THOUGHTS FROM THE FRONTLINE

More Personal Portfolio: Biotech, Commodities, and Gold

By John Mauldin | September 23, 2023

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Last week we began exploring the details of my personal portfolio. This week we will finish and then move back to our discussion of various cycles. You might want to read the first part of this letter if you missed it.

Again, let me caution that this is not a portfolio anyone should try to duplicate. Last week I described some "core" investments, but nearly everything I'll mention below should be classified as speculative to very, very speculative. While some of them have grown to consequential size, none really started out being overweight. Contrary to what it looks like, I am somewhat conservative.

Normally, people do not share their portfolios in such detail. I do this because I think of my readers as friends and many of you have been with me 10–15–20 years. I hope you find this interesting. Next week we will get back to cycles.

I must also admit to a "survivorship bias." I'm not including all my failures, of which there were sadly more than a few over the last 40 years. I will describe one of them today, though, because it has some useful lessons.

It will become readily apparent below that I'm overweight in biotech, and specifically, smaller startups (or they were when I initially got in). I approach investing in biotech like many of my friends approach private investing in gold stocks. If they make 10 small investments, they expect five will go to zero and hope for two or three out-of-the-park home runs. The problem is you don't know in advance which ones will be the winners. My biotech portfolio is very speculative.

I became convinced in the late 1990s that biotech would be the next technological revolution. I began building relationships with biotech experts and analysts, with no particular agenda other than to try to wrap my head around the process. I have been on two biotech public boards of directors, further developing my relationship network.

There is no real rhyme or reason for my particular holdings other than introductions from people that I had high regard for, and after analysis by my team and myself, I generally made appropriately sized investments for the risk. I have been in many of these investments or involved with the people for a decade or more.

Some of these companies subsequently went public but most are still private. I believe that this portfolio partially reflects my macro perspective. Part of the value of reading this today will be to see the wide variety that is out there, and then realize that the half dozen projects I am talking about can be literally replicated many more times.

Investing in private biotech companies requires a very long time horizon. There's generally no liquidity and everything goes slower than you can possibly predict at the beginning. The FDA will frustrate you to no end. All that said, there will literally be scores if not hundreds of companies started within the next few years that will be bigger than anything in my portfolio.

First, a couple of lessons I've learned along the way. The best science in the world can be screwed up by bad management. I have seen people with great degrees and pedigrees (at least on paper) and in person very thoughtful and likable. For whatever reason, there are people that cannot manage a three-man parade. They can't agree on where to go, who should lead, and so forth. You've got to have great science at the beginning, plus solid management.

There are scores of companies with great science, languishing due to poor management. That creates opportunities.

Relationships are key in the biotech investing space. It is literally so big you cannot even begin to think about looking at everything, or even 10% unless you are a major research outfit. Having a network that can identify opportunities and share them with you is critical. Network first. Then invest.

Finally, my personal preference is for small, generally private startups rather than index funds. It's probably not an exaggeration to think that approximately 50% of biotech startups will fail. That simply drags an index fund down, unless it focuses on large-cap pharma, which in general is fine but it doesn't accomplish what I am looking for, which is the multiple return. As I said about gold stocks, I make small investments in a lot and then watch them.

With that said, and in no particular order, let's dive in!

Bexion Pharmaceuticals

Years ago, a good friend brought his son to lunch with me in Dallas. The mid-20s son had developed a brain tumor. I called my friend Patrick Cox who was (and is) very familiar with the biotech space and asked what he knew. Turns out he had just read about a company called Bexion that had a new cancer therapy developed at the Cincinnati Children's Hospital. I made some phone calls and the next week we were sitting with their scientists and financial backers. It was a true startup, but the science was amazing. There is a fascinating but long story about the development of the drug. The Chinese researcher/scientist was looking for something else but found it killed cancer, at least in petri dishes and mice. Very serendipitous.

The technology appeared to be exactly what we were looking for. I asked if any additional money would help them move faster (we obviously had a literal deadline). The financial team said no but after a pause Dr. Ray Takigiku, former head of biotech at Proctor & Gamble (before they sold it) and the soon-to-be CEO, mentioned that a small amount might help him move the process faster. Long story short, I called a few friends, shared the deck and we raised the money. Sadly, the son passed before we could offer him the drug legally.

Now, let's look at what Bexion's drug does. Essentially, a cancer cell doesn't go through the normal cell death/replacement process (called "apoptosis") because the molecule that would trigger apoptosis somehow gets moved from the inner wall of the cell to the outer wall so there is no way for the cell to know it's time should be up. Thus, it begins to proliferate and grow these flawed cells.

Bexion's drug (BXQ 350), VERY simplistically, has a component that will go through the body, find receptors that trigger apoptosis, "dock" in and tell that cell to die. Initial trials demonstrate significant safety. They have now focused on colorectal cancer (the FDA process more or less requires focus), although they are doing trials for a rare brain tumor in children which has no treatment and is almost always fatal. The FDA has given them orphan drug status for this.

That was almost a decade ago. Bexion is the poster child for needing patience, even though the senior and very experienced team is more positive than ever about the drug's efficacy.

I've often quipped that Bexion's real risk was not whether the drug would work, but whether another company would come along and do it cheaper, better, faster. There is an enormous amount of work in the cancer space. Who will be the big winners? We will see in 10 years.

Randomly, 20% of cancer patients who undergo chemotherapy develop neuropathy. Patients with neuropathy that were treated with the drug noticed the neuropathy went away or significantly diminished. They have initiated a separate trial to treat chemotherapy induced neuropathy for cancer patients.

Why not go after neuropathy in general? Personal speculation suggests because of the massive costs. Another 10-year process. Sigh.

In conversations with the team, there is some interest in a public offering in a year or so (which in biotech time probably means two or three years) or a major partnership or buyout with a large pharma company. I will let you know if it goes public, but right now there is no way to invest.

In valuation terms, Bexion is up significantly from when we came in, but for now is still illiquid. Hopefully in the future there will be a liquidity event. But even more wonderful would be the development of a drug effective against presently untreatable cancers and the development of a drug for neuropathy which has no treatment today.

In a few years we will know if that was an extraordinarily opportunistic moment, or a long and frustrating rabbit hole. I am optimistic and actually made additional investments in a later round. You can learn more by clicking on Bexion's website. They share a lot of information, which not all private companies do.

Galectin Therapeutics

Galectin Therapeutics (symbol GALT) is a public company now based in Atlanta. I was on the board for several years. Although it had been around for a while when I joined the board, it had all the feel of a startup but a very serious (well, except for me) board. A former Apple CEO, many scientists, one of the original "PayPal mafia," and so on.

The company had been focused on cancer, but the drug also had possibilities for cirrhosis of the liver. At the time, we elected to focus on that space. It proved to be ungodly expensive. I left the board when Dick Uihlein (founder of Uline—its own fabulous story) fortunately stepped in as a much-needed angel investor. He needed some of the board seats, I looked around the room and I was the least necessary, so I offered to resign. (I should have asked for more options!)

Bottom line? The Phase 2 trials showed that their drug (details on the website) was significantly positive for 50% of the trial patients. We had hoped for more but it turns out to be a very specific 50%. If you also had esophageal varices, the drug would not work. You were too far gone, but that made it more important to get the drug early in the process.

Galectin is now in a Phase 3 trial which should be complete in late 2024. The company has a market cap of a little over $100 million—so micro-cap. What's a cure for cirrhosis of the liver worth? No one really knows, but surely a lot more than that.

I view the company as an option. If the Phase 3 data is positive, well, it's kind of "to the moon, Alice!" If it's not, your option expires, not entirely worthless as they are having some initial success with collaborative cancer therapies, but investors won't be happy. I should note Dick Uihlein has invested more in the company than its current market cap. I was with him a few weeks ago and he is still totally committed. He put his money in as convertible debt above the current strike price. You can go to the website and learn more about the company. There is no hurry as I doubt there is anything to significantly move the price prior to next summer when, like most biotech companies that are getting ready to reveal their Phase 3 results, it may tick somewhat higher.

MyMD

From their website on a recent Phase 2 trial success:

> "MyMD Pharmaceuticals, Inc. (Nasdaq: MYMD) ('MyMD' or the 'Company'), a clinical stage pharmaceutical company committed to developing novel therapies for age-related diseases, autoimmune and inflammatory conditions, today announced statistically significant positive topline results from its randomized Phase 2 study of oral TNF-α inhibitor, MYMD-1® in patients with chronic inflammation associated with sarcopenia, or age-related frailty. The study met its primary endpoints of significantly reducing chronic inflammatory markers in participants treated with MYMD-1. MYMD-1 has the potential to be the first drug approved by the United States Food and Drug Administration (FDA) for sarcopenia, an age-related decline in physical function which leads to greater risk of hospitalization, disability, and death."

A true sarcopenia drug is potentially powerful. A TNF-α blocker? Even more so. I have followed the development of this drug through several iterations for roughly 15 years and have experience with previous iterations. It is basically a tobacco derivative. It has always had good results in mice, but then my doctor, Mike Roizen, quipped: "John, orange juice works in mice."

The stock's technicals are ugly. It is a micro-micro cap at a valuation of now $25 million, down significantly as some funds wanted to sell and have been slamming it. That being said, the world's best-selling drug, Humira, is a TNF-α blocker with lots of ugly side effects. Myradine (MYMD-1) had no significant side effects and is a pill, not an injection. Pills are cheaper to make.

You can read the details on the website, but this is yet another biotech that will need a major pharma involved to reach the next phase. Eventually it will be a straight-up buyout or investors will not be happy. Again, a call option. But one I am happy with. If the stock stays near this level, I will add to this after you have had this letter for a few days.

I have sat in the room with multiple scientists and doctors from Johns Hopkins (on several occasions) who have initiated multiple trials on this drug for many indications. They are in trials on multiple sclerosis and thyroiditis. Their enthusiasm was encouraging, at least to me.

I am most interested in the sarcopenia trials. It appears to seriously help with muscle loss. I personally can't wait to get access. This was a small investment at the founder stage. Again, patience is the word here. I believe in the drug, but time will tell. I have been wrong before, but then again, I sometimes find an acorn. I hope to see a tree grow from this one.

Cristcot

Again, a private company, and their website has not been updated for at least three years. Cristcot is uniquely taking a drug that has been on the market for more than 100 years (pre-dating the creation of the FDA) through clinical trials as a treatment for ulcerative colitis flare-ups.

The drug is administered through a patented, FDA-approved suppository delivery device that ensures the medication reaches the critical part of the anatomy needing treatment. The company sees itself as a platform company with multiple new treatments in its pipeline.

For me, this was a more-than-small investment with people I know and good data at the time. It will (eventually) go public or be bought. Hopefully. We will know more when the Phase 3 trial unwraps. Another option for me.

Gold

I am not a gold bug, but I bought a significant (for me at the time) amount in the early 2000s at a generational low. The price is obviously up and is still a significant personal position. I don't really look at gold as an investment but more as central bank insurance. If I ever sell my gold, it will be because things have gone to hell in a handbasket for either me personally or the world in general. I sometimes quip that I hope my gold goes to zero because that means the world has done very well. I'm afraid that will not be the case. I should add more.

Uranium

Once a week, I am on a group video call with some very cool, smart, fun people. Also very savvy and some large investors/traders. Harris Kupperman of Praetorian Capital (one of the participants and Puerto Rico neighbor) has persuaded me that uranium is going to make a large move over the next few years. Knowing I was going to write about it, I have not yet invested but will do so this next week. I will be buying an ETF which is basically a proxy for physical uranium. Depending on the price action, I may do so in size.

That Bug on the Windshield Was Me

A little under 10 years ago, I made one of my better calls stating that the Bank of Japan would monetize their debt. They did. It was an out-of-consensus call but, as I noted at the time, no country had ever done that without their currency collapsing. I said the yen was a bug in search of a windshield. I actually bought 10-year yen options (arranged through JP Morgan) at a 130 strike price. I thought the yen would fall to at least 200 if not more.

To my utter amazement, the yen actually got stronger and stayed that way for a significant time. Earlier this year, when the yen was at 130, I finally threw in the towel and closed out that trade as I was close to my 10-year time frame. I got about half my money back. Bad move. If I had waited until today, I would be way in the money as the yen is at 145. A trader with nerves of steel I am not. It turns out that the bug on the windshield was me!

I may end up being right but that will not enhance my balance sheet. Just a gentle reminder to myself that I should leave the currency trading to the big boys. (Sidebar: At the same time, I also put money into Kyle Bass's short Japan fund which did very well. So I am up on the overall yen trade, but it doesn't feel like a win.)

Miscellaneous

I actually made an investment about five years ago in an artificial intelligence company. They were developing their AI technology to trade the markets. I had known the founder and owner for some time, and he hired a friend to run his trading desk, so I got a deep dive into their process. I liked what I saw and heard and put some money in. Ask me in five years how it's done.

I invested in a biotech venture capital fund, run by one of the best investors I know. We are close friends. This particular fund put a significant portion of his capital not into a startup but into a private offering from Royalty Pharmaceuticals, at what I thought was a very attractive valuation. When the company much later went public the shares were spun out and I got almost all of my initial investment back (which was the plan), and I am now riding along with the actual companies. One looks like a big winner in a few years (again, in biotech time that means four to five years). Some of the others are very promising but longer term. Biotech investing is a synonym for patience.

I am invested and involved with an insurance fintech startup. I have a cannabinoid investment that I will write about in the future as part of a different letter with a different theme.

New York, Florida, and a New Book

I will be in New York the week of October 15th for various meetings and dinners. At least one of those dinners will be with clients and potential investors for the oil fund that I am involved with. I am also planning to spend some time on both coasts of Florida and probably in Dallas doing similar client and prospect presentations.

My daughter Tiffani and I have a book that will be out in late October. It is called Eavesdropping on Millionaires. It was Tiffani's original dream, after spending years with our readers and their stories.

We began interviewing millionaires in 2007, after doing a large, extensive survey, getting them to tell us their story on how they became millionaires. 2009 was not a good time to bring out a book on millionaires, so the project was postponed. In the middle of the last decade, we did follow-up interviews with each of our original millionaires. More time elapsed, COVID-19 happened, Tiffani became more enthusiastic about the project, and we did another series of interviews to see how our millionaires had done during the pandemic.

It is a fascinating "time-lapse" series with stories of people before the Great Financial Crisis, what happened to them afterward, and then what happened after the COVID crisis. I was there for the interviews and the editing, but Tiffani did most of the work. I am proud of her and of the book. TONS of data. It is a researcher's treasure trove.

And with that I will hit the send button. Have a great week and I hope we can see each other at some point in the future. And don't forget to follow me on X!

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