Welcome to The Strategic Investor. Join us as we interview some of the world's most productive asset managers and uncover sophisticated and unique investment strategies in the markets. Here is your host, Charlie Wright.

Charlie: Hello and welcome to Strategic Investor Radio on OC Talk radio where we bring you investment strategies you are not hearing elsewhere and you will definitely say that after listening to today's interview. We're very pleased to bring with us, for the very first time, Sal Gilbertie, cofounder, President and Chief Investment Officer of Teucrium which is a family of exchange traded products, ETPs, all on agricultural commodities. They're headquartered in Wilmington, Delaware. Sal, welcome to Strategic Investor Radio.

Sal: Happy to be here, Charlie. Thank you for having me.

Charlie: So, Sal, you've got a background in agricultural commodities trading starting with Cargill, moving on to Bear Stearns, Soc Gen, extensive experience in the ethanol market which makes you probably one of a handful of people who started out there. You have ETPs in corn, soybeans, sugar and wheat. So, give us a little of your background, will you?

Sal: Sure, I did start, as you said, in, way back in 1982, trading in leaded gasoline for Cargill. That actually helped me a lot. Couple of things I learned there; one is the first thing they said to us in training which always stuck with me. The guy walked into the room with 30 or 40 of us to be, to get our indoctrination into the Cargill way, if you will, (which was wonderful) and he said, "the first thing that you need to remember is that it doesn't have to rain" and that always stuck with me. And that actually is something that we should remember in our talking because, the price of corn, we'll probably get to it, has actually doubled twice in the past 11 years from the exact same spot, both times because it didn't rain. That was my start at Cargill. I ended up, years later, starting the ethanol over-the-counter swap markets and that leaded gasoline at Cargill experience, I took them from leaded to unleaded, and then when people started having trouble with unleaded gasoline, the additive MTBE which poisons groundwater, I heard George Bush give a speech, George Bush the younger, about ethanol and I thought, wow, I used to blend gasoline and this stuff, you could drink it, it's grain alcohol. I really think that that's the future for gasoline. So, I wrote a swap and got it going and that started, apparently, the ethanol over-the-counter markets and that swap itself is a cleared swap on the CME.

Charlie: So, you're the one to blame, huh, Sal?

Sal: I am, I am indeed. And I found it fascinating that most people don't know that an ethanol plant has to poison the ethanol. It's called denaturing and they actually inject 2% gasoline into the tank of ethanol before it pulls out on a rail car because otherwise they wouldn't be able to ship it interstate. They'd need a liquor license; you can drink it.

Charlie: Fascinating, I was totally unaware of that here. So, tell us here, Sal, what do you know about investing in agricultural commodities that you wish everybody knew?

Sal: The number one thing is that you should invest in agricultural commodities. That good allocators should consider investing in agricultural commodities because there is a secret to them. One is, you know, we've come up with these exchange traded products, to kind of be a little self-serving, I started these ETPS, these exchange traded products with really good tickers, like our corn fund has the ticker CORN on the New York Stock Exchange. It is easy to get so that people can participate without trading futures. The reason people should look at agricultural commodities, when you look at some of the intellectual studies and the academic studies at the universities, very often they'll come up with a conclusion that investing in agriculture over a very long term really doesn't work, because they kind of revert back to their cost of production. So, if you buy and hold it forever, that really doesn't help you. You buy Apple stock or you buy gold, everybody remembers when they deregulated gold and it went from 200 bucks an ounce to wherever it is now, 1200 bucks an ounce, it's kind of steep upward sloping going to the right on a chart…

Charlie: Hopefully.

Sal: Right, hopefully. But most of the time it goes up and over long periods of time, it goes up. Ags don't do that. The secret to agriculture is that farmers will plant until something goes to its cost of production. Their job is to plant, they're the eternal optimist, they're the ultimate gamblers, they scratch dirt, they bet on rain and weather and fire and pestilence, all the biblical things that people think are just biblical. Well, farmers live them every day. Occasionally, it doesn't rain or you lose an crop for some reason and prices go crazy because as the world population gets bigger and as we find more and more uses for grains, like ethanol, every single year, the combined use of corn, soybeans and wheat, rises. It's either a record or the second highest ever, when you look back at a chart. So, you're either a record or the second best record usage every single year because of a rising population. The population is rising at 2 ½ people a second. That means nothing to me, but when you think about it, it's twice the population of California. So, the world's population is growing at a rate of twice the population of California every year and every year those people need food and all supplies and all commodities. Not only are commodities a good investment in general, which is my background, but agricultural commodities get driven to their cost of production by a farmer and that's when it's your opportunity to layer those into a portfolio and you wait. It's a wait strategy, but the buy and hold for all eternity that the academics use, that doesn't work. But everybody in the world, who's real, rebalances. They do it quarterly, they do it annually or they do it when their money doubles. That's what you need to do with agricultural, that's the secret, that's what I wish everyone knew.

Charlie: You know, Sal, we met at a conference months ago and you showed a chart at that conference that really made a compelling point. And you showed a chart of the price of corn and that it bottoms, not only periodically but at the same place. And as I recall, it was bottoming at about that same place at that particular time and you showed how cyclical it is, how seasonal actually it is, which again, in the normal world of equities, they're not seasonal.

Sal: That's correct. Corn is highly seasonal and there's a reason, it's cosmic. Most of the world's corn, almost 70% of the world's corn, is grown in the Northern Hemisphere, north of the equator. So, as the earth tilts and it becomes summertime, that's when corn is grown. And when the earth tilts the other way and it becomes wintertime, no one is growing anything. And so, what happens is all the vast majority of the corn grown in the world is grown in the United States and China, believe it or not. But China uses all it's corn, it doesn't export, their production kind of gets lost in the haze out there. But the reality is the vast majority of corn in the world is grown in the Northern Hemisphere in the summer. So, it's harvested in a 6 to 10 week time period in the Autumn. If you look at seasonal charts that are smoothed for 20 and 30 years, (all else being equal and yes, all else is never equal), most of the time, when there is no drought, all the corn is harvested at the same time. You've got this giant pile of corn, in essence, so the buyers get complacent. And sellers are saying, "I'm not going to sell at the seasonal low" so they kind of sit, right at harvest and it tends to happen right at around the first of October, for spot corn, for nearby corn, you tend to get this price low. But remember, every day people come and take a little bit out of that pile, every single day. In the deep winter, nothing's growing, no seeds are planted, save for a few in the Southern Hemisphere, and the pile is getting smaller. What people don't realize about grains is they can't be stored very long. Corn, I remember the first time I visited a field of grain elevators, and the gentleman who owned the elevators was walking us around and he said, "I've got to get rid of the corn in that elevator, it's been there 4 years," and I'm thinking, "4 years! Really? No wonder a bag of fritos, sometimes it tastes really good and sometimes kind of average, how can I be eating 4 year old corn?" But that's about the maximum. If the temperature and humidity is right in that grain elevator, they can store corn for 4 years. Then it's done. But the key here, is at the end of every year, when you add up all that's been harvested, and you take away all that will be used for the next crop year, on average what's left is maybe a couple of months. So, if there were to be a crop failure, if something were to happen that's unforeseen or it just doesn't rain, what happens if you have an 8 week supply of corn and no corn grows? That means the world runs out of corn in 8 weeks. Now, that's not going to happen because corn's grown in a lot of places. But what happens is when you get a drought, say, in the United States, the world's largest producer and exporter of corn, now, all of the sudden, that 8 weeks in a single year can go to 6 weeks or even 4 weeks. What if there's a back-to-back drought? And, in fact that happened in 2010 and then again in 2012, and the price of corn, exactly as you say, the break even for corn is easy to see. Look at a chart and it's very easy. The futures equivalent price of between $3.50 and $4.00 is the breakeven of corn. That is the breakeven of corn. What happens is a farmer plants and drives that price down to between $3.50 and $4.00. It will stay there until one day it stops raining or there is some other supply disruption and suddenly, the price rockets higher because the market's terrified. The stocks, the minimum stocks, at 8 weeks going to 4, what if they get back to back and go to zero? There isn't enough corn. Markets in ags trade at break even and then they panic and therein lies the opportunities for investors. When you see corn futures trading around $3.50, your downside is really limited because farmers will just stop planting. That's what they'll do. Can it go to $3.00? Of course, it can. Will it stay there? If you look back at a chart in the post-ethanol era, it hasn't happened for more than 6 or 8 weeks and it goes back up. So, but when it doubles, the price of corn has been above $7.00 three times in the last eleven years. And twice it came from the $3.50 to $4.00 area and went to the $7.00 to $7.50 area and once it went from the $5.00 area to the almost $8.00, well above $8.00. That happened in 2012 because there was another drought in the two year time period. Generally, supply interruptions in corn happen every 5 to 7 years. If you have one happening every 2 or 3 years, supplies start to shrink, those ending stocks starts to shrink, that 8 weeks goes to 6 goes to 4 maybe goes to 2, things get tight, prices go up. So, the opportunity for investors is when you see something at it's cost of production, understand that it has limited downside. Understand that, as we said earlier, demand just keeps rising. So, Econ 101, rising demand, uncertain supply in those years when the supply becomes uncertain, the price goes up. Investors can take advantage of that really easily. There are futures and there are now these ETP products.

Charlie: Okay, so, let's talk about those two things here. So, your ETP product, does it invest in futures? How does that work and how does that work for the end investor?

Sal: It invests in futures, so what happened is we kind of stuck, we did stick commodities, specifically agricultural commodities, into the ETF-like wrapper. They're called ETPs because technically we don't have 20 holdings so legally we're not an ETF, we're an ETP. But we're exactly like an ETF. We're a

Delaware series trust, your money is collateralized. I can get hit by a bus or Teucrium can go out of business, you still get all your money back. It's not like a Lehman note where when Lehman went under, people lost their money in ETNs. This is not an unsecured note. It's a collateralized instrument that trades on the New York Stock Exchange every day. Its liquidity, like all ETFs, is based on its underlying. When you look at any ETF, it's bid and ask, never put a market order in, always put a limit order in, because a machine will just calculate the underlying where it can buy it and where it can sell to you, if you happen to be buying that ETF or ETP. So, corn markets on a report day will trade deca-billions of value. There is no amount of money any registered investment advisor or any investor, in fact, can put into the CORN ETP, for instance, on the New York Stock Exchange, that's going to move the corn markets. It's just impossible. Just do it when futures markets are trading. In all ETFs for good liquidity, no matter what the underlying is, be it commodities or stocks, if you trade that ETF when the underlying markets are open and you avoid the very open of the New York Stock Exchange, 9:30, you should wait until 9:45ish, to put your orders in and use limit orders, there's almost an infinite amount of liquidity that you can get in things like grain ETFS, in things like corn and wheat and soybeans, like ours, because the underlying is infinite. What do we do? We take your money when, we don't actually get it directly, a bank makes markets, though as a sponsor, I don't actually sell shares to anyone. I do creation baskets to a bank who makes a market, you know Goldman Sachs, Morgan Stanley, Virtu, Susquahanna, all the big traders are out there making markets in our funds. If you need to buy one or a million shares of one of our funds, corn, wheat, soybeans or even sugar, you put your order in, that bank will sell it to you based on the price of the underlying and then they will come to us and do what's called a creation basket. That's how ETFs work. It's a very smooth process. All the investor sees is corn is for sale for x dollars and x cents on the stock exchange and they buy it, the corn ETF. What happens with that money is that it immediately goes into three corn futures, it goes into the second month, we never hold spot corn future, the third month corn future, and the December following third month. And this is really important, you own out the curve. So, we never own spot, you're never going to get delivery, you know, this is all paper. You're never going to have the terrible effects of slippage, of this backwardation and contango that they call it, where sometimes you can have negative roll yield which you might hear that term with ETFs.

Charlie: Oh yeah.

Sal: We have mitigated that by spreading our holdings. So, your money actually goes in, it buys three futures contracts, 35%, 30% and 35%, and we post those holdings on our website the same day. So, generally, by 6 pm, and the law requires all ETF providers do this within 24 hours, we do it same day at 6 pm you can see on our website, 6 pm or around that time, all the futures we bought, you can see exactly what the fund holds and you know what you hold.

Charlie: And Sal, what about leverage because the futures market is all about leverage here?

Sal: We are not leveraged. If a dollar comes into our funds, we buy $1 worth of corn. We do not leverage. These are not leveraged products. These are meant to give investors exposure. They are not meant to do anything but, if an investor is long our corn fund and corn goes up, our fund goes up. If an investor is long in our corn fund and corn goes down, our corn fund will go down. That's what they're designed to do, they're designed to give an investor direct but easy exposure to the corn futures markets without having a futures account. You trade them on the New York Stock Exchange in your ebroker account or your RIA account or however you do it. That's why we did this and we did it so that people could by and hold them, so that people don't have to worry about rolling futures. We do that for you. It's a formula, so you know what you're going to own inside of our fund when you buy it, the day you buy it, and you know ten years from now. You can look at a calendar, you'll know what we're going to own and, in fact, we post a calendar one or two years out on every month what our holdings will be as the futures contracts roll off. This is to give people an opportunity, for instance, when corn, like it is now with all the tariff turmoil, it's trading at $3.50 or below on some of the futures contracts. That's at break even in the fields, or less, so risk, it would seem, history would tell us is very limited on the downside. Yet your upside, should it not rain this summer or next summer, this is the time, price level where people will be layering corn and soybeans and wheat into their portfolio and holding it, waiting for that drought that will come. We've, this will be our sixth, if we have a good year which everyone is predicting weather, this will be the sixth year in a row that we have truly spectacular weather. We've rebuilt our stocks and corn really does trade down between $3.50 and $4.00; it's only a matter of time. History tells you it's only a matter of time before there's a supply disruption. Demand does not fall, it rises.

Charlie: So, Sal what are the major objections that you run into from investors or their advisors on investing in these agricultural commodity products?

Sal: Two things. One is, people want to get paid to hold something and we don't have an ability to pay a dividend.

Charlie: Right, right.

Sal: We simply own the futures contracts. We're not the corn producer, we're not stocks, you know, we own futures. Second, most people, they don't think about ags. They say, "how do I explain to my clients why I'm invested in ags?" Once you spend a few minutes with them, we've touched on some of the things now and I think you saw our booth or presentation at the show where we met, people get convinced pretty quickly that "wow, I should have an exposure to that." I mean, you wake up in the morning, people don't understand, they say, "did I use corn today? I didn't eat" They're thinking did they eat an ear of corn at their summer picnic. Well, if you filled up your car with gasoline today, you used about a bushel of corn. The average SUV uses about a bushel of corn in the ethanol content of the gasoline. That's corn's second largest global use. Corn's first largest global use is, if your kids jump out of the car and buy a beef jerky stick or a chicken taco or something, it's feeding animals. You've just used corn twice. If you go inside and pull something out of that cooler to drink, it's probably sweetened with corn syrup. That's corn's third largest use. And when you pay for it all, if you're still signing, if you're not using apple pay, if you're still signing credit card slip or you're taking notes listening to this right now, that paper is held together with corn starch. That's corn's fourth largest use. It is not possible for you to be in any country anywhere in the world and not use corn on a given day. Not possible. And that's what people don't realize. They're using grains every day. When the price of oil goes below $40 a barrel, billions of dollars pour into oil ETPs, billions of dollars. Same with gold. Gold gets under $1100, gets toward $1000 an ounce, billions of dollars flow into those things. Corn gets under $3.50, nobody cares and they should. That's my biggest frustration. That's what keeps me up at night. I know you ask that on your podcast.

Charlie: (chuckling)

Sal: That's what keeps me up at night, why don't people pay attention to grains? You have limited downside and really high upside when grains are at their cost of production. And most of the time, they trade at their cost of production. And there's a seasonal, so, for corn for instance, not only do you watch the price and start to allocate there, but you watch the calendar and if there hasn't been a drought the prior summer, come the first week of October, you're buying into that dip. You generally see this creep up through March, basically from October to March you see an upward seasonal creep in corn because after March, the seeds start getting planted in the ground, people start feeling a little more optimistic. Prices tend to level off and then they tend to fall as you get into mid-summer and you can see if it's going to rain or not, during that critical pollination time which is generally around the 4th of July or shortly after.

Charlie: So, Sal, who buys your fund and why?

Sal: That's a good question because we don't sell directly to people, but we do see the tax rolls once a year. We have to send out our tax forms. It seems to be about 50/50, retail investors and retail advisors. Our top holders of our funds, constantly, every year we get, every month we get what's called a depository trust clearing corporation account, it's a quasi-governmental organization, and they tell us all the clearing members who are enrolled in our accounts. I can't see the individuals, but I can see what firms are holding our funds and every single month the top three are TD Ameritrade, Schwab, and Fidelity. They have enormous RIA independent broker dealer platforms and that's where the money's coming from.

Charlie: Well, very interesting. So, tell us, you've already told us what keeps you awake at night. Tell us what book on investing would you recommend for our investors?

Sal: You know, I'm not a big fan of investment books, but I will tell you that the one I like the best, hands down, is the original Market Wizards written in the late 80s. You may remember it.

Charlie: Is that Jack Shuger?

Sal: Yes, Jack Schwager.

Charlie: Schlager, right.

Sal: The reason I liked that book, it had, I tend not to read a book or any article that gives one point of view because I might get hung up on it. It might affect my balanced outlook. That book interviewed a lot of super star hedge fund managers and traders, and each one of them gave a different perspective. The two key things I remember, clear as a bell, taking away from that book, one is every one of them that was successful focused on managing downside risks and every bad trade I've ever been in my whole life has been because I lost sight of that, there's no question about that. Managing your losses is much more important than managing your potential gains. And second, I remember a quote from Paul Tudor Jones who said every single morning when he woke up and looked at his book, if he wouldn't have initiated that position, he pretended he didn't have any of the positions that were in his book, and he'd look at each one of them individually, and say to himself, "would I buy this today if I didn't own it?" If the answer wasn't yes, he would sell. Those two things really stuck with me from that book.

Charlie: You know, those are great, great points there. So, for those who would like to know more, number one, spell Teucrium and number two, give them some contact and web site information.

Sal: Sure, Teucrium is an herb. It's t-e-u-c-r-i-u-m and if you go to teucrium.com, a webpage will come up that links you then to all of our funds. You can click on the picture of corn, the picture of wheat or soybeans or sugar cubes and get to that specific fund. If you just google corn fund, our fund usually comes up. So, there's an easy way to find us and there's info@teucrium.com; if you really want to write to us, if you want to speak with me directly, I'm always available at sal.gilbertie@teucrium.com (that's gilbert with an "ie" at the end). Just shoot me an email and I will answer it for you.

Charlie: Great, so final words for our listeners here, Sal?

Sal: Final words? Do pay attention to ags. There are enormous opportunities when you see corn in particular, it gets headlines, at $3.50 a bushel, futures equivalent, that really is a time to start thinking about layering in and the headline will tell you. Set an alert for yourself or something. The headlines, when there's a drought, will tell you that it's time to probably sell that.

Charlie: Okay, well, Sal thank you very much. This has been very interesting. Again, not a topic we talk about a lot certainly in Southern California at Saturday gatherings around the neighborhood is not something that comes up, buying into ag products here. So, thank you very much for enlightening us. We appreciate it and our best wishes to you and Teucrium for continued success.

Sal: Thanks very much, Charlie. Really appreciate the opportunity.

Charlie: Again, we've been talking with Sal Gilbertie, cofounder, President and Chief Investment Officer of Teucrium out of Wilmington, Delaware. You've been listening to Strategic Investor Radio on OC Talk Radio. We'd love to have you contact us at strategicinvestorradio.com. go to our website to hear podcasts of all of our interviews and shows, strategicinvestorradio.com. I'm Charlie Wright wishing you an enjoyable week and productive investing.