



**Kinetics Mutual Funds
Conference Call with Peter Doyle
March 31, 2009**

Disclosures:

Kinetics Asset Management, Inc. (“Kinetics”) is pleased to announce that on March 31, 2009, Peter Doyle, the Chief Investment Strategist of Kinetics 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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Conference Call March 31, 2009

1st Quarter Conference Call
Kinetics Mutual Funds

Chris Bell: Good Morning everyone and thank you for joining us for Kinetics Asset Management's 1st Quarter Conference Call. As always, we have Peter Doyle, co-founder, C.E.O and Chief Investment Strategist of Kinetics Asset Management on the line to discuss a few of the things that happened in the portfolio throughout the quarter and what our thoughts are going forward for the market.

As a quick housekeeping note, it's with sadness that we have said goodbye to Jim McShane, who is leaving us and going on to Virtus Advisors. We are, however looking to fill a spot in the New England area, so if you know someone, please let us know. We wish Jim good luck in his future endeavors.

As a reminder, everyone can visit our website (www.kineticsfunds.com) to find updated performance figures as well as the top 15 positions for every one of our funds through the end of February. The March ending data will be updated on the 21st of the following month.

Without further ado, I will hand the call over to Peter Doyle, co-founder, C.E.O and Chief Investment Officer of Kinetics Mutual Funds.

Peter Doyle: Good Morning everyone and thank you for being on the call today. I'd like to start today by pointing out what I think are some unusual observations regarding the markets and our funds in particular. Looking at our Market Opportunities fund, which is



largely focused on the croupiers, (i.e. those businesses that stand between the customers and provide a service, which allows for a transaction, particularly a volume transaction). The no-load class of that particular fund (KMKNX) as of march 9th, was down 21.3%. At the start of the year it was at a unit value of 7.16, on March 9th it hit a low of 5.63, and as of March 26th, it was at 7.54. So the rebound from the low was almost 34%, and on the end of that day it was up 5.3% (3/26), today its down about 3% YTD.

	KMKNX	S&P 500 Index	Nasdaq
One Year	-42.48%	-38.07%	-32.93%
Three Year	-10.85%	-13.06%	-13.23%
Five Year	N/A		
Since Inception	-27.23%	-33.28%	-33.71%

Performance data quoted is as of March 31, 2009. Past performance does not guarantee future results. The inception date for KMKNX is 1/31/2006. 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.

I find that volatility extraordinary, but I don't find it that unusual, in the sense that I look at the valuations of the companies in that fund and I think it's normal that they would come back in that manner. There's one thing I'm certain of in our funds relating to the type of climate that we are in. The volatility is going to remain high. Part of what I happen to read in Barron's this weekend, and I was looking at one of the companies we own, Visa, which is essentially a payment processing company. They don't have credit exposure, they don't issue credit cards, they don't have bad debt; they have none of the problems associated with the financials you read about in the papers. The C.E.O. of that company spent a majority of his presentation time actually explaining what the company is. I find that somewhat extraordinary being that in March of last year, having been a



publicly traded company for just about a year, it was the largest IPO in the history of IPOs and the C.E.O. of that company actually has to explain to the investment community what the company does and how it makes money. So, the vast majority of people who were selling that stock actually believed they had credit card issuance and were exposed to credit debt, and because of that belief they sold that stock. I believe the potential opportunity there is extraordinary. The secular trends for credit card markets and the debit card market is growing at a very fast rate. It's rare that I find myself using cash for making even mundane purchases. And they basically process that. Every time they process that on a fixed cost platform it results higher profitability. So it's hard to envision a world where the government continues to issue money at an astounding rate and the use of credit and debit cards doesn't increase in the future – yet people are treating that as if it's a company in financial distress. It's not in financial distress at all, in fact the earnings grew 20% year over year in 2008 and they are looking for something comparable in the year 2009. So, if a company like Visa has a hard time explaining itself and having a hard time being understood, I don't give a lot of hope to some of the other holdings in our portfolio which are equally undervalued and equally misunderstood.

As most of you know, we believe this was a crisis of liquidity, and remained a crisis of liquidity until August of 2008. It became something of an economic crisis at the end of August and early September, with the collapse of Lehman Brothers, the takeover of AIG and the takeover of Fannie Mae and Freddie Mac, and the seizing up of the vast credit markets. And those vast credit markets are finally starting to un-freeze and the government's actions both with commercial paper and money market funds made sure that the economy wasn't going to become completely derailed. Other parts of the market



however, the consumer credit markets in particular, are still in turmoil, and that's having an impact on economic statistics. We're of the belief that that will ultimately correct itself. Each day, millions of people around the country are paying back mortgages, they are paying down principal and they are paying back interest. Liquidity is coming back into the system, and as it comes back into the system the economic activity will start to look better.

The overall stock market decline from October 2007 through early March of this year was approximately, in real terms, 60%. The market lost, in nominal terms 56%; it was about 1565 and got down to the mid 600's here. So 56% nominal decline plus you had, over that time, roughly 4% inflation. That decline exceeded in real terms, not in nominal terms but in real terms, the decline from 1929 to July of 1932. The magnitude of that decline today was basically greater than that of the Great Depression. During the Great Depression, it took place over 33 months; they contracted the money supply by 25% over that period of time, and the opportunity set today is better based on how much they've taken down the values and yet the economic environment is not anything approaching what it was in 1932. The opportunity set, in our opinion, is unlike anything you are going to come across in your investment career. Now that doesn't mean it's going to correct itself in 2 weeks but if you can look past the panic and the bubble of fear, we believe investors will be able to make extraordinary rates of returns from here. There's two realities in our funds – there's the price reality and last year our performance in our managed accounts and our mutual funds almost without exception, maybe the Medical Fund and the Water Infrastructure fund did reasonably well last year, but the



price reality is one thing. The Paradigm fund was down 56% last year and the managed accounts were down a comparable amount.

	WWNPX	S&P 500 Index	Nasdaq
One Year	-49.91%	-38.07%	-32.93%
Three Year	-16.88%	-13.06%	-13.23%
Five Year	-2.18%	-4.76%	-5.18%
Since Inception	-3.41%	-33.28%	-33.71%

Performance data quoted is as of March 31, 2009. Past performance does not guarantee future results. The inception date for WWNPX is 12/31/1999. 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. Visit www.kineticsfunds.com for more information and a copy of the most recent Prospectus.

And then there is the business operations reality. And from that stand point, the business operations reality, we actually held up quite well. If you look at companies like Visa, MasterCard, the New York Stock Exchange, NASDAQ, and Chicago Mercantile Exchange – operationally those companies did very well. Yet, if you look at the stock prices, in many cases, and especially in the case of the exchanges, you would see that they declined 60-70%, and in some cases more. And yet the business operations, by and large, did quite well. So unless you believe that the fundamentals are never going to matter again, the opportunity, as an investor, is extraordinary. And it’s extraordinary even if the equity markets are lost to a generation. The great concern out there is that people are so fed up with the risk and they think that the stock market is rigged that they are never going to come back and you are going to have permanently low valuations for companies. Even if that were true, which I don’t believe to be the case, if you find a company like Visa, which is able to grow its earnings around 20% annually, and you maintain the same P/E multiple, as an investor, you will get a 20% annualized return



from these levels. The icing on the cake is, or the potential icing on the cake is, which I think is a much more likely scenario, is that the companies continue to flourish, plus you get valuation expansion as the appetite for risk comes back into the market place. The reason I believe it will come back is because the mispricing of assets is extraordinary. One example is pre-refunded municipal bonds. Pre-refunded municipal bonds are bonds that are backed by Treasuries. These bonds really have the same credit quality of treasuries and across the maturity spectrum you can find these bonds that have yields that exceed Treasuries, by a very wide margin, especially when you take into account that you pay Federal Taxes on Treasuries, and recently, there has been ETFs that have been created to exploit that market. Each day that the ETFs go out there a buy up pre-refunded municipal bonds they will drive down the yields and get them back to more historical levels. i.e. trading at a substantial yield discount to the Treasuries, as opposed to a substantial premium as they are today and I don't think it's a very hard sell. If you go out to a customer and say there's a publicly traded pre-refunded municipal bond ETF that yields 1.8%, and its maturity is about 4 years, while the comparable treasury is yielding about 1.7%, you pay taxes on the treasury, so you are probably only keeping about 1.25% or so, there are going to be enough people that pile into that ETF and take advantage of that knowing that the credit quality is identical to the Treasury itself. I believe that market will correct itself. And then the risk profile will start spilling out into that. So you look at the pricing of assets we believe it's bound to correct itself, primarily because if anyone ran to the sidelines and put their money into short-term treasuries or cash, they are really making no return. If you are at 25 basis points and even if you have 10 million dollars, you are talking about \$25,000 in income for a fairly wealthy person. They cannot



stay in that asset. They are going to have to move into a riskier asset and as they do move into riskier assets the pricing of securities will become more rational.

So looking at our funds and where we have exposure, there has been minimal changes within our products, primarily because, as I mentioned earlier, the business operations continue to do well. If you look at our largest exposure, financial services, we own principally the financial exchanges – NASDAQ, NYSE, CME, ICE, LSE, etc, those companies are going through a renaissance. And the business opportunity today, in our opinion, is far more attractive today than it was at the end of 2007 or the end of 2006 for that matter. The reason I say that is if you look at the New York Stock Exchange there is one example; the one bright spot in the entire financial industry has been ETFs. ETFs took in close to \$70 billion dollars last year, while the mutual fund industry, unbalanced, lost about a trillion dollars. You look at the most successful ETFs, whether it's the spiders or the leveraged S&P products or leveraged financials; you find that people are not really running away from risk, they just want a different exposure to risk and better liquidity. If you look at the most successful ETFs, you find they employ leverage, i.e. two times the underlying, two times the coal stocks, two times the oil companies. So those are actually achieving the higher level of volume, which says to me basically that people don't want to take on less risk, they just want to have the liquidity to get in and out quickly. If you look at the case of the spiders, the spiders are meant to replicate the S&P 500 Index. In theory, the whole belief behind it was why select an active manager when the index outperforms, over an extended period of time, over 70% of active managers, and they can do it in an index product with low cost and the cost differential accrues to the investor. The spiders were meant to be, in my opinion, a buy and hold



strategy. The spiders have daily turnover of 50%. That works out to 12,000% percent annually. It's astounding. And what people don't understand is that every time somebody buys and sells the spiders the companies that are managing that product have to go out and buy or sell the underlying securities to reflect that reality. So the volume is not drying up, and people are concerned about the de-leveraging taking place and once all the selling pressure is done who is going to trade. They have been saying that for 16 months and it hasn't come to pass. Certain months the volume has gone over but that is not a-typical even during a normal year, some months are higher than others. The volume is actually going higher, not lower. In certain products it may be going lower but across the board for these companies the volume is higher year over year.

If you look at the ETF business, the ETF business requires a specialist to be able to close the difference between Net Asset Value and the trades in the market. The NYSE has a 95% market share in the ETF business. That is in the first inning of what is going to be an extra inning game. The ETF business is just getting started and you can now diversify across virtually any asset class that was not available several years ago, through an ETF. So if you want a 3-year New York municipal bond, you can get it through an ETF. If you want a 3-year, 5-year municipal bond California you can have it. Maryland, you pick the state and there is an ETF that reflects that. If you want to buy European Small Cap Value Stocks, there is an ETF. If you want to buy Emerging Market Growth Companies, Small Cap Growth, Large cap growth, there are ETFs for those products as well. So when I look at this and I look at the way people have diversified through ETFs, to me the markets that are opening up are just astounding. Bond markets, corporate bond markets, municipal bond markets, and high yield markets, foreign markets, they are all



going to be and are traded through ETFs and the volume in these products in some cases is astounding. That is all going to take place on the exchanges here. They use leverage, they use futures, and they use options. All of that is taking place through the exchanges.

If you look at what has actually gone on, the crux of this crisis is really the shadow banking system that grew up, the unregulated markets that operated off of the exchanges. The mortgage backed securities market and the credit default swap market are the primary examples. Those products are going to be shipped onto exchanges. More recently, both the Federal Reserve and the Treasury granted authority to the Intercontinental Exchange and the Chicago Mercantile Exchange authority to trade credit default swaps – multi trillion dollar markets that are going to be moved to a fixed cost platform. We firmly believe that is going to increase the profitability of these companies. If you look at the programs that are being implemented by the U.S. Government, the issuance of debt, it is astounding at the rate that they are doing it. Right now there is around 10 trillion dollars of Treasury debt outstanding, five trillion of which is held by the Social Security Administration. Five trillion of which is held in public hands. They are going to issue another trillion dollars of debt within the next 6 months. That means there is 20% growth in that product over the next 6 months. Anyone who is looking to hedge that is going to be doing it on the Chicago Mercantile Exchange. When I look at the business opportunity, if I was owner of that business outright, and it didn't have a publicly traded stock, I would say that this is the golden age of our investment opportunity in terms of business prospects. Yet the stocks are being treated like they are going out of business and the bearish case is what I mentioned earlier, i.e. the de-leveraging is going on, once that stops the volume is going to seize up, and since there is



very little ability to cut costs on a fixed cost platform which are largely technological, the earnings are going to collapse by a great magnitude. All I can tell you is that the overall evidence does not support that at all. To date, the analysis on the business operations side has been entirely in accord with our thinking, and it looks better today than it did 6 months ago, a year ago, or even two years ago. So when I look at the opportunities and the ability to buy some of these companies at normalized earnings looking out over the next two or three years at four or five times earnings, it's an earnings yield of 20-25% in an environment where you can get a two point seven five percent yield on a ten year treasury. That type of spread is not going to endure.

We believe the U.S. Government is not going to stop until they stabilize real estate values. All of the taxing that is going on, for example, if you live in New York State they are going to increase the tax rate to close to 9% if you make more than \$500,000. The Federal level is going to go close to 40%. Real estate, for investment properties, is one of the few places you can buy investment properties and use the depreciation charges against that investment property to shelter income. That action of taxing the wealthy will actually drive real estate values higher in my opinion. I'm already contemplating it myself, I'm saying any nominal or marginal income that I bring in for myself is going to be taxed at a minimum of 50%, and probably climbing higher than that. What's the point in working unless I can in some way shelter that? Real estate is still the one investment property, investment area where that will occur. Whether I make an investment in an apartment building or commercial property I can take that depreciation charge and shelter income. I believe that we are not the only people thinking along those lines. It's clear that the government wants to stabilize real estate



prices. The amount of liquidity they are injecting into the market will basically accomplish that, and that will take off selling pressure on the equity markets. You can see the type of volatility, the type of move shifts that can occur very quickly. It moves from extreme pessimism to extreme optimism from March 9th through March 26th, you can see how much upside potential is there. For me, I mentioned the Market Opportunities Fund being up 35% in that period of time, being down over 21% and ultimately ending up 5% that was not extraordinary to me. I think that is, actually, a likely scenario to unfold in the future. When I look at the potential of our funds, I find it to be extraordinary based on what has occurred from a business operations standpoint.

Looking at other areas in our products, oil, same type of scenario, if you look at what they did to the price of oil. More recently, it was trading down in the low 30's, and then it rallied up into the mid 50's, yesterday it was down big, I believe back below 50. People are just saying one week the economy is turning around, let's get more bullish on oil, and the next day its basically the government is going to come in and socialize every business, let's now be less optimistic on what's going to happen with the economy. They are treating it like it is a piece of paper. The commodity itself is ultimately going to trade on its fundamentals and in the last 25 years the demand for energy has risen by more than 50%, the cost of extraction has gone up considerably over a 25 year period of time, the global rig count has virtually been unchanged. The only place where it has grown has been in the United States, which is a very telling thing I think. The United States had peak oil in 1970, and they are expanding the rig count because they are trying to extract more and more oil from fewer and fewer wells out there and globally they aren't even expanding the well count. Based on the fundamentals, the price of oil should probably be



somewhere in the \$90 range. The overwhelming concern, or the driving concern, happens to be the fear of global recession, possibly worse in some people's minds. The demand for energy is not going to be something that drops off for 5 years. Year over year it maybe could decline, but the fact that we are in a recession or depression if people want to use that term, doesn't mean the population growth is going to stop. China's growth is going down from 12, maybe to 8 or 6 or wherever it ultimately bottoms out, it's not going negative, in our opinion. The demand for energy in China and India is going to continue to grow and drive the demand for oil higher in the future. When I look at how people are pricing oil companies, I find it absurd that you are able to buy these companies with cyclically low earnings capability, and even with those cyclically low earnings you are buying them with a margin of safety above the Treasury at a fairly high rate. You can probably get earnings yields of, let's say, 7-8% and I think you can build a very strong case where the earnings of these companies are going to be materially higher in the future based on simple supply and demand, and people are treating them as if they are pieces of paper. So you can find many oil companies, particularly the Canadian Oil Sands companies, where we have exposure, where they are down 60, 70 or 80%, and we do not believe the demand for that product is not going away the way people are pricing them.

I'd like to address other areas of the portfolios, real estate, for example. We hold companies in the portfolios that have no debt, where you are able to buy an acre of real estate at around \$150. The company itself was selling off in the not too distant past in certain properties at acreage over \$20,000 or \$5,000 for certain properties. I look at the acreage pricing now and conclude that others are saying that it's worth virtually nothing, that the company is in financial risk when they actually have a net cash position and zero



debt, and you are able to buy it at probably 1/10th of its value. Now, could it go lower? Absolutely – it can always go lower if people want to sell that stock. But ultimately, we believe that it is going to come back and be worth substantially more.

Our Chinese companies, the argument there is equally compelling. We own many companies that derive 100% of their revenues and earnings from within China Proper. If we owned companies that relied on exporting to the U.S. and Europe and hence relied on the U.S. consumer or the European consumer, where that consumer has gone away, and is permanently impaired, I could understand why the stock would be down 70-80%. We own the Huaneng Power Corporation, we own the Beijing Capital International Airport. The demand for energy in China is slowing down, but it is not going negative. So we believe the earnings of these companies are likely to be higher. In the case of the Beijing airport, perhaps there is less volume coming in versus last year, it's almost inconceivable to me that three years from now the amount of people and traffic flying in and out of Beijing is not going to be materially higher. So these are companies that have substantial earnings capability, derive all of their revenue & earnings from within China proper and the Chinese currency is undervalued relative to the U.S. Dollar. The stocks are down 70-80%. If you follow this liquidity crisis, the emerging markets actually sold off earlier and harder even though the origination of the crisis started in the U.S. There is no basis and logic other than the fact that anyone who held these equities deemed them to be riskier. You don't sell Proctor & Gamble first; you sell your perceived riskier assets first. If you look at any ETF fund, or even a closed end country fund, virtually every fund was down 50+% last year. There was no such thing as global diversification. If you believe that is going to be the case, it is probably a good idea to stay away from equities, if you don't



believe that to be the case, and you think ultimately the fundamentals will start to separate countries from one another the opportunity there in China , we believe, is even more extraordinary than in the U.S., which is something I am never going to see again in my lifetime. That's the long way of saying our fund last year in price, did horribly; in underlying business operations, we did quite well. Ultimately, that discrepancy will close itself, and it will close itself, in my opinion, not in the period of 10 years, but in very short order. We expect to see the type of moves we had in the Market Opportunity funds or even the Paradigm fund that we saw over the last couple of weeks. I see what we own, I know what drives the broader market, and the business operations of what we own I think is far superior, but also I think they are being priced at a greater discount. Ultimately that gap will close and we will experience what I think is quite good performance.

Chris Bell is pointing out a couple of positions that he wants me to talk about. Reliant Energy is one. Reliant is a company that got itself into trouble via a natural disaster, a hurricane, and the retailing operation where they had to post collateral. Their ability to post collateral was constrained by the credit markets. They recently sold off that retail business and the need for collateral has basically gone away. The marketplace is very unhappy with the price that they got, and they did sell it at a fire sale but from their perspective they freed up a couple billion dollars of capital that they no longer have to keep tied up, and now it's basically a wholesaling power company. Now again, power, year over year, may decline but since we are in an environment where each year, historically, certain amounts of the rate base comes out of the market and the ability to build a new power plant is non-existent today because no one has the availability of



credit. Eventually, we believe the demand for energy, and the spark spreads, which is basically the profitability of the wholesaling companies, will improve. And you are talking about a company that has a market cap of a billion dollars. That in a normal environment will probably earn about a billion dollars, and in my eyes it's trading at normalized earnings of about 1 times. So if you put a 12 multiple on that or a 15 multiple on those normalized earnings, in a tight market where the spark spreads become tight which I think will happen several years from now because no one is building additional capacity right now, you are talking about a company that might earn 2 billion dollars. Put a 12 multiple on that and you are talking about a 24 billion-dollar company from a billion dollar company. Now you are talking about the chance to make 20 to 24 times your money. Chris is holding his head saying, "Why am I saying such outlandish things?" And in my opinion it's not outlandish, it's actually very logical. Look at some of the moves here, Citigroup going from below one to over three and a half not too long ago. You are talking about extraordinary moves. This is not a normal environment and there are going to be opportunities coming out of this where we believe people can have the ability to make an astounding amount of money. I think a lot of our companies in the portfolio are those companies. With that being said, I'm going to stop and see if there are any additional questions.

Chris Bell: Peter, before we turn it over, I would just like you to comment about a recent investment you made in one of our newer funds, and the addition of JNK to the separately managed accounts and how they relate to each other.



Peter Doyle: Yes. The dislocation has occurred. Part of why the equity markets traded down in such a dramatic fashion last year was the fact that they provided the liquidity for the rest of the world. You had frozen credit markets and if you are running a business, Goldman Sachs or Morgan Stanley or a hedge fund, and you need to take down your leverage, the first thing you do is go where the liquidity is. The liquidity happens to be in the regulated markets, i.e. the equity markets and certain credit markets. The junk bond positions through ETFs that we have purchased, really is the same type of analysis we are doing on the stock side. We are always interested in looking at the complete capital structure. You are able to buy companies, and the analysis that you really have to make here is actually simpler than a stock. In the stock analysis, you are saying “What are the trends for this business” or “are their earnings going to grow as a result of what is going on?” or “is there some competitive threat?” But here, you are able to buy securities with a yield to maturity approaching 30% where the analysis is simply “will these companies have the ability to pay when the bonds mature?” And it is far simpler to do that analysis, you look and say, they have this much cash, their earnings are still intact, even if they had to liquidate at 90% here, they would have more than enough to pay off this senior loan at this price. So the opportunity set there is likely to produce results over the next several years of close to 30% annually. But ultimately I do think the stocks are going to do better than that. If you want lower volatility, we have a fund called the Multi-Disciplinary Fund, which essentially is buying all of the things that we hold in the Paradigm Fund but doing it through options. And if you look at that fund, and you still believe we have stock picking ability, you would have done very well relative to the overall market and especially well compared to Kinetics, which is how I think it should be compared. I think



that fund was down somewhere in the 20% range. This year, it's down a little bit over 1%.

	KMDNX	S&P 500 Index	Nasdaq
One Year	-18.44%	-38.07%	-32.93%
Three Year	N/A		
Five Year	N/A		
Since Inception	-16.38%	-33.28%	-33.71%

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It's really essentially selling put options on the names we like. Because of the elevated level of the VIX and people being concerned about volatility, you are able to sell put options at extraordinary premiums. So, even if we had a sideways market the premiums you are likely to collect are somewhere between 15-20%. So in a sideways market, we believe that's the fund that's likely to be up that magnitude, in a down market it's likely to hold up better because you have the cushion of the premiums, but in an up market it will lag. But that's certainly something where if you thought, or had confidence in our stock picking ability, it's a safer way to participate in that skill set.

Chris Bell: Aren't they going to take the short capital and invest in junk bonds?

Peter Doyle: They are, but part of it is that the fund is very small. I recently put \$500,000 in there so they could go out and start buying some bonds and use that income to sell additional put options. We also think they are very likely to get a good rate of



return on those bonds themselves, so I certainly have not lost faith in our skill set in picking stocks and I have been, with my own personal money, investing in our funds. Just the other day, I invested money on behalf of my children into the Market Opportunities Fund, because, just look at what has happened over the last three weeks.

Question: Thank you for your time. We have been investing with Kinetics for years and you've always done a good job. Can you talk about margin of safety with the names you've owned over the last 15 months, is that still important? And, if we accept the volatility and the higher beta, going forward, if you like the exchanges, as they've been a core theme in the mutual funds and separately managed accounts, why wouldn't you buy more of them, at 16 or 17, if you liked them at 50, why wouldn't you make it more of a position down here?

Peter Doyle: In various funds it certainly is a very big exposure, if you look at our Market Opportunities Fund the exchanges make up over 30%. It's not obviously as large in the Paradigm but, as of the previous month-end, Hong Kong Exchange was the largest position in the Paradigm fund. No question we liked it at 50 & 60, because we liked it at 90 & 100. Part of it is that we have to live in the reality of the world, if we got cash flows we would be buying that and building up that position, but while cash goes out, I'm selling less of that relatively and its going to be raised through that fashion, but we do have to deal with the cash flows that we have here at the organization. I'll say that anecdotally, that the Paradigm fund started receiving positive flows in March as a result of the turnaround in the market. You can see how quickly selling will stop and how fast



the money can flow back into the funds and into stocks in general. I think the pertinent question from my standpoint and why I remain so optimistic beyond the fundamentals of the companies is that for every seller, there is a buyer. And the question people should ask is “Who’s buying?” If Kinetics is not forced to sell, that stock is never going back into the market, and if people gave us more money, I’d suck up more float and it’d never come back onto the market. So in this type of environment the buyers are the strong hands, and the strong hands, typically, are not the people who trade stock. You could get into a situation here, which I think is really going to happen, especially when the upside is so explosive from here, where people start wanting exposure because the risk appetite comes back or they are fearful the market is going to run, assuming this is not a bear market correction, and suddenly they want to be exposed to these things. And the question is who is going to sell? The answer to that might be no one. And you could see, on relatively small volume, how these things could go up by a lot. To answer your question, we definitely would buy more of them, definitely would buy them down here, we have been building up positions, not through buying more but through selling less. And then in terms of margin of safety, it’s absolutely critical to the way we think about investments. I won’t say we got it right across the board, we owned things like R.H. Donnelly and Idearc. There’s one of two things that’s going to happen with those types of investments, either they are going out of business and the leverage there got hurt and we violated, on a very small degree, the concept of financial safety, or they are going to be tremendous investments from this level. There is no sense in selling them now. The bulk of the companies we own, the London Stock Exchange, the New York Stock Exchange, Chicago Mercantile Exchange, there is very limited financial risk, and in many instances



they have cash that exceeds their debt and they are still very profitable businesses. The only thing that has occurred is that the prices have come down substantially. They have come down, based on what I believe is a faulty thesis. It certainly hasn't come to pass the way the market has been stating it and not only do I not think it's going to come to pass, but that the mirror opposite is going to occur. We believe the volume is not going to contract the way people are anticipating. The volume is going to expand for the reasons I mentioned in the presentation, and we believe it will occur in a very material way, and the earnings of those companies are going to be far in excess of what the market is anticipating. So, still very positive. Margin of safety, the permanent erosion of capital is still a very big part of what we do, we didn't get it correct across the board but for the overwhelming majority of assets we feel we did. Are there any other questions?

Peter Doyle: With that we will say thank you very much and from our standpoint, we're obviously not traders. You see that we sat through this volatility; part of it is because we never believed that it was an economic crisis, but it did become more of an economic crisis in the latter part of last year. I don't believe that the whole notion of buy and hold has gone away. I think ultimately that's going to prove to be the most successful strategy during this and partially what I had mentioned earlier that the question people should be asking themselves is whose hands are these investments in now, and the buyers in this type of environment tend to be the stronger hands that are not going to sell. The movements that you've seen in the stock prices are just extraordinary, it's unprecedented. From the March 6th, or the March 9th low, in the case of our funds, whatever was going to happen from that point forward, there is no precedent for it because it's the largest



decline in the history of investing, at least in terms of the stock market investing. And when I looked at the valuations, if you are truly an investor, it is hard not to be optimistic. We've been saying this, obviously, for a number of months and we obviously rode the stocks down. I don't think we've lost our skill set, I think the world has basically discounted stocks, in a way that makes no sense, and I believe that ultimately the fundamentals will come back into play and we'll be rewarded for that.

Moderator: Gentlemen there is another question that has just come in if you'd like to take it.

Peter: Sure.

Bob Uly: Peter, Hi. We did get a question from an Advisor out of Houston on the Croupiers, which was could you please spend a moment to explain what drives your decision to invest in utilities as a group.

Peter Doyle: Normally we would not invest in utilities because it's a low return type business and it's a very heavy regulated business. In most circumstances the states require that you have at least 50% debt. The reason they do that is that they pay you based on return on equity and they want you to have debt and not 100% equity. That type of business can normally maintain its debt structure because it's a very predictable business. Even in a recession the demand for power doesn't fall off in any dramatic fashion and cash flows are very stable. When you started having energy trading



companies, like Enron for example, the most prominent example, businesses had historically been non-codependent, i.e. a company in Michigan may have had problems because cost overruns at a coal plant or a nuclear plant wasn't necessarily going to impact the business operations of Con Edison here in New York or Florida Power & Light in Florida. So you can actually invest properly in utilities in a way that had very non codependence, what we've talked about many times in the past. They became correlated for a brief period of time. All of these companies had trading operations, and they took on a lot of debt. The trading market dried up significantly in the 2001-2002 period and the spark spread collapsed, the stock prices went down in, some cases 85-95%, Enron went out of business and you had an opportunity there to get invested in utilities where, in our opinion, the only alternative for the state regulators was to rehabilitate these companies. Once they got out of the businesses that we didn't like, i.e. the high risk trading, now it was just a function of waiting and letting the cash flows pay down debt and if you have a slender part of equity as your capital structure, each dollar of debt that you pay down increases your equity by a very large margin and hence the stock price should go higher to reflect the enterprise value i.e., a greater percentage of equity. That unfolded over the course of 6-7 years. More recently they got in trouble because of the credit markets again, and you are kind of in the same environment where these companies because of the retail operations having to post collateral. In the case of Reliant, they actually got hit by a hurricane in their retail operations; there is nothing they can do about that. The business itself is very predictable. Now they are a power generating company or an independent power producer, a wholesaler. And in a normalized environment, the company is likely to earn a billion dollars and it trades at a



market cap of a billion dollars. If you want to put a multiple of two on that, you're doubling your money. If you want to put a twelve multiple on it, which is what I think it will ultimately trade at, you are going to make 24 times your money, which is where it was trading before. Back in the period of Enron, there was a much, much greater possibility of these companies going bankrupt than there is today. Yet the valuations are as low or lower than they were back in the collapse of Enron. People are making the determination that this is a permanent economic condition. The demand for power and the demand for oil is going to stay low forever. Frankly, that's not supported by any type of logic or basic common sense. If you just extend your time horizon by eighteen to twenty-four months, we believe you are likely to do extremely well in these investments.

Chris Bell: Peter, if you could comment a little bit about two positions that frustrate people quite a bit, Las Vegas Sands and WYNN, and what is your sell discipline based on them and if you got a lot of money today from some smart people would you be investing in them?

Peter Doyle: Any companies that really have debt coming due in the next 3-5 years are considered completely suspect. And the gaming stocks, many of those companies have that type of profile. Prior to this credit crisis, their capital structure was considered to be completely rational, stable. No one considered that the credit markets would basically stay shut and as the debt matured they could roll it over now anyone that has debt coming due they say they credit markets are going to remain shut for that period of time, they will not be able to roll it over, that it is going to cause bankruptcies and the equity is going to



be worth nothing. We're of the opinion that the credit markets will unfreeze and part of the unfreezing that's going on is just a natural thing. Each day, liquidity comes in because, as I mentioned, people do pay their mortgages down, they pay some principal, and they pay interest. Liquidity comes back into the system. Each day credit default swaps mature, money comes out of escrow accounts, the fact that the Chicago Mercantile and Intercontinental Exchange are now clearing credit default swaps that are going to create liquidity. All of the government action will create liquidity. Liquidity will come back into the market. I didn't touch on this but I think it's certainly the case, people are talking about, you know, favorite terms are toxic assets. And we need to get the toxic assets off the bank's balance sheets. The reality is there are no toxic assets on the bank's balance sheets. There is toxic pricing. Any regulator that I've seen that looks at the situation, they say the Geithner plan worked because the banks don't want to sell their assets at these low levels. If it were really a toxic asset they would sell it at any level. If you basically had to cut off your right arm to save the rest of your body, you would do it. The fact is they don't want to sell because they are saying "Why should I sell a loan that is priced on my book to give me an annualized return of 30-35% turn around and lend money to Mrs. Smithers at 4.75%." They don't want to do it and they are right not to do it. The plan is, in my opinion, a very inefficient way of trying to raise the value of those assets, which is really a pricing issue, not necessarily a quality issue. It's a mark to market accounting issue. I think the real outrage is in two years when the general public understands that a big part of this crisis was really an accounting technicality, they're going to be even more upset than they were even about the AIG bonuses. So, my colleague Murray Stahl came up with what I think is a much more sensible plan: create



some type of tax incentive to raise the value. If you made the interest on those loans tax-free to any buyers, you would immediately increase the value. So if they simply did that, they wouldn't have to lend out trillions of dollars to raise the value of these things. They would just have to say "Whatever the cash flows are going to be from these assets in the future, it has to be worth more since its now tax-free to any investors" and they could do it for X number of years. That would basically get the market moving and get private investors to start doing that. Eventually they are going to strike upon the right solution to that, I don't know if the current plan is the right solution, obviously the market thought it was because it had more substance than what he initially announced. But you can see that once there is a confidence level coming back into the market and the unfreezing of the credit markets will occur, and we believe it's going to occur whether the plan works or not, if they help it along with the credit default swap clearing and things like that, you can see that the upside of the market is astounding.

Question: I got a quick question if you guys could take a minute and discuss the money managers/ asset managers. In particular Icahn Enterprises, Jeffries, and Brookfield Asset Management, are you still very bullish on this area or are we lessening up? A few thoughts on that would be great.

Peter Doyle: We're still very positive. In the case of Icahn Enterprises, you are able to buy that company below its cash value. He is definitely an investor that has rivaled, among the best investors of all time. He has a hedged fund that is embedded in that business and he is buying the fixed income assets that I would love to buy on a larger



scale myself. I think he's going to make an extraordinary rate of return on that. His carry interest is, I think, either 25 or 30%, I think it's 25%. The normalized earnings of that company are far in excess of what the marketplace is according that stock. So, I mean, it's not a liquid stock, if someone wants to sell or is forced to sell, or someone turns over a portfolio, or someone gets removed as a portfolio manager that might have it, selling 1000 shares of that stock could knock it down 6 or 7%. We believe the fundamentals are extraordinarily good there.

The same thing goes for Brookfield Asset Management. They are developing real estate properties or managing real estate properties, timber properties; businesses that I think have great long-term perspective. And as I mentioned earlier, real estate is one of the few areas where you are going to be able to write off, or take deductions against ordinary income. And it's clear that the whole thrust of what's going on, if you really want to help individuals out there, the lower income, you need to keep real estate values or make real estate values higher. That's clearly the overall goal of the government. I think they are going to do that. Ironically, one of the ways they will probably stir that along is to raise the taxes by a large amount, and people are going to look to shelter their income. If I'm going to be taxed and my marginal tax rate is going to be 50%, and probably on its way to 60%, I'm going to try to shelter my income. Otherwise why am I even doing this? So I think ultimately the value of real estate and other assets there are going to be worth a lot more.

Chris Bell: A further answer would be, as we've said since the beginning of this crisis, these allocators of capital, Brookfield, Icahn, and Berkshire Hathaway even, are going to



benefit significantly by being the lender of last resort. Or the cash and equity infuser of last resort, at prices that are incredibly opportunistic.

Peter Doyle: Part of the whole croupier model, is that it provides greater operating leverage. In this type of market, where there is panicked buying and selling, they are going to have exaggerated movement. I believe that, especially in the case of the Market Opportunities Fund, that's going to be a volatile fund in the nearer term future. Now I think the analysis that the market does and how it treats those underlying companies makes absolutely no sense and longer term the fundamentals will win out, but if you think the markets are going higher, and you want to trade, we don't obviously think in this fashion, this is the area that you want to be in. Conversely, if the market is coming down, you know, these markets are more volatile on the downside, so the exchanges, people get out of the exchanges, they say the exchanges are a leveraged proxy to the market so let me sell it. That's the mentality. Longer term I think it's crazy. But in the shorter term, I believe it's going to be volatile.

Chris Bell: One of the things that was pointed out in Barron's over the weekend in the public-private investment plan is that Eaton Vance and BlackRock and these companies are more than likely going to be named as the managers of these assets. So they will create products that will allow individually to invest in them and I believe they will be highly successful products. They should benefit both from the debt side and the equity side.



Peter Doyle: In the case of BlackRock they are obviously one of the largest fixed income managers, the government is issuing a trillion dollars of new securities. They are going to be a big player in that; I believe their business is going to be fine.

Question: Thank you for the call. Question for you, last year on the SMA's and the Paradigm fund, China was one of the main reasons why you under performed. So far, year to date, it's up about 30%. Do you see yourself increasing exposure to China?

Peter Doyle: That's an excellent point. There are actually two realities in China right now; the Shanghai market is up about 30%. The Hong Kong market or the "H" market is actually down about 5%. What's happening there, and kind of ironically, and this is why the craziness in pricing is going on not just in the U.S. but globally. The same companies that are listed on the Hong Kong Exchange are down year to date and the same companies that are listed in Shanghai, identical companies but different classes, which are available to the domestic Chinese person, they are up 30%. Now that type of anomaly is not going to last forever, if the government ever opened up Hong Kong to Mainland China, that arbitrage would go away very quickly and the Hong Kong listed companies would go up substantially. What you have is the Westerners selling on the Hong Kong Exchange and the local Chinese, believing in their companies, buying the same companies on the Shanghai Exchange. We're not licensed to buy on the Shanghai Exchange but we believe these same companies, if the local Chinese are correct about the business operations of the companies they are bidding up in the Shanghai market, the listed companies on the Hong Kong Exchange are going to do very well. So I expect that



area of the fund to grow faster than any other part and I've obviously made very positive statements about certain parts of our portfolio domestically, I think the Chinese market, which sold down earlier and more based on no fundamentals at all, is going to grow to be a bigger part of the fund, even if we left it as a static portfolio.

Chris Bell: If you look at Hong Kong Exchange in particular, that company benefits from increased volume, but it also benefits from increased pricing because it's paid ad valorem, where you take a percentage of the total shares times the price and that's the fee they earn each day. The exchange there should do well with an uptick in the market.

Peter Doyle: Well yes, unlike the U.S. Exchanges where they get paid on the volume alone, where it doesn't matter if the stocks go up or down, they get paid on the shares traded, in Hong Kong and Singapore; they get paid on the value. I think the net profit margins of that company almost touched 70%. So for every \$1 they earned they put 70 cents in their pockets. So if you want exposure to China, that type of business model, in my opinion, is the best way to play it, through the Hon Kong Exchange. It's a volatile stock, but they are the gateway to China. What I think is going to happen is the Chinese government is going to merge the Shanghai Exchange with the Hong Kong Exchange. And it's going to be one national exchange. The Chinese government, recently, in the not too distant past, invested more money into the Hong Kong Exchange. Now, since they control it, they aren't going to invest in the exchange and suddenly make the rules less favorable toward the Exchange. They are going make it more favorable and make it more profitable. So when I look at that and I see how people are treating that stock,



saying the volume is going to stay low and the activity is going to fall off, that is a stock that when I think about the upside and I see what happened in the 2006-2007 period and how much that stock can go up, it boggles my mind. Part of it is you are supposed to be sober about your assessment but I look at the opportunity set and it's not like anything I've seen in my lifetime.

So if you really want exposure to China, and we do, it's the biggest holding in the Paradigm fund and a big exposure in the Market Opportunities Fund, if you really want exposure to that area of the world, the best way to do it is through the Exchanges but they are going to be volatile.

Question: Hi Peter, I'm curious about your thoughts about Warner Music Group.

Peter Doyle: I like it. Obviously people are concerned about the pirating of music and will they ever get paid for it. But if you just look at their library alone of what the company owns, I think it's worth substantially more than the company. They own 50% of the Frank Sinatra estate. We believe that 10 years from now some automobile company or some product will be using "New York, New York" to sell their product and they will be charging a nice premium for that and they will get a nice royalty. So when I look at their long-term royalty value, it's worth a lot more than what the company trades at. And in the long term I think they'll figure out – I think they'll figure out a way to protect their artists. Even though people can access new artists through the Internet you still need a marketing company to get that out there. The place for that business is Warner, and we believe it's going to be a profitable place in the artistic world. Even new



bands that have been found through the Internet and all the hits they might have received, you find out that it's basically part of the marketing companies' strategy to find it through the Internet and make it look like an undiscovered Internet phenomenon. You find out that Warner Music Group or some other company actually was actually behind that. So longer term I'm not too worried about that. I think that's going to do just fine.

Chris Bell: Can't you lump Disney, Time Warner, DreamWorks, all those companies with royalty streams from movies, etc., together? **Peter Doyle:** They are all trying to do that. Once you create a franchise with one of these things, whether it be Shrek or Madagascar, hopefully it's Monster vs. Alien in the case of DreamWorks. If they come up with their 2nd, 3rd, 4th, or 5th movie even 25 years from now your children, or your children's children will be watching that. That's the whole thrust with that. And that royalty business I don't think is going away. The distribution business and the pirating is an issue for these businesses but I think ultimately they figure it out. Even with all the pirating they still make pretty good money.

Chris Bell: We would just like to make the statement that we will have the transcript of this call on the website in the next week or so. It will be available in the next 3-4 days. Thank you again for your participation today. Again, if you would like to obtain further details about the strategies outlined today or if you'd like a copy of the most recent Prospectus, please contact my staff at (914) 704-6950, or by visiting us at our website at www.kineticsfunds.com.

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