Podcast link:

https://www.dropbox.com/s/dfk7r06szo8yb4l/Ep09.1-PREVIEW-IC%20guests_Sal_Gilbertie.mp3?dl=0

Host: "So, today on CLS's 'The Weighing Machine' we have a special guest, we have Sal Gilbertie from Teucrium. Did I say that alright?"

Sal: "You did."

Host: "Yes! I got it right. Sal, we've got you here for the CLS Investment Committee this quarter and every quarter we have something called the CLS Forum where we bring in a couple outside guests to come in and talk to us really about things we're thinking about doing in the portfolio. So, our CLS investment themes and one of our themes; our budding themes, is talking about real assets and commodities, and you are an expert in this field. So, welcome here."

Sal: "Let's hope so. Thank you, thank you."

Host: "So, well tell us a little bit about, about you and your firm and, and there's a lot of history there."

Sal: "There is actually a lot of history. I started trading leaded gasoline for Cargill in 1982, so if you fast-forward up through a lot of commodities trading, energy and ags primarily. I formed Teucrium after, basically, launching the ethanol swap market; so, I got that market going and traded it for several years and it was fun."

Wayne: "Hey, how many years, just a …?"

Sal: "I'm going to say, five or six?"

Host: "The only reason I say, I created product called Pegasus which was an energy for energy traders, early nineties. It went over a Telerate machine. Anyway, okay, cool, sorry for that digression."

Sal: "Alright, no that's great. But people were coming to me as counterparties. I ended up managing a desk. It started with ethanol; but we ended up trading about thirty different commodities, providing liquidity, out the forward curve, to institutional players, who futures wasn't quite, weren't quite what they wanted."

Host: "I'm sorry, where were you at, again, did you say?"

Sal: "I was at a place called, well, I traded up through to Soc Gen's balance sheet. I was living in their, inside their brokerage firm called FIMAT, which morphed into Newedge. But I traded for Societe General's balance sheet as a counterparty and it was fun. But people came to me to do very large over the counter swaps because they were hitting their position limits and these people were ETF players, primarily energy ETFs which were very popular and got enormous. And I looked at it and said, 'you know what? I could structure these products a little better' and I could not believe there were no agricultural ETFs because we all use ags, we'll probably get into that in second. But they needed agricultural ETFs, so

I formed Teucrium, brought in some partners to help with the accounting and legal and compliance that's very complex. You know, I come from a commodities background, so we rounded out the company, brought in some investors. We're actually five percent owned by the state of New Mexico. We have some other, other passive shareholders that are well known as well.

Host: "What does Teucrium mean?"

Sal: "Teucrium is actually an herb. It's an herb that grows on the hillsides of the Mediterranean and we like to say at cocktail parties that it's kind of like money managers. They don't really use it for anything. It just looks good and it's fun to say.

Host: "And when did this start again? When did Teucrium start?"

Sal: "Teucrium started in, I think we incorporated in, I'm going to get this wrong probably, but in 2008, I'm going to say the end of 2008.

Host: "Okay, so, wait, your career, so, somehow we jumped from you're doing energy in the eighties to Teucrium in 2008. You must have done some really cool stuff in the interim."

Sal: "I did. I actually owned a seat on the New York Mercantile Exchange, was trading for Cargill when the Mercantile Exchange took a survey, would you like us to list a crude oil contract, I thought that was interesting. I took Cargill from leaded to unleaded, that's why it was easy for me to think about ethanol because it just, I used to blend gasoline for Cargill. I knew half the gasoline in the world needs an oxygenate, ethanol you can drink it. It's vodka, basically. (Host: "I didn't know that.") it's good stuff. They actually poison ethanol at the plant. They put two percent gasoline into the ethanol or the plants would have to get liquor licenses to ship their stuff out of state. Most people don't know that. It's called denaturing."

Host: "I'm from Nebraska, I should know something like that."

Sal: "Maybe, maybe."

Host: "Well, cool, um, so obviously, you've worked a lot in the energy complex and now you're working with ETFs in the agricultural complex. So, commodities, as an asset class, broadly speaking, what is the argument from your perspective for including commodities into a portfolio from a strategic long-term perspective. And then also, we'll get to more of a shorter-term perspective right now?"

Sal: "Okay, (Host: "Two questions, I guess.") they've proven, it, it's, it's proven in all kinds of studies that commodities actually raise the risk adjusted returns of a portfolio.[1] And how that works is when you take part of the securities portion of your portfolio, so start with the traditional, you know, old-school sixty-forty. You leave the forty alone, and you put part of the sixty into commodities. Now, most people would say that's non-intuitive, why does adding something that's even more volatile than stocks reduce the volatility of my portfolio? The easiest way to describe that is if you are a good airline stock picker and you have a group of airline stocks in your securities mix, and over time they are going to perform in any environment, that one quarter when there is an oil shock, when that oil price doubles, because of a war or some disaster, those airlines are going to take a hit and you're going to lose money in that part of your portfolio. But if you owned the oil, you're going to make money in that part of your portfolio. Over

[1] See attachment I

time, the airlines learn to operate in a higher oil price environment, you win. You've just, you've mitigated some of the volatilities of your portfolios because you are offsetting gains and losses. So that's just a simple example of why it works."

Host: "I remember when I was building mutual fund portfolios, fifteen, twenty years ago, it must have been early 2000s and I remember putting a ten percent position in a commodity mutual fund at that time. And again, the same argument, on a stand-alone basis, very volatile, but at the bottom line, portfolio the volatility just sucked out. It was amazing how effective it was. So, on that point though, do you have a recommendation for how much someone should put in commodities?"

Sal: "I do not. I'm not a registered investment advisor. I tend to err on the high side. I think that commodities are vital part of our world and our lives. And if you don't include those in your portfolio, in the right way, there are strategic ways to implement that exposure, you know, you're really lacking something."

Host: "Yeah, you know isn't it like investment managers always have too much in financial assets and insurance agents always have too much in insurance, so as a commodity guy, you probably would have more in commodities than your typical person."

Sal: "It's true. That is true."

Host: "Okay, so more from a tactical short-term perspective, why commodities now?"

Sal: "Commodities have been in a tremendous down cycle lately. They peaked in 2008 during crisis and they came down with the contraction of the Chinese economy. I think that had a lot more to do with things than people imagine. But, you know, going from major double-digit growth to high single-digit growth is not a bad thing. The Chinese economy has adjusted and adapted. It's still growing tremendously, but industrial metals, for instance like copper, they take a hit in downturns, economic downturns. The interesting thing about ags, there's a secret to ags, but the interesting thing about ags is their usage always climbs. So over time, the usage of really all commodities, but ags in particular, climbs. The last thing people will do is to allow themselves, their families or their animals to go cold or hungry. That's a pretty critical thing when thinking about commodities."

Host: "That's good when you think about it. I mean, personally, the reason that we're attracted to commodities is that basically everything is at all-time highs except commodities are still sixty percent off their highs."

Sal: "Correct and I think as you get some expansion, some global expansion, the fear factor is removed, I think, from a lot of people, there's a lot of uncertainty that's been removed, elections are over, "exits" of all kinds are over or at least not talked about as aggressively. So the uncertainty that surrounded everything is going away and I think that the economy is growing at a more steady and stable rate and that, of course, will pick up commodities markets."

Host: "You touched upon this too, but another thing that attracts us to commodities and real assets in general is that they have a positive correlation to inflation and inflation expectations when conventional stocks and bonds don't. Do you have a view on inflation right now or …?

Sal: "I think that inflation will rise. I don't see it rising to an extreme. I mean in our day, I was born in 1960, so I've seen inflation and fourteen percent interest rates and things like that. I'm not sure we're going to go there. I think that the economy's not growing fast enough. I think productivity gains have made things like labor shortages and wage inflation less of a threat than ever before. And so you're really going to see inflation because of demand factors, I think."

Host: "Okay, so the thing about commodities is people just like to lump it together. But really there's a bunch of different asset classes within commodities. How do you break it up? There's a couple different ways you can do it. So how do you do it?"

Sal: "Okay, I'm biased. For me if I were building a portfolio and I'm not an investment manager, I'm not an RA, okay? But if I were building a portfolio, I would start with broad exposure, pick a broad index because that is really proven to enhance your risk adjusted returns. Then if you want to be tactical, I think agriculture is the key because it's less cyclical than say, energies, industrial metals that are affected much more by the economy than agricultural products. And then you have precious metals which are an animal all to themselves. Precious metals, you know there are the goldbugs, which I'll never understand personally, but you know you need the gold to buy the other commodities. And so just buy the other commodities when they're really cheap, it's a short cut."

Host: "So, on that point about commodity as an asset class, what is the best benchmark? There's multiple benchmarks out there and they're so different. Again, is it because how much has energy, …They're equal weighted, what is, do you have a preferred…"

Sal: "I think you take your pick, I really do. You know, the most popular and I'm not recommending anything, but the most popular is probably DBC, it's probably the largest."

Host: "Which one is the old CRB index, I know it's been rebranded?"

Sal: "It's been rebranded. They've all been changed so many times. I mean the most popular are Goldman Sachs but that's literally first generation."

Host: "That's energy heavy, right?"

Sal: "Right, very energy heavy. You've got the BCOM, so the Bloomberg commodities index is widely followed and widely used now as a benchmark. I've personally owned for my son's college account, say, USCI. I happen to like that one. I think that the methodology in theirs is quite a good one, but you have to take your pick."

Host: "Yeah, exactly, okay, so getting back to the ags. So, why ags now?"

Sal: "Why ags now? There's a secret to ags. Ags trade at their cost of production while usage goes higher. Usage always grows because global population is always growing. We use ags in a lot of different things. The emerging middle class, the first thing that people do when they get a little bit of disposable income, extra, is increase the protein in their diet. The number one use of corn in the world is to feed animals. And so people don't realize that you're using as much corn every day as can possibly be imagined. There's a very simple analogy, corn in the petrol stations. So, if you pull in to fill up your SUV, you use about a bushel of corn because of the ethanol in the gasoline. That's corn's second highest use. If your kids jump out to buy a beef jerky stick or a chicken taco, there's corn's number one use, feeding animals. If you buy something to wash it down that's been sweetened, corn's number three use, corn syrup. Any paper, if you're using paper, if you're taking notes right now, if you sign a credit card slip, which some people still do, that's held together by corn starch, corn's fourth largest use. The plastic cups at a summer picnic with a green stripe around them, turn it over. It says made with corn on the bottom of it.

Host: “It’s amazing.”

Sal: “Corn is everywhere. There’s no way in the modern global economy to not be in that. Now they’re all interrelated because soybeans are used for animal feed, they’re used for human consumption, they’re used for biodiesel. That’s where biodiesels come from, palm oil and soybeans. Wheat is primarily human consumption and animal feed. But wheat, old wheat, bad wheat, all grain goes bad eventually, gets thrown into an ethanol plant, it can make ethanol. Sugar, the most efficient form of making ethanol. Corn, you know, you remove the starch and turn it into a sugar, so it’s got the extra step. So, what happens is farmers are paid by their governments because you need stability in food production and, especially in the United States, the farm lobby is very strong. Farmers are paid or insured by the government from a large part of potential losses, not all of them, there is still great risk in farming as we all know. But farmers get paid to plant and their motivation is to plant and they are eternal optimists, so they constantly scratch dirt, plant a seed and let it grow. They are subject to all kinds of vagaries of weather, but they will plant and drive prices to their cost of production. And you don’t need to be an expert in any particular ag to know what that cost of production is. Look at a chart. And you will stabilize at these lows and trade sideways. That’s, for instance, what corn has been doing for the last three and a half years, so you have very limited downside by virtue of the fact that farmers will simply stop planting if they lose too much money. And when it stops raining, no one’s going to skip breakfast or not fill their car up because it doesn’t rain in Iowa. Yet, the price will explode higher. Twice in the last eleven years, corn has more than doubled from the exact price it’s at now. There’s a tremendous opportunity, when ags trade at their cost of production, to layer them into your portfolio. It’s not a trade. It’s an investment. If you want to be a commodities trader, that’s a completely different animal. If you want to be an investor, that’s where ags are really important for you to watch. The worst thing you can do is buy on a headline. It doesn’t rain, ags shoot up fifty percent in a three month period, usually starts in June or July. By September, everybody’s in a panic, it’s in all the news headlines, that’s not really the time to allocate into ags. The time to allocate is now when ags are flat-lined and boring. You know, you put x percent in, it doesn’t rain, next year, three years from now, whenever it is, they go to 2x. History says they go to 2x or more, cut it back.”

Host: “So the flip side of the coin is when would we not own them, is that after they’ve already had that 2x run?”

Sal: “I don’t think you would ever not own them. I think you would pare them back. There have been many, many studies that prove that ags are portfolio stabilizers. They actually go down the least of all commodities in recessions and in bad economic times; and they go up the least in good times. But they’re less volatile. That said, when it stops raining, they explode higher and there’s really no way to efficiently get in if you’re not already in.”

Host: “You know the thing about commodities working with individual investors over the years is that it’s like the seasoning; it doesn’t take a lot of seasoning to impact the portfolio and from an academic standpoint, everything you said, that I totally get. You see it all the time, the bottom line numbers, the portfolios are just smoother when you add commodities. But the trick is a lot of investors will look at the individual names in their portfolio and they’ll see that commodities are doing something completely different. And, of course, they’ll really notice it if it’s doing something completely different when the market is up and commodities are down. One of the things I was thinking about, just a quick aside, we're talking about corn and it just reminded me that I've got two children and I like to take them to documentaries. They don't like going to documentaries and they still say their least favorite documentary of all time, which I think they're wrong on, was King Corn. I don't know if you ever saw that one.

Sal: "I actually own the cd."

Host: "I was going to say, I like that, I like it when my kids will still mock me for it to this day. Alright so, I get it. Why ETFS? Why not a mutual fund? Why'd you come out on ETF?"

Sal: "Well, these ETFs are long-only unlevered. Um I didn't invent the ETF product. We basically just re-packaged agriculture into ETFs. I like them because they're incredibly liquid. The liquidity of ETFs is stunning. Very important to trade with a limit order. In the advent of machines and electronic trading, market order can really harm you badly, trade with a limit order. But the liquidity of an ETF, especially a corn or a soybean or wheat ETF, the underlying futures literally trade on USDA report days decabillions of notional value. It's impossible for you to put enough client money in to move the market, it truly is. And because of the nature of ETFs, the demand for shares is met with more shares. And, therefore, the price doesn't move, the price of the underlying moves with the true fundamentals of the underlying. It's fully collateralized, it's not an ETN. There's no credit or exposure and they're completely transparent. ETFs are required to report your holdings within 24 hours, most report, like we do, same day. So, by six o'clock east coast time, you look on the website, you see exactly what that portfolio is holding."

Host: "Who's using them? Who is using these ETFs? Who are the shareholders right now? I would imagine it runs the gamut from short-term traders to long-term investors."

Sal: "It is. I think we're about fifty percent retail, we're about fifty percent registered investment advisors using it. Institutions really don't use ETFs that much because they can call an investment bank and get exact exposure to what they want. Interestingly though, when we see our tax data, which is the only time when we see who our shareholders are because remember ETF sponsors don't sell directly to investors, an amazing number of 401k holders hold our funds. I think people are allocating to these products and are just buying and holding as they should."

Host: "Great, hey I've got some philosophical questions now. Alright, you've been in this industry, I'm gonna age you a little bit, almost forty years now, four decades."

Sal: "Correct, correct."

Host: "Does that sound good?"

Sal: "Yes."

Host: "So, in your experience, I always like to ask this question, what do you think makes a good trader and what makes a good long-term investor? I think it's different skill sets, what do you think?"

Sal: "They're completely different skill sets, in my opinion. A good trader, well, they're all hyper, but a good trader is a very quick thinker and can adapt to changing circumstances instantly and does not hold onto preconceived notions. You can decide to make a trade, but if you wake up one morning and those reasons are gone, you need to have the discipline to get out of that trade. And that's what makes a good trader. In terms of an investor, it's I think what we've just spoken about. It's getting to know a little bit the cycles and characteristics of what you're going to invest in. And for ags, you know, they trade at cost of production, then explode higher, so allocate when they're trading at their cost of production and then it's patience. I think that disciplined patience makes for a good investor.

Host: "Yeah, yeah, great. Is there anything else that you want to say about commodities or ag, I mean?'

Sal: "Think about the Peter Lynch methodology, trade what you know (Host: "Oh sure.") everybody knows what commodities they use, most people don't know how much agricultural commodities they use, how many they use, how pervasive it is in their life. Think about it and allocate to them. That would be, think about an allocation to them, I can't tell people to allocate to them, I'm not an advisor."

Host: "Great, well, Sal, I appreciate your time today, that's some really useful information. I enjoyed the conversation."

Sal: "As did I, thank you."

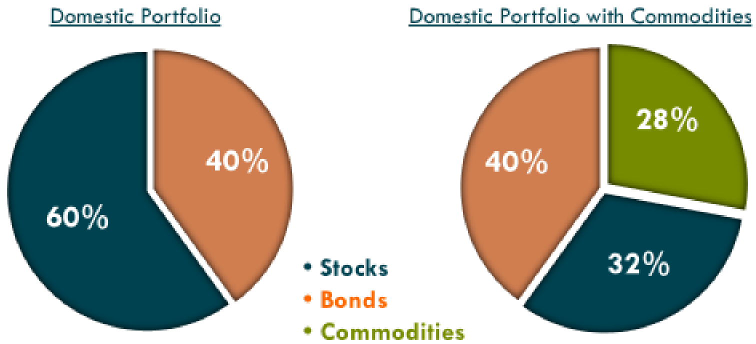
Host: "Great, thanks."

Attachment I

Commodities as Risk Diversifiers

Potential Benefits of Including Commodities in a Portfolio

Lower Risk and Higher Risk-Adjusted Returns – 1997-2016



	Domestic Portfolio	Domestic Portfolio with Commodities
Return	5.9%	5.7%
Risk*	10.0%	8.7%

NOT REPRESENTATIVE OF ANY TEUCRIUM PRODUCTS. Stocks in this example are represented by the Standard & Poor's 500® index, which is an unmanaged group of securities and considered to be representative of the stock market in general. Bonds are represented by the Bloomberg/EFFSAS US Gov't 3-5 Year Total Return Bond Index. Commodities are represented by the Morningstar Long-Only Commodity Index. In this study, all portfolios were rebalanced annually based off of the closing prices from the final trading day of the calendar year. An investment cannot be made directly in an index. The Long Only Commodity Index is a fully collateralized commodity future index that is long all eligible commodities. Futures prices have already factored in the seasonal aspects of supply and demand. No representation is being made that the Teucrium Funds are likely to achieve a performance record similar to that shown.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. The information, data, analyses, and opinions contained herein do not constitute investment advice offered by Teucrium Trading, LLC and are provided solely for informational purposes.

***Risk**, in this illustration, is defined as the standard deviation of daily price changes observed in each hypothetical portfolio.

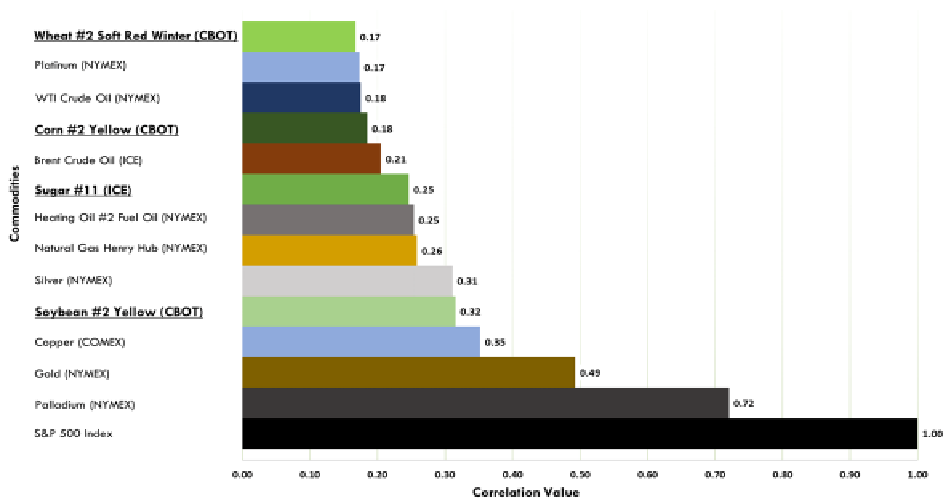
Analysis & corresponding charts: Completed by Teucrium Trading, LLC as of 2/1/17. All supporting detail available upon request.

Data: Bloomberg Professional as of 2/1/17. Data pulled is from 1/1/1997 through 12/31/2016.

Commodities & The S&P 500

Correlation Coefficients of 13 Commodities to the S&P 500 – A 20 Year Look

1/1/1998-12/31/2017



Sources: Charts were prepared by Teucrium Trading, LLC, using Bloomberg Professional, January 3rd, 2018

Note: Commodities values are from futures (generic first) spot continuation charts. See Appendices for more details on Commodities used in this comparison. S&P 500 Index taken from Bloomberg: SPX Index – **This is for illustrative purposes only and not indicative of any investment.** An investment cannot be made directly in an index.

The information contained herein reflects the views of Teucrium Trading as of January 30, 2018. Investing in a Fund subjects an investor to the risks of the applicable commodity market, which investment could result in substantial fluctuations in the price of Fund shares. Unlike mutual funds, the Funds generally will not distribute dividends to shareholders. The Sponsor has limited experience operating commodity pools; a commodity pool is defined as an enterprise in which several individuals contribute funds in order to trade futures or futures options collectively. Investors may choose to use a Fund as a vehicle to hedge against the risk of loss, and there are risks involved in hedging activities. **Commodities and futures generally are volatile, and instruments whose underlying investments include commodities and futures are not suitable for all investors. The Funds are not mutual funds or any other type of investment company within the meaning of the Investment Company Act of 1940, as amended, and are not subject to regulation thereunder.** For a complete description of the risks associated with the Funds, please refer to the applicable prospectus. This material is not an offer or solicitation of any kind to buy or sell any securities outside of the United States of America.

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CORN: http://www.teucriumcornfund.com/pdfs/corn-prospectus.pdf

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