the stock prices are substantially below those thresholds in a much lower interest rate environment. For those who cannot tolerate the risk, we created some alternatives. One is called the Multi-Disciplinary Fund. It buys a lot of similar names to what we own in the Paradigm Fund, except it basically writes puts on those stocks. That fund, over the last 2 years, is down about 3%, and it is up year to date. We believe it has done everything that you could hope it would do in a very difficult economic environment, in a very difficult stock market environment. It has actually, more or less, held its own, and the premiums that we are still getting on those are very attractive, and we expect that that fund have much lower volatility than the Paradigm Fund. The one drawback is that it has very few assets, and most people are not willing to make investments in it, but we believe we would have gotten the same performance if it was 30x, 50x, 100x the current size it is today. If you are looking to still have exposure to us because you believe in us, but you do not want the volatility, or your clients cannot handle the volatility, I would certainly suggest that you look at that.



	KMDNX	CBOE BuyWrite Monthly Index
Year-To-Date	-0.06%	-5.34%
One Year	13.96%	12.85%
Since Inception	0.44%	-4.23%

Performance data quoted is as of May 31, 2010. All figures are annualized. Past performance does not guarantee future results. The inception date for KMDNX is February 11, 2008. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. Visit www.kineticsfunds.com for more information and a copy of the most recent Prospectus.

The other one is the Tactical Paradigm Fund, which is using a type of market timer, because some of the criticism directed towards us was that we do not know when to sell, and maybe I am just in denial about it, but I do not necessarily accept that. There was not anything that was so grossly overvalued in 2007 that was in the portfolios. Maybe you could argue that certain things were overvalued, but if I knew that interest rates were going to decline to the level that they were, I would have told you that I would have definitely been a holder of those investments back then, and would continue to hold them through today. The stocks are down but I do not believe they deserve to be down as much as they currently are. That is a long way of saying that basically we know what we own, and we believe the companies are doing quite well. The stock prices however are not doing fine. At some point, we think there is going to be reconciliation. I am hoping that it is going to be a violent reconciliation to the upside. I certainly do not count that out, and I have stated in the past that we believe that is a likely scenario. With that, I am going to stop and allow for questions.

Chris Bell: Peter, in the past, you have said that it was a good time to invest or a bad time to invest, and you have directed people in certain ways. If you had significant inflows in our funds, what sort of thing would you be doing today?



Peter Doyle: I would be buying a lot of the same names that we own. I probably would be adding very aggressively to the gaming stocks. I particularly think that the growth opportunity for companies that have exposure to Asia is extraordinary. I think I have mentioned this in the past, where the Macau gaming industry now dwarfs that of Las Vegas, and not too many years ago, it was actually at parity with Las Vegas. Those businesses are now up and running, 100% operationally working, and the earnings of those businesses are going to start falling to the bottom line. I do not think that people have any appreciation for that. In the case of Las Vegas Sands, they have recently opened their Singapore property. Their Singapore property alone, based on what Sheldon Adelson believes is going to happen in the coming year, is likely to generate about \$1.3 billion of earnings before interest, depreciation and amortization (EBIDA). They put a 10 multiple on that, which is very low compared to historical standards. That, more or less, justifies the entire value of the company today. That means that you get the Macau gaming business for free. They have 3 properties over there, and they are developing another 1 or 2 that will come out in the next several years, and you also get the Las Vegas Properties. When I look at that, I think it is just insanely priced. Even though it is up very substantially from its low point, we do not believe it should have gotten to where it ultimately went, and it still trades at a fraction of what it really deserves to trade at.

Chris Bell: Peter, another question that I get frequently is China is tightening, yet we continue to hold it. Can you outline how much further you think the government is going to tighten, and what kind of success they are going to have getting the large majority of people from the farmland into the cities?



Peter Doyle: Again, the tightening aspect is a macro consideration that obviously we are cognizant of, and having exposure to China has been a drag on the portfolios, certainly over the last year. That being said, we believe the bulk of the companies that we own, operationally, are doing very well. I do not know when the Chinese Government is going to decide to stop tightening; if they ever reverse themselves, you could have a very powerful up move in the Chinese market. Similarly, I did not know whether the U.S. and China will agree on where the renminbi should be trading. Now it appears that they are going to revalue that at roughly 5-7% per annum, maybe even more aggressively, and that is going to help the companies that derive 100% of their revenues and earnings from within China, which is largely the companies that we own. You need a very small amount of organic growth to get a reasonable rate of return. The potential for this wind at your back, as a result of the more benign government policies, could be astounding. So it would be foolish for me to sell out today of companies that I think are tremendously undervalued. I think the government is going to continue its tightening policy, though I don't know the timing or magnitude, as they do not consult with me beforehand. But I do anticipate potential upside there. It has been a drag for a year, but I think it is going to be a tremendous boon to us in the future.

Question 1: You kind of answered my question. My question was on China. Number one: the slowing, it seems kind of inconsequential, the statistics, but I was curious to see what your thoughts were, and also on the revaluation policy.

Peter Doyle: The slowing – I guess they had a bad PMI number, which month over month can fluctuate in any given way, so I do not take a lot of stock into that. I see what is going on in our businesses, and I can assure you, there is not a slowing going on there. Again, we are not trying to predict the macroeconomic environment. We own companies that we understand from a bottoms-



up basis. From that standpoint, I think they trade at a small fraction of where they are going to ultimately trade at looking out over the next 3-5 years. With the revaluation of the renminbi, it is clear – I have traveled over there, and obviously on a purchase parity basis, China is very cheap, and they need to revalue. They need to help stimulate growth for the rest of the world. They need to help stimulate growth internally, which is what they are trying to do by increasing consumption internally. I suspect that the renminbi is probably undervalued 40-50%. They will do it at their own pace, but they seem much more on board and willing to work together with the rest of the world to reduce that undervaluation in the renminbi.

Chris Bell: Does it not also help, Peter, that the constituents get greater buying power globally if they have a higher renminbi?

Peter Doyle: Yes. People complain about a strong currency. Generally, when you have a strong currency, it is reflective of your strong underlying economics. There are a lot of benefits to having a strong currency, one being that most of the commodities are priced in dollars, so if you raise the value of the renminbi, they are buying oil for less. They are buying copper for less cost. They are buying gold for less etc., etc., so it is not necessarily a negative for them. In fact, in a lot of ways, it is a real positive. I see them doing it, and I understand why they are going to do it. I think that to appease the rest of the world, and show that they are willing to cooperate, they are probably going to be more conscientious about the revaluation.

Question 2: Peter, can I follow up on a different topic? Fin Reg. and the exchanges – do you still see them being the net beneficiaries of financial regulation?



Peter Doyle: We do, and that is one area where a lot of the exchanges that we own are coming up on close to their peak earnings of 2007. The valuations are still down, in some circumstances 40%+, so I look at that and I say that these things are duopolistic, monopolistic in certain circumstances, their clearing operations are becoming more valuable, the raw material that they are passing through their systems is not declining, it is growing, which is what we always believed would happen. Generally, to advance society, you need more liquidity into the system, and as a result of that, money is going to flow through the exchanges. I cannot imagine that we are in a world where the exchanges are not going to be much more critical in the future, as a result of the crisis that we lived through. It is definitely playing into what we always believed. In fact, the meltdown and dislocation that we had on May 6th with the flash crash,, I think makes it pretty clear that you need a human element there. You cannot have these high-frequency traders that allegedly bring liquidity to the market, but then they do not want to trade, suddenly dropping bids down to a penny as in the case of Accenture, or pushing the prices extraordinarily high, like in the case of Apple. You cannot have those types of crazy things, and I think that the regulatory authorities recognize that more and more, and that is going to continue to play into the hands of the exchanges.

Chris Bell: I will also refer you to the June 26, 2010 Barron's article which discussed the New York Stock Exchange, and which touched on everything Peter just said.

Question 3: BP's oil spill has shed light on the repercussions of the offshore drilling process gone wrong. Do you think the Canadian Oil Sands companies you own will stand to benefit and/or maybe receive more attention over the long-term? The process of how companies like Suncor or Canadian Oil Sands Trust produce petroleum prevents any similar type of disaster, right?



Peter Doyle: Well, they have their own environmental issues, but they are improving with newer technologies. BP's Deepwater Horizon event is a disaster of unmeasured proportions, and there are obviously cleaner and better ways to extract oil where you are not going to have that type of problem. Can I quantify that? Not particularly, but I can tell you that the Chinese are investing very heavily in Canada. They have committed billions upon billions of dollars to extracting the Canadian Oil Sands or the shale that is up there. It does not look like that is slowing down, because those are secure reserves, and they know they are there. They are proven reserves and there is a way to extract them. The production capacity for these businesses is going to grow. In the case of Suncor, they have spent a lot of money in the past several years, even throughout the crisis (they slowed down during the crisis), but that production capacity was there, and if you do not think that the price of oil is going to drop dramatically, we believe they are going to have higher earnings, and we believe the valuations are very cheap. It is certainly very cheap based on proven reserves relative to market capitalization, so from that standpoint, those are companies that we have owned for a decade; we will probably be talking about them a decade from now, because the returns on capital may be very attractive.

The case of BP is a very interesting topic, not so much about whether or not it is going to benefit the Canadian Oil Sands, in my opinion, but because it trades at a similar valuation to Berkshire Hathaway. My colleague, Murray Stahl, and my other colleague, James Davolos, wrote something recently about that, where they are saying, "Here is a company that has unquantifiable risk," and I can assure you one thing about BP, it is going to be in lawsuits for at least the next decade. Who knows the ultimate amount of legal risk and what it is ultimately going to cost them. It is probable that maybe even their book value will decline, and it trades at a valuation similar to Berkshire Hathaway, so I am looking at the two asking myself why I would ever put money into BP when I look at Berkshire Hathaway, and it does not have any of those types of problems. It does



not make any sense. So the misallocation of risk across a vast array of assets is out there, and I do not understand it, but the one thing I do believe is that it will not last forever. This will correct itself, and it will correct itself for certain entities in a very positive way.

Question 4: I had a question about gold. Every day we read about speculative bubbles in gold. The comment about the 10-year treasury and basically the decline that it has had, with the fear that is out there, do you believe that there is a bubble in gold, or is it something that we should stay away from? Also you hear about the speculative nature of municipals and the problems that the states are having with their budgets and everything. Is this another area where you think that we should be taking money out of? I know it is hard to get people to put money into stocks right now, given the performance and fear and everything else. What are some reasons we can get clients to try to reallocate and put more money into the Paradigm Fund and take them out of these other areas?

Peter Doyle: To answer your question about gold, there is a company called U.S. Gold, and I think that it is fascinating reading if you go to their website. The person that runs that actually ran Barrick Gold for a long period of time and made quite a bit of money for himself. He is of the belief, and he makes a fairly strong case, that gold could go to \$4,000-\$5,000 an ounce, and the logic behind it I think is actually reasonably good. Part of it is that 1) even if we are going into a deflationary environment you find out that gold actually did well in deflationary environments historically. It also performs well in an inflationary environment. But if you think about just the quantity of gold that has ever been produced, and as the standard of living in China or India rises over time, and if everyone wanted to buy a gold ring or gold necklace for their spouse or significant other, the amount of gold that would be demanded would be very high. You could see how the



demand could continue and justify a higher price. I am not predicting that, and we own gold through companies that generate a royalty interest in it, where we believe they are likely to do well even if the price of gold does not rise. I say that because they buy it on a discounted basis, so year one, they are buying it at a 12% discount, year two it is 12% to the 2nd exponent, year three to the 3rd exponent, etc., etc., so unless gold declines by 12-15% per annum, you are going to do reasonably well in those types of investments. We own it through Franco Nevada and another company called Wheaton Gold, and I think that is just a more intelligent way to own it, because you are not necessarily making a bet about the price of gold, which I have no great insight into. I would certainly want exposure to it. I am just trying to limit the risk should gold come back down, because it is a bubble, and your guess is as good as mine.

In terms of trying to get clients into the Paradigm Fund, I appreciate that thought and I hope everyone else shares that. The best argument is that if the government were to basically raise taxes by 50% or put a 75% tax on people's income, there would be revolts in the street. With interest rates down to 0% in money markets and under 3% on 10-year, it is functionally the equivalent. So, it makes no sense to put your money in treasuries when you can own some of the best businesses in the world that can give you an earnings yield of over 10%. The whole thesis behind margin of safety and Benjamin Graham, and they fleshed it out with the passage of time, is that Mr. Graham felt that if you could get a collection of businesses that had an earnings yield above 5% per annum above the risk-free rate, the 10-year treasury, over the course of a decade, even with the increased competition and the diminution of value of certain investments, the compounding effect of that would almost certainly give you a much higher return in stocks than returns in fixed income. Now, in this market, you could probably find a margin of yield that is probably something like 11-12% on certain stocks, so you are talking about a tremendous margin of safety. You are talking about really going back to the early 1980's, when you last saw this type of spread between equity yields and



fixed income yields. The truth is that you are going to make a lot more money in equities if you have patience. Now I say that, but tomorrow they could be cheaper. That is what everyone is fearful about. They want to de-risk by reducing the volatility. If you embrace the volatility for what I do not think will be an extended amount of time, you are ultimately going to capture those incredible rates of returns that I believe you can get in equities. I do not know how you try to express that to people, other than saying that we believe the yields that you are getting on equities are far, far in excess of what you are going to get in fixed income.

Chris Bell: One thing that you might do is go to Bloomberg and price the current 3% 10-year note at a 6% yield to maturity, and you will see that you lose about 18% of the value, and I think that that is interesting, because 6% is actually 100 basis points below the historic average of the 10-year. So if you want to talk about what a bubble bonds are right now, you can do it that way.

Peter Doyle: In 2007, the yield on the 10-year treasury was somewhere between 4.5-5%, and that was peak earnings for the S&P 500 and for a lot of businesses. You are getting back to peak earnings, and you have the 10-year treasury yielding 2.90%. We do not believe stock prices should be where they are today. It is not hard to find companies that are trading 40% below where they were trading in 2007, and 2007 was not a grossly overvalued situation. What occurred was the leverage in the system. When they allowed Lehman to fail, it called into question every other financial institution and it set into motion basically a deleveraging process, the selling off of the most liquid assets, meaning equities, and a flight to safety and de-risking. I think most investors are still anchored to that period, and they are not looking at the real values, the absolute values that you are getting in equities today.



Question 5: You were talking earlier about Berkshire Hathaway and how they are undervalued. I was hoping you could talk a little bit more about some of your other holdings that you refer to as allocators of capital.

Peter Doyle: Yes, we own things like Icahn Enterprises. We own things like Leucadia. We own Berkshire Hathaway. We own Brookfield Asset Management. All of those businesses that I just mentioned are trading at or below their net asset value, yet if you look at the people running those businesses, just from an operational standpoint, Berkshire Hathaway and Warren Buffett are very entrepreneurial. Obviously, he takes advantage of the mispricing of assets when he sees it, and at certain times, he does it in a very big way. The people that run those types of businesses, those allocators of capital, are very much the same way. They are not the managers of a business. We believe these people are looking to make money, and to make it on a very large scale. In a type of crisis like this, they are not the people that shrink. They are not running to the treasury. They are putting real capital to work because they believe that the potential returns are going to be extraordinary. They do not know what is going to play out over the next 6 months or the next 3 years, but they think that they are going to make a lot of money. In this type of environment, I want to allocate more of my money to those types of individuals. I do not want to own a business because if the person running Kraft Foods or whoever is running some food company decides they do not want to invest, then they will just be building up cash. The cash level now is the highest that it has been in 50 years on corporate balance sheets. It makes no return, and I do not want to be in those types of businesses. I want to be where people have the access to capital, these allocators of capital, and they are not afraid to take action, because this is the time to be taking action. Coming out of this, I think those investments are going to go up very substantially, not only based on the current businesses, but the investments that they are making today.



Internet Fund Top 10 as of May 31, 2010	
Scripps E W Co Ohio	7.72%
Baidu Inc	6.91%
Rovi Corp	5.56%
Dreamworks Animation SKG Inc	4.33%
Mantech International Corp	3.69%
Ritchie Bros Auctioneers	3.21%
Singapore Exchange	3.17%
Leucadia National Corp	3.16%
Scripps Networks Interact Inc	2.86%
Time Warner Inc	2.61%

Multi-Disciplinary Fund Top 10 as of May 31, 2010	
Owens-Brockway Glass Container Inc	8.06%
Davita Inc	6.27%
Consol Energy Inc	6.12%
EchoStar DBS Corp	5.86%
L-3 Communications Corp	5.81%
Peabody Energy Corp	5.77%
Washington Real Estate Investment Trust	5.75%
Corrections Corp of America	5.74%
Penn National Gaming Inc	5.67%
Boston Properties Limited Partnership	5.66%

Small Cap Opportunities Fund Top 10 as of May 31, 2010	
Tsingtao Brewery	6.78%
Icahn Enterprises LP	5.85%
Sichuan Expressway	5.26%
Jefferies Group Inc	4.46%
Singapore Exchange	4.31%
Warner Music Group Corp	3.59%
Franco Nevada Corp	3.49%
Texas Pacific Land Trust	3.40%
Beijing Capital Intl Airport - Class H	3.24%
Osaka Securities Exchange	2.93%

The information contained in these charts is updated at the discretion of Kinetics Asset Management, Inc. and is only representative of each Fund's portfolio on the date specified. Additionally, position size may not be indicative of actual market position due to the use of call and put options.



Chris Bell: Peter, will you comment on the rails? I know they have been commented on a lot lately as being at historic lows. And pharma - if you follow Carl Icahn, he is all over pharma and biotech right now.

Peter Doyle: In the case of Pharma, if you talk to my colleague, Paul Abel who runs the Kinetics Medical Fund, he will tell you that he is finding valuations that are obscenely low, and without the volatility that you might get in other areas of the stock market, which is demonstrated in almost every quarter the Medical Fund has been up and running. It is the number one fund over the last decade in the pharmaceutical industry. The Fund has seen, on average, approximately one of its holdings being bought out by another company each quarter. Based on the capital that is being accumulated on the balance sheets of Pharmas and the valuations that are being recorded, we believe it is a very attractive area. In the case of the rails, it is a long-term play. Berkshire Hathaway's acquisition of Burlington Northern speaks volumes to that. These companies are a low-cost competitor in terms of moving goods, and the technological advances that they have made over the last several decades are allowing them to get very adequate rates of return on capital. They are trading at low valuations that do not reflect the very long-term product life cycle that these businesses have, and the shift that is going on in various industries, moving away from trucking and into rails. It is hard to envision, even in a weak economic environment, that these companies are not going to be able to grow their earnings.

Question 6: On your last call, you singled out RRI Energy, and you made some pretty positive comments on it. Since then, it is merging. On CNBC, the day they announced the merger, they said it was like two drunks holding one another up. Has this merger changed your opinion at all on RRI Energy?



Peter Doyle: It has not necessarily changed my opinion, but I think that if I got \$100 today, it probably would not be the first area that I would put it in. Part of it is that it is dependent upon the spark spread, and who knows when that is going to improve? I think ultimately it will improve, but the manufacturing utilization and economic activity has to pick up fairly dramatically in order for the company to start reporting really strong earnings. The comments that I made about some of the allocators of capital and the pricing of Berkshire Hathaway - there is just a better risk/reward profile right now in those types of businesses. I think you can do well with it, but I think you can probably do better. I think Las Vegas Sands is ridiculously underpriced, and I could see how that company could go up many, many times and even in a more difficult economic environment, in a way that RRI would probably not go up.

Question 7: Psychologically, investors, advisors, portfolio managers constantly get inundated with the financial press and the story that it has been a lost decade. It is so negative and cynical. Washington, obviously, there are lots of issues there – debt being one. People are just really, really concerned about the future, and they are not focused on the earnings yield, they are not focused on the fundamentals, so therefore they just sit there, and I am curious what you are hearing from your position, relative to the cynical nature of investors today.

Peter Doyle: I could not agree more with that statement. People are more interested in a negative story or they are more willing to tune into a more negative story. They are in the business of selling advertising, and if that is what sells advertising, that is what they are going to tell you. I think that there is also another structural thing that is going on. There is compensation that is much more aligned with telling you a negative story in the financial industry than there ever has been



historically. All of those things are true, and I listen to the same craziness, and I listen to some guy that is on Fast Money, and he tells you that he is shorting Berkshire Hathaway, because there is more put buying than call buying in the options. These are the people that are basically expressing opinions, and I am thinking it is crazy, but that is what people listen to. Eventually, that cycle will be broken, the same way the bubble on the upside will be broken, the bubble of pessimism on the downside will be broken. If I had the date, I would tell you. I do not know the date, but at some point, the valuations become so absurdly low, or the business returns are so compelling for certain companies that they are not going to sell here. Even if we were in a condition where we are permanently going to pay no more than 10x earnings for any company, just the sheer growth of the businesses would allow you to get a good rate of return. If they are growing their earnings by 20% in that type of environment, you are going to get a 20% return as an investor. If investors ever decide that they need to take risks in order to get a rate of return, you are going to get the multiple expansion on the back of it. How do you convey that to your clients to have them listen to it? It is not easy. It is definitely not easy. It is not the mindset. I read a lot of history, and I can tell you that people are capable of anything. There is going to be smart money that comes in, something is going to change, and it will change in a very violent way, but I do not know the date of that, and do I anticipate more pain.

Question 8: I have clients in the Paradigm Fund and the Separately Managed Accounts, and their question is more that you went way down, but your recovery has not been as strong as some other sectors, and I have attributed it to the fact that we are in these four themes that you believe in. Can you specifically say why maybe we have lagged where some of the other parts of the market have rallied?



Peter Doyle: Well, if you are making the distinction between the Paradigm Fund and the Managed Accounts, there are some differences there. The Managed Accounts probably have not gone up as much as the Paradigm Fund. We are still in areas that are deemed to be lightning rods for investors, and they trade off very dramatically. If the perception is that the economic growth is slowing in China, the commodity firms go down 10% in a day, 8% in a day. The financial companies - when the Bank of New York cannot pay the European Central Bank, they sell off the financials globally. A lot of the companies that we own have nothing to do with any of that. In fact, I think that whole issue of them not paying the European Central Bank is ridiculous anyway. The European Central Bank is not going to foreclose on them, so they are basically going to be able to roll over their debt. That is headline news, so those industries will get hit pretty hard, so to a certain extent, we are still locked into areas that are still pretty much the lightning rods for the concerns that are out there. With the passage of time, that will go away, and the revaluations in those areas are going to be very powerful.

Chris said talk about the lightning rod with Bank of New York. Bank of New York is a company that has been in business for 225 years. Their business is principally custodial – custody of assets – and the assets are not shrinking; they are growing, and various products are still coming out, and the stock trades at 9x (probably even less now) next year’s earnings. Now I do not personally believe that it deserves to trade there today. I think today it deserves to trade at 60-70% higher. I am not saying wait for a year for the earnings to materialize. It deserves to trade that much higher, based on everything I know about inflation rates, interest rates and the earnings potential of a business, so that could happen literally in a week’s time. If the market gets in the right mood and changes its tone, it could really happen. Chris is shaking his head like, “How could I say something like that?” Because historically it does happen, I will say that. The return



characteristics in these types of environments tend to come in very quantitative bursts, and are very episodic, so it is not going to happen in 2 days, but it could happen over a very brief period of time. When I looked at that, I own that, and your guess is as good as mine. I can assure you with the market, when I last looked at it, it was down and it is probably down today, becoming an even better value. Does it go down to 22 before we hit bottom again, and then people realize it is insane? Maybe.

Question 9: I have always been a holder both personally of the fund and for clients and went through the bottom and believed in your long-term approach, and I know you are not macro guys, but just your thoughts on the whole overall credit bubble, in the sense that, I saw a chart that kind of scared the hell out of me. It does not necessarily indicate causality, but it just showed the leveraging of consumers correlated to the S&P, and it was just dramatic. Which one was causing which, who knows? Do you ever worry that maybe there was a fundamental shift? Maybe this really was a 25 year leveraging cycle, and we all kind of lived through the bull market, and maybe we have a different 10 years ahead of us?

Peter Doyle: We have thought about that for a long time, perhaps in a different way. The whole notion of GDP, in our opinion, is a little bit misleading. Let us say that I make \$100,000 a year, you make \$100,000 a year, and we both go out to Vegas and we spend it there, and we spend our money, and now the casinos make money. That, in theory, is adding to GDP, but what has it really done to society? What has it advanced? It has not done anything. It has not created wealth for anybody, so basically the measurement for how they measure the economy encouraged consumption in a way that was very unhealthy, and it got to the point where you cannot do that anymore – people running up their balance sheets, living beyond their means, etc, etc. There is



going to be, no question about it, a period of belt tightening, and there are going to be municipalities, whatever the states are going to have to do, they are going to have to raise taxes. They are going to have to cut services. That is all going to play out. It is going to happen here. It is going to happen in Europe as well. That being said, we believe you still can make a lot of money in equities, and there is a whole lot of mispricing there. The whole point of economics is to solve problems, and some of that problem solving is going to be in companies that we own, and they are doing things that are much more intelligent than that. To answer your question, I think that longer-term, the market sorts all that out. In the shorter-term, it treats everything pretty much as equals. Longer-term, I believe you will end up doing a lot better. We had averaged, prior to 2008, we had outperformed the S&P 500 by roughly 14% per annum. The reason for that was the returns on capital of our businesses were that much more attractive than the S&P – maybe not quite that high. Maybe it should not have been as high as that, but that dynamic has not changed, and yet the performance has narrowed considerably. Eventually, we feel the outperformance is going to come back. Maybe it comes back because we go up 8% a year, and the S&P declines by 3% a year or whatever it is going to be, but my faith has not been shaken in that regard. Again, I started off the meeting about how you ultimately get the returns of the businesses. From that standpoint, I think we sit in a very good position.

Chris Bell: I would just like to say that if anyone has any further question relating to anything we are doing, do not hesitate to call Tom or Bob at (914) 703-6950 or email me at chris@kineticsfunds.com, and I will make sure you get an answer quickly. Thanks again for attending the call, and as I mentioned, there will be a transcript posted on the website within the next week. I would also just like to add that within the next week or so, you will see the commentaries for the second quarter end uploaded onto our website. You will also see updated



presentations for the Tactical Paradigm Fund, Water Infrastructure Fund, Medical Fund and Paradigm Fund. If you are interested in reading the “Is China in a Bubble” research piece, please call Bob Uly or Tom Gormley in our Elmsford, NY office. The number again is (914) 703-6950. They can also be reached via email at Bob@kineticsfunds.com and Tom@kineticsfunds.com. And, you may always visit our website at www.kineticsfunds.com for up to date performance, expenses, Prospectuses and other important fund specific information. Thank you all again and please do not hesitate to call.

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