Kinetics Mutual Funds, Inc.
Third Quarter 2011 - Conference Call with Peter Doyle
October 4, 2011

Disclosures:

Kinetics Asset Management LLC ("Kinetics") is pleased to announce that on October 4, 2011, 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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Chris Bell: Good Morning everyone, thank you for joining us on this quarterly update. Today we have Peter Doyle, the Chief Investment Strategist for Kinetics Mutual Funds, Inc., and James Davolos, a Portfolio Manager and member of the investment team for the firm. I want to point out to everyone that after our presentation, there will be questions and answers afterwards, so please stick around if you have any questions. I'd like to draw your attention to the Kinetics website, which is www.kineticsfunds.com. Also, a new website resulting from the merger back in May is the Horizon Kinetics LLC website, www.horizonkinetics.com. You can find a tremendous amount of information on both websites. We have been talking about the Multi-Disciplinary Fund for a long time and we've got a really great presentation, which is approved for use with the retail public, on the Kinetics website under the "financial professionals" tab. Recently, we've been talking about owner-operators and there's a tremendous amount of research that is now available on both websites, including a new white paper specifically talking about our view on owner-operator which is located on the Horizon Kinetics website, so I urge you to visit and take a look at that when you have a chance. Peter will also be discussing owner-operators today. As Peter has said many times previously, we believe you ultimately achieve the return on equity or the return on invested capital of the companies in your portfolio through intelligent inactivity. As of September 30, 2011, our Paradigm Fund has a batting average, based on a rolling 12 month period, since inception, of outperforming the S&P 500 83% of the time.

	WWNPX	S&P 500 TR Index
Year-To-Date	-18.75%	-8.68%
One Year	-8.62%	1.14%
Three Year	-1.53%	1.23%
Five Year	-3.06%	-1.18%
Ten Year	7.27%	2.82%
Since Inception	6.29%	-0.39%

Performance data quoted is as of September 30, 2011. All figures are annualized. Past performance does not guarantee future results. The inception date for WWNPX is December 31, 1999. 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. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.77%. Kinetics Asset Management LLC, the Investment Adviser to the Paradigm Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.64% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for more information and a copy of the most recent Prospectus.

I'd like to remind everyone that 10 out of the last 11 years, the Paradigm Fund has outperformed the S&P 500. So, we believe that the Fund's year-to-date underperformance versus the S&P 500 represents a buying opportunity. Peter has been mentioning the Multi-Disciplinary Fund now for the past 18 months and we would urge you to take a look at it. As of September 30, 2011, it is outperforming the S&P 500 by about 260 basis points year to date, and has outperformed the S&P 500 from its inception period by more than 400 bases points annually.

	KMDNX	CBOE S&P 500 PutWrite Index
Year-To-Date	-6.66%	-8.28%
One Year	-2.18%	-2.75%
Three Years	4.94%	0.20%
Since Inception	1.79%	0.43%

Performance data quoted is as of September 30, 2011. 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. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 2.46%. Kinetics Asset Management LLC, the Investment Adviser to the Multi-Disciplinary Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.49% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for more information and a copy of the most recent Prospectus.

Peter is going to talk about volatility and valuations today and then James will discuss Equity Lifestyles, which is a new position in the top 10 of the Paradigm Fund. So with that, take it away Peter.

Paradigm Fund Top 10 as of August 31, 2011	
Las Vegas Sands Corp	6.44%
Leucadia National Corporation	6.35%
Wynn Resorts Limited	6.31%
Brookfield Asset Management Inc	5.18%
AutoNation Inc	4.28%
CBOE Holdings Inc	3.84%
DreamWorks Animation SKG Inc	3.80%
The Howard Hughes Corporation	3.78%
Franco-Nevada Corporation	3.75%
Equity Lifestyle Properties Inc	2.79%

The information contained in these charts is updated at the discretion of Kinetics Asset Management LLC 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.

Peter Doyle: Thank you Chris. Our performance is actually very weak this year in 2011. I understand the frustration that people may have with us and I empathize with you because I am living through it as well and it is not enjoyable. I will say that 2011 is reminiscent of the year 1999 for us as investors. Before we had the Paradigm Fund, we were managing accounts, and in 1999 the S&P 500 was up around 19% and I think our typical account was down a few percent. And we were getting calls from clients that were screaming at us, “You guys have really lost your way; you’re not investing in technology and the Internet.” And we said, very politely, “Listen, it is your money and you can do what you wish with it, but we think it is going to be a disaster and these are the reasons why.” We outlined the reasons why and we stuck to our knitting and ultimately that made our reputation. Unlike the crisis of 2008, which was really a liquidity crisis and not necessarily a crisis of operating characteristics, we believe 2011 is similar to 1999. We are looking at the businesses we own in our portfolios that are doing incredibly well operationally and yet the stock prices are declining by much more than the market and I think there are two reasons for that. The first reason is that the overall market, when looking at the S&P 500, includes very conservative businesses. It includes utilities, food companies, companies like Proctor and Gamble. These are very conservative, low-growth kinds of businesses; returns on equity are modest. Companies are generally not going to make a lot of money that way and are probably not going to lose a lot of money either. Those types of businesses actually hold up the S&P 500, or cause the S&P 500 to hold up better than the companies that we own in our portfolio, which are largely now the owner-operators. The reason the owner-operators avoid companies like the utility and the food companies is that they are looking to make a much higher rate of return on capital with the passage of time and they are willing to accept that volatility. The second reason for the higher volatility is that, right now, we are going through a period where margin calls are being made in various portfolios. So, we have to sell things and with the owner-operators, the float may not be as large as for some of the more liquid names. Therefore, any selling that goes on in the owner-operators or companies that are controlled by insiders, where there tends to be a poor bid-ask spread, stocks prices are knocked down more than usual. Those two things, I think, are contributing to our underperformance. The reality is that the companies themselves are actually doing quite well. If I run down the list of the names in the portfolio in the Paradigm Fund, I look at a company like Las Vegas Sands, down 19%; Brookfield Asset Management, down 25%; Leucadia, down 27%; Howard Hughes Corporation, down 31%; Berkshire Hathaway, down over 12%, all of which are approximate percentages year-to-date as of yesterday’s close, October 3, 2011. All of those companies have underperformed the S&P 500 and in some cases by a wide margin year-to-date. Now when I look at the companies operationally, we believe they are actually doing reasonably well. The stock prices are not reflective of that reality so even when I look at the broader stock market and I look at the earnings estimates by analysts out there, during this more recent crisis (and everyone seems to be placing the crisis at the feet of Greece and the potential for default there and the domino effect that might occur in Italy, Spain, Portugal, Ireland, etc.) the earnings estimates for the S&P 500 have gone up considerably in the last several months. If you look at the earnings estimates as of today by the typical Wall Street strategists, they are expecting roughly $104 in earnings per share on the S&P 500 for 2011. If that number is going to come through, which it more than likely will because we are very close to the end of the year, the S&P 500 is trading at about 10.55 times earnings, or an earnings yield of 9.6%. In comparison, the U.S. Treasury 10-year bill yield is 1.75%. So, with the definition that Benjamin Graham used regarding the margin-of-safety, the margin-of-safety is actually tremendous right now being an equity investor, although by being in equities, it does not feel that way. So, I think part of the volatility and part of the decline that we have seen is because the lesson the institutions around the world learned coming out of the financial crisis is that you need to control volatility, and in order to do that you need to be getting out of things. They discounted defaults now, going out now probably to 2015, including Italy and you see that in the options premiums as noted by the CBOE Volatility Index ("VIX"). The VIX rose 116% in the 3rd quarter; it started out off the quarter somewhere in the twenties and rose to 42 at the end of the quarter, and today (as of October 3 close) it stands at 45.45. What that means in terms of stock appreciation or decline is that the market right now is pricing options to expect that the S&P 500 will increase in value or decrease in value by 13% per month. Now, historically that number has been around 6% when the VIX is at its long-term average, and stocks and financial assets have a long-term tendency to revert back to their mean and to do so pretty quickly. Now, the reason I believe that the VIX will come down very substantially is that the companies that are in most danger, the financial services companies like Wells Fargo, Citigroup, JP Morgan Chase, Goldman Sachs, Morgan Stanley, etc., those banks are going down at a very rapid rate and their weighting in the S&P 500 is going to decline, and it is declining. As those weights decline, the greater the weighting for the food companies and utilities, and the volatility of these businesses is a lot less, so the stock prices and the options on those is a lot less, and we expect that the volatility will come down one way or the other. So if everyone is right and the world is going to come to an end, the volatility of the VIX is still going to come down very dramatically. So, with that being said, we believe there is opportunity out there and significant opportunity. I believe that this will reverse itself and this is a bubble of pessimism and everyone is running for the door at the same time. But companies we own in our portfolio are taking action and I am just going to give you some examples of that. Recently, Wilbur Ross and Fairfax Financial made an investment in the Bank of Ireland and they, together with a couple of other investors, now own roughly 35% of the bank. There is an interview with Wilbur Ross on Bloomberg that I think is very compelling for his argument for why they think the Bank of Ireland is a good investment and is going to come out of this thing fine. He thinks he will make a lot of money there. In the case of Carl Icahn, he owned 75% of Federal Mogul, a car parts provider, and he recently acquired 3% more, so he now owns 78%. Now, the reason he's done that is because auto sales are at roughly 12 million cars per year and there are roughly 240 million cars on the road today, which means that the typical car has to last 20 years. I don't know about you, but most cars don't last 20 years. So the belief is that auto sales have to rise and the auto part makers are going to be the beneficiaries of that. He wants to increase his stake when everyone else is trying to get out of it. In the case of Dish Networks, which is run by Charles Ergen, he recently acquired BlockBuster Video out of bankruptcy and he also acquired, through another company, EchoStar, Hughes Communications. His belief is that: 1) streaming video is going to be huge and he wants to be a part of that, and 2) the frequency spectrum for cellular is rapidly being depleted by the fact that so much data is going through it that you are going to have to send information and data through satellite communication, Mr. Ergen is going to be a player there, so he is making investments in that area during this crisis. Joseph Steinberg and Ian Cullman at Leucadia National, which is down nearly 30% year-to-date, recently acquired a 27% stake in Mueller Industries, which makes pipes and fittings for the housing market. Obviously, they think they are buying at a low price and I can use the same analogy that I used for cars for housing. In housing, we were doing 1.2 million starts in 2007 and today we're down around 250,000. The natural demand for housing in this country is far in excess of 250,000 and people want to live in homes and they are going to buy homes. The housing market is ultimately going to pick up, so they are making their bets there. Looking at Berkshire Hathaway, in forty years of operations, I think only one time in the past has Warren Buffett made a repurchase in shares, but the company recently announced that they are willing to spend billions of dollars to buy their stock back at 1.1 times book value and hence create a floor for their stock. Now the book value, in my opinion, well understates the intrinsic value and he is willing to buy it back at a higher price than what the stock is currently trading at, but still well below its intrinsic value. When we look towards the business operations of the companies that we own, we are pretty optimistic, and I would even say we are very optimistic. What you need to live through is this desire of the larger institutions around the world—it actually even goes down to the smallest individual investors—to try to achieve linear returns. At any piece of bad news, they are heading for the exits. As a result of that, it creates great investment opportunities, and ultimately, people are going to realize that's not the right way to make money. The right way to make money, in our view, is to own great businesses and let those businesses compound to your advantage. Ultimately, that is going to be reflected in the stock prices. We believe we are invested in those names and I am reasonably confident that this will be a replay of what we lived through in 1999. We are going to outperform, I do not know the exact date of the turn, but I believe it is going to come and hopefully it is going to come shortly. I believe the stock prices of the names in our portfolio will increase significantly to reflect the intrinsic value and the growth they have built up over the last five years. With that I am going to stop and let James speak about a particular company and I will come back on to make a few closing comments.

James Davolos: Thanks Peter. As Chris mentioned before, we have added Equity Lifestyle Properties as one of the top holdings in the portfolio and we initially came to this investment by following Samuel Zell. Sam Zell was the one who had founded Equity Properties back in the 1970s. Right now he is the largest apartment owner in the United States through Equity Properties. If you recall back to 2007, he sold his Equity Office properties to Blackstone at one of the richest valuations of all time. Another thing you can expect from owner-operators—when they see prices getting rich, they are sellers. However, right now he is a buyer. Anybody familiar with the Equity Office Properties deal knows that a great deal of those buildings, mortgages and loans did not work out very well for the investor. Just to take a step back, right now in the market, arguably the two favorite asset classes are United States Treasuries, of which the 10-year is currently yielding something in the magnitude of 1.75%. You can argue that a 10-year yield at about 1.75% is probably discounting a certain degree of economic malaise, if not deflation and recession. I certainly would not lend my money for 10 years at less than 2% a year if I expected an economic recovery or any type of inflation. Similarly, you have seen gold prices, both physical and ETF prices continue to surge this year, which you could extrapolate and look back into being an expectation of inflation. So the two largest allocations we are seeing this year are both looking at inflationary and deflationary potential scenarios. Equity Lifestyle Properties that Sam Zell owns and operates is a $2.75 billion company that has about $1.3 billion in debt, which is all 20/20 single specific property mortgage debt financed in the 5-6% region. He is taking advantage of the huge opportunity to refinance and obtain financing at long-term rates at very low levels and has also been expanding because of the availability of capital at very low rates. The company itself owns and operates resort properties and also housing properties. They have 365 communities with 134,000 sites in 32 states and Canada. Now, unlike a housing plot, these are typically sites that can have anything from a manufactured home to an RV to a more permanent structure and they are concentrated in coastal and high population areas. Now, in the event that the economy does have some more struggles and continued difficulty, this is obviously a very low market with stable demand, very affordable to the average person whether for a vacation or a more permanent residence. However, in the event that there is inflation, they do have rolling prices on an annual or semi-annual basis and they will be able to pass that on with relative ease. Additionally, in an inflationary scenario, they have a very low cost of capital and they can continue to utilize that to expand. Interestingly, people question the business model and wonder how actually sustainable the operations have been and how it might fare in a recession. I think everyone can agree that what we experienced in 2008 and 2009 was hopefully the worst years we will have collectively in our lives and in our careers, and during this period Equity Lifestyle Properties still experienced net operating income growth every quarter over quarter throughout this entire period going back to 1998. This is in stark contrast to a typical REIT as evidenced by any REIT index you look at. So, if you go back and look at the financials a little further, their 5-year compound annual growth rate for free cash flows is 95%, 5-year average return on equity is 28% and their most recent EBITDA margin is 53.1%. Now if you look at the actual earnings, it really understates the profitability of this business because Sam Zell is investing back in the properties and building as much equity value as he can right now at distressed prices, and is not necessarily concerned with earnings per share so you have to be careful and compare free cash flow and EBITDA, not necessarily net income. We think that he is going to continue to do what he is doing and exploit the spread of where he can access capital and where he can allocate it and continue to optimize all of his properties, and we believe this should continue to be an excellent investment regardless of the economic climate that we go through from here.

Peter Doyle: Thank you James. James touched on two things that I also should have elaborated on. One is the performance of U.S. Treasuries in 2011. The 20-year Treasury bond is up approximately 31% in 2011, as of October 3, 2011. Now bonds mature at par, so it is hard to see how that is going to be replicated. In fact, if it is trading above par, and it is going to be re-redeemed at its par value, chances are you will lose a fair amount of money, so that is another good indication of a bubble where people have put their assets. The second thing is option premiums: as a result of the increased level of volatility as measured by the VIX, you can go out sell a 6-month put option on the S&P 500 and collect roughly 10.5% for an annualized return of a 21.5%. Now, typically no strategist is predicting that the S&P 500 will rise by over 20% in 2011-2012, so if you actually want exposure to the equity market, the best way to get it right now is through writing 6-month put options, which is what the Multi-Disciplinary Fund has been doing and why it has held up so well, because that income component is working to your advantage as a result of the very high level of the VIX. If you look at the way the market prices options, which I think is a little crazy; the one-year S&P put is actually a 14% yield. If the volatility remained where it was for the next 6 months and you were able to write 2 turns of a put option on the S&P, you would actually get a much higher rate of return doing that so the world obviously believes that it is not being reflected properly through either the stock prices or the option prices. With regard to gold that James touched upon briefly, gold is a little bit of a different asset class. It may reflect the fact that there is inflation, but I think there is another reason for it. One of the things that people learned during this financial crisis is that gold actually was a hitch, and as a result of that, people are looking for types of securities that will perform differently. Right now, the global equity markets are essentially marching in lock step together and there is no diversification to being an international investor or global investor, and you need some asset class that can perform differently. Now I think bonds are not the best way, or at least certainly not Treasuries, because there is a limitation to how much it is going to return because ultimately, they need to be paid off at par. So gold as a percentage of one's portfolio globally is very underrepresented and even if inflation is not a real problem, I can see the price of gold going much higher as a result of people wanting exposure to that asset class. So we do want it in the portfolio, not because we believe that inflation will be a problem, but because we think that people's desire in the bubble that is going on, as they want to control volatility, will have a higher representation in the future. So with that I am going to stop and have the operator open it up for any questions.

Chris Bell: Peter, let me take this opportunity to ask a question that I have received from the field. Given the size of Las Vegas Sands and Wynn and all of the bullish articles coming out from even the Wall Street Journal and Levin, the President of Las Vegas Sands, who came out and talked about how great China is, and Steve Wynn, who was also in the press saying how great China is, do you think all of the good news is in the price of those stocks, and given the size and position in the Paradigm Fund, should we start to take some profits there?

Peter Doyle: To answer your question directly, I do not believe all of the good news is in the stocks and in fact, I think that more recently, the stocks have actually underperformed fairly substantially, and Las Vegas Sands is now down nearly 20% year-to-date. The business operations, either in Macau or Singapore in the case of Las Vegas Sands, can probably justify the entire market capitalization if you look out let's say 2-3 years. So either you're getting Singapore and Las Vegas for free, or you're getting Macau and Las Vegas for free, based on how well those business operations are doing. I think there is still a lot of upside, but they are volatile stocks and people's perception is that if China rolls over the gambling is going to come to an end. But they were saying the same thing in 2008. And in 2008, every month during the crisis, the revenue numbers were going higher and higher and Sheldon Edelson basically increased his stake very substantially at the time because he had the numbers. He was looking at the numbers and saying, well, people may think there may be a global depression but apparently everyone wants to gamble before a depression occurs. So he ended up buying a much larger stake in the business and I think he is very sanguine about the business prospects. His goal is to get the stock back above 100 and I think he has a very good prospect of that happening.

Question 1: In 2000-2002, the Paradigm Fund's performance was much better than the S&P. In 2000, the Fund was up 3.9%, in 2001, the Fund was up 2.02% and in 2002, the Fund was only down 4.62% and then in 2008, the Fund was down 53.17% and then this year again you have underperformed the S&P. How would you contrast the strategy you are implementing now with the strategy you were implementing from 2000 to 2002?

Peter Doyle: I would say there is absolutely zero difference in the strategy in the way we are approaching investments in the portfolio. The difference is that, if the Paradigm Fund were running in 1999, we would have underperformed the market because we were doing this with individual accounts and the individual accounts are not radically different than our mutual funds. You would have seen that we would have underperformed the market by a very wide margin and we would be having a conversation about why we were losing our way, value investing is dead, etc. The market in 2008 was liquidity-driven, it was not fundamental driven. I would say that even that is true today. People are getting out of things; they sell first and ask questions later and there is no fundamental work being done. The value of the stock is what the price is in their mind and if it is volatile and it looks like it is going down, then investors try to get out before the rest of the world. But everyone is getting out at the same time and the institutions that do not want volatility create the volatility. Eventually that volatility will go away. We used to have a bear market that might last 5 or 6 years but the bear market now can be done in 3 weeks because everyone is running to the exit at the same time and it is not being driven by fundamentals. For the 26 years the Horizon Kinetics investment team has been working together, we have believed that fundamentals ultimately win out. The fact is Berkshire Hathaway today is at the same price it was 5 years but the book value is 45% higher than it was 5 years ago. Now, if the book value grows another 50%, Berkshire Hathaway is not going to be at the same price 5 years from now. At some point people will recognize that it is ridiculously cheap and that they should be owning the stock. I can go through virtually every name in the portfolio and it's the same thing. Our names are not going to hold up as well in the market because it is not being fundamentally driven. If it does become fundamentally driven again, which it ultimately will, then we expect our names to perform in a way that will cause the outperformance to go back to what it was. I have no doubt that what we are doing is sensible; I just can't predict the timing of it. But, it looks to me that the bubble in the control of volatility is coming to an end - it can't go much further.

Questioner: So the strategy now is pretty similar to the strategy that was implemented in 2000-2002 except now the market now is much more liquidity driven?

Peter Doyle: That's correct. The core philosophy has not changed one iota.

Question 2: Do you look at the ownership of the shares you own and what percentage of the shares are owned by companies or institutions that might be more affected by liquidity and may need to raise cash by selling assets?

Peter Doyle: Yes, one of the things that I think was a legitimate criticism of our growth that we had going through the 2005-2008 period of time is that we probably did not have enough control on the liquidity of our positions. I think we got hurt as a result of people shorting in front of us, knowing that we were going to have redemptions or the fact that we were big positions of a company and we were going to sell. The senior management from various other institutions that joined our firm as a result of the merger that we had in May this year has done a much better job of that and we have a much better control on that. We also are intent on not growing the assets the way we had formerly and we're going to cap these products at some point. We're nowhere near that right now, but we're not going to take in $40 billion dollars the way we did in 2007. We're much more cognizant of that and I think that is a legitimate criticism of us, but I do not think we have that problem today.

Question 3: Morning Peter, Chris, James. Thank you for taking your time out today. With the historic levels of cash being held by individuals, corporations, and even countries around the world, how much thought have you put into thinking of where do you ultimately think that money is going to go where it is obviously unproductive where it is right now?

Peter Doyle: Yes, obviously the balance sheets of corporations are pretty good, but I think it overstates the strength of that. A lot of that cash that's held in that trillion dollars that I've even quoted in the past is actually held in offshore subsidiaries. There is no way for them to get that back without being taxed very onerously so from that standpoint, they are going to invest that money, but I do not think they will invest it necessarily here in the United States. They're going to go where the growth opportunity is, be it in Latin America or in Asia. You're going to have the growth and the continued exposure by the U.S. companies, their international exposure will grow as well. Right now, roughly 53% of the revenues for the S&P 500 come from overseas, 20 years ago that was a much lower number and investing internationally really provided diversification, but now it doesn't provide much diversification. But that number is going to grow higher in the future. We're not trying to guess that they're going to shift it out of Treasuries or shift it from their cash positions into some particular name, that's not the way we're looking at the world. We are just trying to do good fundamental research on companies and ultimately we think those will be the ones that will increase the most in price. I'll say that for a lot of the companies that we own in the portfolio, they're taking action with their cash flow to buy back their stock and you don't typically see that in agent-operated businesses. Owner-operators tend to behave with a view of getting a return on capital and they're willing to invest that capital in the business. And a company that is a lightning rod, and I know it's a mistake to even bring it up, is Sears Holdings. Sears is diverting its cash flow and buying back their shares very aggressively, and Eddie Lampert obviously thinks there's a lot of value there because every time he buys back a share he becomes a bigger individual holder. When I look at their strategy I think it's very misunderstood and I think that stock is going to be a tremendous investment, but it's not going to take place in the next three weeks, I can tell you that.

Chris Bell: Should we comment on the fact that Eddie Lampert sold some AutoZone?

Peter Doyle: One of the legitimate criticisms of us is that we didn't take money off the table in 2007 in some of the exchanges that we owned. Now we have somewhat of an inside track in the sense that if Eddie Lampert doesn't want to own as much AutoZone or AutoNation, which he's a very large investor in, and he's selling, then we should be reducing our position at the same time because he has access to better information or he knows that there are better opportunities. Sears he continued to buy. When I look at the strategy, it seems to make a lot of sense to me. Those types of businesses, if you're in the S&P 500, you're not going to make a radically great return looking out over the next decade. The returns on capital for a lot of businesses are not sustainable. The net profit margins are well in excess of where they've been historically, and things tend to revert back to their mean.

They’re not going to be able to be at 20% when long-term averages are at 7%. But other companies like Howard Hughes Corp, Sears Holdings, Leucadia, Brookfield are doing incredibly interesting things and you could make an argument that they have the potential to make a significant amount of money. In the short term, no one cares about that. But longer-term you’re going to pay attention to it.

Question 4: Hey fellas, how are you? With respect to valuation, Peter, you mentioned that you didn't think the market had all that much further to go on the downside. If you look at metrics valuation now and I know you used one earlier, you said we were trading at 10.55 toward forward earnings as of yesterday's close. At the market's bottom in March 2009, we traded a fair bit lower than that, granted the world was a little different place, and the problems that were before us seemed different at that time. Do you think we could trade down (I know it's a matter of opinion) to the 2009 levels, do you think we're close to the 2009 levels in terms of valuation and if not, what do you think that even a reasonable downside from here could be?

Peter Doyle: I'll never say never because I've seen some crazy things. And I don't think a lot of stocks should be trading where they trade today but they are trading where they are so it is certainly within the realm of possibility. The valuations stayed there for a very short period of time and then you had the very big run up starting in March 2009. I think something like that is very likely to happen because I think the volatility is going to come out of the market. And there are certain securities that I think are cheaper today than at they were at the low point in 2009, and other things that I think are very expensive. I’m not so certain that 10.55 is a legitimate number because I think the S&P 500 earnings that are being reported are not sustainable so I think it's probably trading at a higher multiple. So it's a long way of saying that you probably need to be a pretty good stock picker here. I think if you're buying the broad market, I wouldn’t expect a great return looking out over the next decade but within that there are companies that are doing incredibly positive things and interesting things that are creating real intrinsic value that you may make a lot of money on. I hope that answers your questions.

The level of the VIX right now is pricing in a lot of downside. I did this on a previous call and my colleague Steve Bregman just recently wrote a paper, but the VIX today is at 45 and change, and that implies roughly a 13% monthly swing. I think 6% is the average for the monthly swing implied by option premiums historically. On July 11, 2008, the VIX was at 27.5 and on that date Freddie Mac and Fannie Mae were at risk of being put into receivership. September 7, 2008, the government took over Freddie Mac and Fannie Mae, and the VIX was at 22.6 the following day. Merrill Lynch, on September 4, 2008 was sold to Bank of America, and the VIX level was 31.7. When Lehman’s bankruptcy occurred, the VIX was at 31.7, on September 15, 2008. Following the AIG credit downgrade and all the problems, hundreds of billions of dollars they were on the hook for, the VIX was at 30.3. And the following day (September 17, 2008), when Federal Reserve supported AIG, the VIX rose to

36.2. The volatility levels and the premiums that you're getting in options right now are far in excess of that. Maybe Greece defaults in a week from now, maybe it defaults 2 weeks from now, maybe 3 weeks from now, whatever it's going to be, but it seems to be priced into it. The fact is that the VIX, historically, has traded above 40 only 3% of the time since 1990, and in the last month and change it has been above that level or right around that level and a big chunk of that time where it traded above 40 was during the financial crisis. I think the market is pricing in, as expressed by the level of the VIX and the option premiums that you're able to get, which is far in excess of the expected return on the underlying stocks, is not only pricing in Greece, the default of Portugal, Spain and possibly even Italy looking out to 2015. So if it goes down another 10% it's basically pricing all that in already so at some point people are going to say things have gone too far. And I don't know the date of that, but my sense is that when the 20-year Treasury is up 31% and the 10-year is providing a yield of 1.75%, you're getting pretty close.

Chris Bell: Just want to bring up one point, which is that our colleague Derek Devens recently gave a presentation in which one of the slides talked about the incredible amount of difference between implied volatility and the actual volatility of the marketplace. It's pretty substantial, and it is the basis on which the Multi-Disciplinary Fund has been created.

Peter Doyle: On December 31, 2008, the VIX closed at 40. On December 31, 2008, the world was really in turmoil. We had a run on money markets, Washington Mutual, the largest bank failure had occurred, all the things that I just recently read to you, it closed at 40. Today, it's actually 5 points higher than it was in December, 2008. It doesn't seem justified, or it's already pricing in some really horrible things that really haven't occurred. The other thing is that, and I didn't get into this because it gets far too much into the nitty gritty, but my colleague Murray Stahl recently did a piece that goes into the exposure of companies like Credit Agricole and BNP Paribas to Italy and Greece and Portugal and Ireland and of their equity value. In the case of Credit Agricole, their book value exposure to those countries (Greece, Ireland, Portugal, Spain and Italy) is only 16%. So if everything was written down to zero they would lose 16% of their book value. Now obviously things aren't going to be written down to zero so they're going to lose something less than that. If you take out Italy, which is by far the largest, their exposure to those other countries is only 4.19%. So, even if things went awry and everything was written down to zero and Italy somehow managed not to default, you're talking about basically, a negligible loss of book value for these companies. I don't know how the world perceives it and everyday there's a headline about how incredibly bad it is, but based on their actual exposure and based on how much the volatility is pricing in this default, it shouldn't even be at that level. The fact is that based on what I'm telling you about how the more volatile things continue to decline much more rapidly, the VIX should be somewhere around its long-term average of 19 today. I don't know when it's going to occur, but I believe it's going to happen in the blink of an eye, in the same way it happened in 2009 – the VIX came down so radically and so fast. I think the same thing's going to happen. And equities are going to go on a nice run, and the things we own are going to go on a much nicer run, in my opinion.

Global Fund Top 10 as of August 31, 2011	
Fanuc Corporation	4.25%
Shiseido Company Limited	3.27%
Toray Industries Inc	3.25%
Vodafone Group plc - ADR	3.17%
Weathernews Inc	3.09%
Osaka Securities Exchange Co Ltd	2.76%
Shire plc - ADR	2.51%
Edenred SA	2.36%
Sumitomo Mitsui Trust Holdings Inc	2.32%
Keyence Corporation	2.30%

Internet Fund Top 10 as of August 31, 2011	
Baidu.com Inc	7.33%
Viacom Inc	4.53%
Rovi Corporation	4.04%
SINA Corporation	3.94%
Liberty Global Inc	3.40%
Discovery Communications Inc	3.34%
Ritchie Bros Auctioneers Incorporated	3.26%
EchoStar Corporation	3.02%
DreamWorks Animation SKG Inc	2.85%
CACI International Inc	2.65%

Market Opportunities Fund Top 10 as of August 31, 2011	
WisdomTree Investments Inc	12.18%
Franco-Nevada Corporation	8.96%
CBOE Holdings Inc	8.40%
IntercontinentalExchange Inc	6.36%
Hong Kong Exchanges & Clearing Limited	4.66%
Brookfield Asset Management Inc	4.27%
CME Group Inc	4.11%
Singapore Exchange Limited	3.71%
Cohen & Steers Inc	3.57%
Las Vegas Sands Corp	3.55%

Multi-Disciplinary Fund Top 10 as of August 31, 2011	
Owens-Brockway Glass Container Inc	7.93%
Consol Energy Inc	7.56%
Icahn Enterprises LP	6.66%
Chesapeake Energy Corp	6.19%
Calpine Construction Finance Company LP	5.01%
Davita Inc	4.23%
Harvest Operations Corp	4.18%
Branson Missouri Regional Airport Transportation Development Revenue Bonds	3.96%
Live Nation Entertainment Inc	3.46%
Branson Missouri Regional Airport Transportation Development Revenue Bonds	2.97%

Small Cap Opportunities Fund Top 10 as of August 31, 2011	
Icahn Enterprises LP	8.98%
Texas Pacific Land Trust	7.48%
The Howard Hughes Corporation	7.21%
WisdomTree Investments Inc	6.81%
Franco-Nevada Corporation	6.09%
Jarden Corp	3.87%
Covanta Holding Corporation	3.43%
JSE Limited	3.42%
Osaka Securities Exchange Co Ltd	3.21%
Cohen & Steers Inc	3.16%

Water Infrastructure Fund Top 10 as of August 31, 2011	
Veolia Environnement SA	18.96%
Mueller Water Products Inc	12.54%
Chesapeake Energy Corp	11.28%
Icahn Enterprises LP	8.23%
Ameron International Corporation	2.79%
Cadiz Inc	2.54%
Tetra Tech Inc	2.41%
Brookfield Renewable Power Fund	1.72%
Consolidated Water Co Ltd	1.43%
United Utilities Group plc	1.23%

The information contained in these charts is updated at the discretion of Kinetics Asset Management LLC 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.

Question 5: Included in your top holdings you have Osaka Securities and CBOE Holdings. In the past, you've had an investment theme that you were going to be investing in exchanges because you were anticipating a lot of consolidation and companies buying other stock exchanges. Are these holdings part of that same theme? If not, what's the rationale for holding these exchanges?

Peter Doyle: They are part of that theme, the original theme. And that theme, operationally, is continuing to play out, even though we have scaled out, largely, out of the exchanges, and it was a very big position for us. One of the frustrating things that occurred, during the financial crisis, is that we got no credit for being in companies that actually didn't have the financial stress of companies like Bear Stearns, Merrill Lynch, Lehman Brothers, Goldman Sachs, Morgan Stanley, etc. The managements of the exchanges didn't behave in the way that we would have wished they had behaved during the crisis. In the case of the NYSE, they were talking about cutting their dividend; they were laying-off employees. There was no basis in reality, based on the business operations, for them to be holding those types of discussions. And when the stock fell from 100 down to 14, the management, which is not an owner-operator, didn't buy it, when it was trading at a fraction of its true intrinsic value. When we looked around during the financial crisis and asked who took actions that were much more consistent with what we would want to do, *i.e.* buying great assets at distressed prices, we looked around and it happened to be the owner-operators. They are companies like Berkshire Hathaway, or Leucadia, or Brookfield. Those were the ones that actually were doing things that were creating long-term value. The other people were running for the hills. In the case of CBOE, the reason I'm holding it is I think it has really proprietary products, and it is what the world wants. Everyone wants to control volatility, and they are one of the biggest options players, and if you really want to control your risk, the best way to do it is with options. And I encourage you to look at our Multi-Disciplinary Fund in that regard. And, there are other ways to control your volatility through options. Also, the CBOE controls the products of the VIX, and everyone wants to trade those products. There are the futures that are being traded on that. So if you want to trade options on the VIX or futures on the VIX there's only one exchange where you can do it and it's owned by the CBOE. And I think there's a real scarcity value to that. And I think it's going to ultimately be taken out at a much higher value. Right now, it's a relatively small part of their overall business, but I think those volatility products are ultimately going to become a very big part of their business. There's no incremental cost associated with more trading on those products. In the case of Osaka, Japan is just an absolute basket case for the last 30 years, and if you want exposure to that part of the world, and the leverage of that ever turning around, that's the way to play it. It's a small position, and we'll probably hang onto it.

Chris Bell: Peter, I'd just like to ask you a question. I know that in the past we've had a lot of Canadian oil sands companies. With the price of oil now coming down to as low as $75—I know we had scaled out of

Canadian oil sands companies, are we now looking back at them again? If not, why not, and what you look at to take advantage of oil?

Peter Doyle: The attraction for the Canadian oil sands companies (and we've been invested in the Canadian oil sands companies for the last decade plus) was that Canadian oil sands companies had the ability to grow their production on an annual basis, unlike the typical integrated oil company where the production was declining. So, it wasn't a bet on oil—if the price of oil stays the same, and they grow their production capacity 15% a year, they're going to grow their earnings 15% or more because it is a scale business. And that's more or less what happened. Prior to the run-up in oil that we've had in the last several years, you actually got a very nice return in Canadian oil sands companies, and you got a very lousy return being in Exxon Mobil. And it had all to do with the production capacity. We have found other options where we think the production capacity growth is going to be higher and it's here, domestically, in the United States in some of the shale businesses out in South and North Dakota, and we've been shifting money into those companies. And those companies also happen to be run by owner-operators. So we think there's greater production capacity increases there and they're run by managements that are not agents, that basically eat, breathe and live everything about the oil business, and we're moving some of the monies into those companies.

Chris Bell: I'd like to finish by reminding everyone to please go to the websites: www.kineticsfunds.com or www.horizonkinetics.com for research, updates on factsheets, as well as presentations on the majority of our strategies and returns. Thank you very much and have a nice day.

[END]