



**Kinetics Medical Fund
Conference Call with Paul Abel
November 17, 2009**

Disclosures:

Kinetics Asset Management, Inc. (“Kinetics”) is pleased to announce that on November 17, 2009, Paul Abel, Portfolio Manager to the Kinetics Medical Fund hosted a conference call to financial advisors. The below transcript is intended to provide a summary of Mr. Abel’s remarks.

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Kinetics Medical Fund 3rd Quarter 2009 Conference Call

3rd Quarter Conference Call
Kinetics Medical Fund

Bob Uly: Good morning to everyone and thank you for joining us on our special 10th anniversary conference call for the Kinetics Medical Fund. My name is Bob Uly from the Sales and Marketing department and I'm filling in today for our Director of Sales and Marketing, Chris Bell. Please note that you can always visit our website at www.Kineticsfunds.com to obtain a copy of the Medical Fund's most recent prospectus, fact sheets, and top 15 holdings. This information is also available for our other funds, including the Kinetics Paradigm Fund, Kinetics Small Cap Opportunities Fund, Kinetics Market Opportunities Fund, Kinetics Water Infrastructure Fund, Kinetics Global Fund Kinetics Internet Fund and Kinetics Multi-Disciplinary Fund.

This morning I would like to introduce you to Paul Abel, the lead portfolio manager for the Medical Fund since the Fund's inception in 1999. Mr. Abel is also one of the owners of Kinetics Asset Management, Inc., the investment adviser to Kinetics Mutual Funds. Mr. Abel's duties include the research and analysis of developing scientific technologies and innovations in the medical, bio-technical and pharmaceutical industries, specific to cancer research and treatment. While the investment team discusses investment ideas and overall portfolio structure, the final buy-sell decision for a particular security resides with Paul. Since inception, through October 31, 2009, the annualized returns in the Medical Fund have been 7.39%.

That being said, I would like to hand the call off to Paul.



	MEDRX	S&P 500 Index	Nasdaq
Year-To-Date	15.96%	17.05%	29.68%
One Year	17.17%	9.80%	18.84%
Three Year	2.52%	-7.02%	-4.75%
Five Year	5.81%	0.33%	0.70%
Ten Year	6.94%	-0.95%	-3.65%
Since Inception	7.39%	-0.34%	-2.88%

Performance data quoted is as of October 31, 2009. All figures are annualized. Past performance does not guarantee future results. The inception date for MEDRX is 9/30/1999. 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.

Paul Abel: Thank you and good morning everyone. I'll begin by saying that the Medical Fund is interested in investing in first-line pharmaceuticals exclusively, eschewing devices, consumables, and generics. Our feeling is that the best bang-for-the-buck comes from the first line pharmaceuticals, which have the highest margins and the best returns on equity. The generics and so forth can be thought of more in terms of consumer electronics, where it is a race to the bottom and therefore we have decided to stay away from those. The portfolio is broken down into roughly three tiers that escalate in risk. One third is in large pharmaceuticals, which have been doing very well and paying handsome dividends. They are under some pressure at the moment from the belief that Congress will destroy them, but that's not true and I will speak about that later. Another third is in profitable biotechs, which are becoming increasingly difficult to find due to an increase in mergers and acquisitions. The final third is in many small positions in yet-to-be-profitable biotechs. I don't believe that neither my colleagues nor myself can unequivocally identify the next Amgen for you, however, what we try to do is identify all of those that could become the next Amgen and buy them in judiciously small positions, thus exercising the venture capital model of investing and not



exposing ourselves to undue risk, however affording ourselves the opportunity to capture outside rewards.

The large pharmaceuticals are under some pressure at the moment but were they to return to previous levels, we believe they would essentially double from this point. We believe the healthcare reform legislation, if in fact it is passed, will probably have very little impact upon them, due to the fact that they have already received important concessions from the Obama administration. The profitable biotechs, as I mentioned previously, have been involved in a lot of mergers and acquisitions. The Fund has lost one biotech per quarter over the last five years. Now I do not mean to suggest that we have become an M&A fund, however, it demonstrates just how undervalued these companies are, with their peers and colleagues prepared to buy them at tremendous premiums above their current trading value. In the yet-to-be-profitable biotechs, you can see where the true innovation comes from and, once again, they are being gobbled up like crazy. There is a strange paradox where we practice real Buffett-esque investing in the small biotechs. For example, only a year ago, Affymetrix was trading at \$.25 to its book value. That is a systemic arbitrage that cannot exist. At the time, they had \$600 million in cash and a market cap of \$125 million. In theory, with \$125 million, I could have purchased the entire company, closed the doors, and paid myself a \$475 million dividend. That's outrageous. Those sorts of arbitrages come up all the time. Bob, do we have any questions at this time?

Bob Uly: Yes, Paul. I'd like to start by reading a few emails we received from some analysts. The first question comes from an analyst on the west coast. He asks: What theme has the most exciting risk-reward characteristics in the Medical Fund? Is it the large pharma, is it the profitable biotechs, or the yet-to-be-profitable biotechs?



Paul Abel: All three have very exciting prospects. The large pharmaceuticals continue to execute a very solid business model, with 75% gross margins, 25% net margins, and dividends of 5%. The threshold for impatience with the large pharmaceuticals has gotten so low that the marketplace trades them as though they are going out of business tomorrow or will never develop another drug. It is important to remember that these companies, in aggregate, spent roughly \$50 billion on research and development last year, and will do so again this year. Pfizer alone spends \$8 billion on R&D. As you look through the product pipelines, they are working on treatments and cures for every disease imaginable. They are not defunct and they are not going out of business; in fact, they are poised to introduce an entire new class of therapeutics.

The profitable biotechs are trading so cheaply at the moment that it is almost inconceivable. For instance, Biogen Idec is doing roughly 15% - 20% revenue growth year after year, and we believe the growth is sustainable. Yet, it is trading at a forward P/E of 12 and twice the book value. It's surprisingly cheap, at least in our opinion.

The small yet-to-be-profitables are developing new and innovative therapeutics in oncology and neurology, etc. The thing that is on our radar from these smaller companies would be autoimmune system responses to cancer, in other words cancer vaccines. There are several companies that are really approaching this. You have probably also seen that many of the smaller companies are making breakthroughs with regard to obesity. However you think about it, the bottom line is that this has the potential to be remarkably profitable.

Bob Uly: Paul, the next email comes from an analyst who heard you speak last year, and he asks: I remember you saying that the cash positions in the top 15 companies were quite remarkable last year. What do they look like currently and are they still well financed?



Paul Abel: Absolutely, with the exception of Pfizer, which just spent a lot of money to acquire Wyeth. The cash positions remain very strong and they are accrued on a year-to-year basis. These companies are extremely profitable. This allows them to build up tremendous war chests that they can spend on M&A activity, and that is exactly what they have been doing. In addition, they pay very healthy dividends and, on an interesting side note, Pfizer was able to finance a \$30 billion bridge loan last year in the depths of the credit crisis to acquire Wyeth. And guess who the creditors were? The usual suspects: JP Morgan Chase, Citibank, Bank of America and Goldman Sachs. This speaks to how credit worthy Pfizer was to be able to acquire a loan like that in the midst of the credit crisis when most people couldn't get a car loan. Simultaneously, Novartis was able to issue \$5 billion in bonds just because they could.

Bob Uly: I think you may have answered this before, but my last email comes from someone traveling today. They ask: Mergers and acquisitions are a huge part of this sector and we've seen it constantly in your fund. Is this trend going to continue in the future at the same rate? Is it going to increase or decrease?

Paul Abel: Well, there are several factors at work here. One is that there has always been a food chain, from the larger to the smaller. If you remember at one time, Novartis owned 45% of Chiron, now they own all of Chiron. Roche owned a piece of Genentech, now they own all of it. It appears that Amgen will seed smaller companies, and, as their R&D efforts come to fruition they may decide to purchase them in their entirety. I think this will continue, and one of the reasons it should continue at this pace is that these companies are so remarkably undervalued that to even buy them at a double represents a value to the acquirer. For instance, MedImmune, which I believe to have been a very poorly understood company, traded at \$30 per share for a long time and was then purchased



for \$60 per share. ImClone was purchased last year at a great premium just because it was so extraordinarily undervalued and perhaps even misunderstood by the marketplace.

Bob Uly: Ok, thanks Paul, it looks like there are a lot of really exciting things happening in this field right now. I think we are going to open it up to anyone who might have questions on the phone line.

Question 1: Paul, congratulations on the performance of the fund over the last 10 years. My question is this: could you comment on where your out-performance has been generated from over the life of the fund and where you see it coming from in the future?

Paul Abel: The out-performance comes from choosing and investing in very solid companies, and I think that will continue going forward. You can think of it in terms of a threshold of impatience. In 2000 and 2001, there was this belief that cancer was going to be cured tomorrow and if you remember, companies like Solera were trading at a \$15 billion market cap with no product to sell. At this juncture, the threshold is so low that no one believes anyone will ever invent another drug again. So by choosing the best companies, that's where the out-performance comes from. In other words, we believe the best risk hedge is owning good companies. As opposed to considering these pieces of paper to trade, we feel more that we buy businesses. You have to remember further, if you look at the internal metrics of a lot of these companies, their return on equity is 25%, if not 50%, and I really think that these margins and the quality of these businesses are what's behind our performance.



Bob Uly: And Paul, wouldn't you say that this kind of fractional ownership is very much in sync with our whole Kinetics lineup? Our Chief Investment Strategist, Peter Doyle, says the buy and hold method really does work over time, and it has certainly been evidenced in your Kinetics Medical Fund.

Paul Abel: Absolutely, there is no difference between what Peter Doyle does and what I do, except for the primary sector of focus. We both buy good companies at a discount. My favorite example of this, as I mentioned earlier, was when Affymetrix was trading at \$.25 on the dollar. You just can't sell a dollar for \$.25 very long, and it's returned to a book value valuation, which is a double at the moment. They spent a couple hundred million dollars on an acquisition. Again, there were systemic arbitrages and these still exist. The big pharmaceuticals and the profitable biotechs have had 25% revenue growth over the course of the past year. Who else has had 25% growth other than Biogen Idec? I don't understand how you can trade this like it is going out of business and, again, we believe there is reasonable potential for some of the names in the Fund to appreciate substantially.

Bob Uly: Paul, we have another email from an advisor who asks: Which companies from within the portfolio stand to benefit the most from the economy going global? Are there any specific examples that are going to take advantage of the growth of the Asian Pacific and the BRIC countries?

Paul Abel: For the most part, all of the large pharmaceuticals and the profitable biotechs have been global for well over a decade, whether it is with equity purchases in overseas pharmaceuticals or joint ventures. These companies are already global and they are already taking advantage of it.



Furthermore, in many cases they become very good currency hedges because 50% of their revenues are generated overseas. Take Johnson & Johnson for example. They generate roughly half of their revenue overseas. They don't need a currency-hedging desk; they are already currency hedged. Whichever way currencies go, they stand to benefit. So, they are already global and are taking advantage of the global market.

Question 2: What do you see as the impact of possible health care reform?

Paul Abel: Let me begin by saying I am not a political analyst, but I can tell you what I'm seeing. First of all, Congress has not been able to come up with a solution to this problem in 30 years, and I don't know that they are going to be able to do it this time. Just because the President has told them to, doesn't mean they are going to. That being said, the pharmaceutical industry has already struck a deal with the President whereby they would give back \$80 billion over the next 10 years in the form of rebates and/or cost cutting. Considering that global pharmaceuticals sales last year were in excess of \$620 billion, this revenue concession is unpleasant but not extremely difficult. In addition, somewhere between one-third to one-half of all prescriptions go unfilled because the patient doesn't have enough money to cover the cost of the prescription or even the co-pay, so there is that market that will be filled, in addition to which the 40 million Americans who have no access at all to pharmaceuticals at the moment. The goal of these plans is to provide access to pharmaceuticals, so the new market share should more than make up for the losses in revenues. Again, I question whether or not Congress, be it the House or Senate, will be able to cobble together a bill that all of them can live with and that the President will sign. As I said, they've been grappling with this issue for 30 years, and at the moment the waters keep getting muddier and



muddier. Keep in mind, mid-term elections are coming up and they are going have to start focusing on getting re-elected.

Question 2: (Follow-up) So you really see a market opening up in lieu of the current one being restricted?

Paul Abel: Absolutely. The increased market share could be dramatic, with potentially 40 million Americans gaining access to pharmaceuticals. It should be remembered that it is much cheaper to give someone pharmaceuticals than it is to use other forms of treatment. I would rather give you a Lipitor for the next 30 years than open your chest. This is a real opportunity for the pharmaceutical industry.

Question 3: You said before that much of the industry is misunderstood. Why aren't the analysts really looking into this? Is it because it is such a small field?

Paul Abel: That's a good question. It's flummoxing that these companies should trade at the levels they do. For instance, last year at the height of the crisis, it was truly a liquidity issue across the board. We had opportunities where GlaxoSmithKline was paying an 8% dividend. That's incredible. I think that as liquidity returns to the marketplace, these undervalued equities will have to re-achieve decent valuations. Again, if they were to return only to the valuations where people don't like them, in many cases they would be double from where they are now. Remember the old Buffet maxim: be greedy when others are fearful and be fearful when others are greedy. I think that is really where we are with the pharmaceuticals. Everyone is scared and it is a wonderful time to start buying these. Not just from a stock perspective, but this is an opportunity to own some great



companies. As I mentioned before, Biogen Idec was trading at 12x forward earnings, which we feel is incredible. At one point, it was nearly book value. The market was saying, “I don’t believe these guys will do anything” and yet they had 25% revenue growth.

Bob Uly: Paul, I just received another email about a report by Carl Icahn, which says that he “displayed his continued interest in drug companies in a regulatory filing on Monday reporting new stakes in Genzyme and Forest Labs.” I know that Genzyme is one of our top ten holdings in the Kinetics Medical Fund.

Paul Abel: He also has a big position in Biogen Idec, for the same reason. In addition, he was the engineer of the MedImmune sale. This guy makes money and he knows what he’s doing. I think that this just validates and substantiates what we’re discussing. We believe these are just so remarkably undervalued that even guys like Icahn are piling in, and as you know, Icahn doesn’t go in for a penny; he goes in for a pound.

Bob Uly: Wasn’t he part of the ImClone deal as well?

Paul Abel: Yes, he was part of the ImClone deal. And I should say, I would prefer to see Genzyme and Biogen Idec appropriately valued. That being said, however, if Icahn wants to get them sold to a big pharmaceutical at two or three times what they are trading for now, I can live with that. I would prefer to see them organically evaluated, but if it has to be synthetic, so be it.

Bob Uly: Well, I would like to take this time to thank all of you for joining us today. We certainly do appreciate your interest and continued support. As Paul has highlighted, we are extremely



optimistic about the companies that we own in our Kinetics Medical Fund portfolio. He believes that there are some very attractive returns out there, which may be an understatement, and we look forward to working with you. Please do not hesitate to contact the Kinetics Sales and Marketing department if you need anything. You can call us anytime at (914) 703-6950 and you can always visit us online at www.Kineticsfunds.com to check the updated portfolio information, including the top 15 holdings in the Kinetics Medical Fund or any of our other portfolios.

Thank you again, Paul, and we look forward to talking to you in the future.

Paul Abel: Thanks again everyone.



Disclosures:

Medical Fund Holdings Top 15 Holdings as of October 31, 2009	%
NOVARTIS AG	6.69
JOHNSON & JOHNSON	6.62
LIFE TECHNOLOGIES CORP	6.27
BIOGEN IDEC INC	5.82
GLAXOSMITHKLINE PLC	5.75
GENZYME CORP	5.16
SANOFI AVENTIS	4.91
ABBOTT LABS	4.83
LONZA GROUP AG	4.53
LILLY ELI & CO	4.52
BRISTOL MYERS SQUIBB CO	3.89
CHINA PHARMA GROUP	3.87
PFIZER INC	3.46
DENDREON CORP	3.04
AFFYMETRIX INC	2.82

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

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