

Hello Everyone,

Last week I did a quick look at the big shale/fracking stocks. The below chart shows what has happened to these stocks over the past five years. I threw in more conventional oil firms Exxon and Chevron for the sake of comparison.

Oh, and keep in mind over these five years, the S & P 500 is +50%.

I will leave it to your judgment to draw a conclusion about the health of the energy firms.

Then, I hope today's missive (below the chart) might explain one reason why these firms are struggling so mightily.

Signed, Your-Wants-The-Oil-Boom-To-Continue-But-Has-His-Concerns Financial Advisor,  
Greg

## Top US Shale Companies

Stock Symbol	Name	Share Price 8/1/2014 rounded	Share Price 7/24/2019 rounded	Percent Gain/ Loss
HES	Hess Petroleum	\$ 101.00	\$ 60.00	-40%
FANG	Diamondback Energy	\$ 86.00	\$ 105.00	22%
EOG	EOG Resources	\$ 110.00	\$ 88.00	-20%
OXY	Occidental Petroleum	\$ 99.00	\$ 52.00	-47%
CXO	Concho Resources	\$ 142.00	\$ 104.00	-27%
APA	Apache Oil	\$ 101.00	\$ 25.00	-75%
PXD	Pioneer Resources	\$ 209.00	\$ 141.00	-32%
DVN	Devon Energy	\$ 75.00	\$ 27.00	-64%
PE	Parsley Energy	\$ 22.00	\$ 17.00	-22%
CPE	Callon Petroleum	\$ 11.00	\$ 5.00	-54%
MRO	Marathon Oil	\$ 42.00	\$ 14.00	-67%
LPI	Laredo Petroleum	\$ 23.00	\$ 3.00	-86%
OAS	Oasis Petroleum	\$ 49.00	\$ 5.00	-89%
EPE	EP Energy	\$ 19.00	\$ 0.16	-99%
WLL	Whiting Petroleum	\$ 371.00	\$ 16.00	-96%
CLR	Continental Resources	\$ 80.00	\$ 37.00	-54%
COG	Cabot Oil	\$ 33.00	\$ 22.00	-33% Large NM Operator

<b>XOM</b>	Exxon	\$	96.00	\$	75.00	-22% FYI
<b>CVX</b>	Chevron	\$	129.00	\$	126.00	-2% FYI
<b>SPY</b>	S & P 500 Index	\$	203.00	\$	308.00	50%

## **KKOB 07.29.2019 Shale & Fracking Company Finances--Uh oh.**

**Bob:** So, Greg, over the past two weeks we have been showing how ultra-low interest rates have allowed companies to buy their shares back, which helps push stock prices up.

But, this week, you want to switch gears and talk about how these same low rates have allowed oil companies to borrow money to frack for oil and even pull oil from rocks.

Now, that seems like a good use of borrowed money to me. It makes us less dependent on Middle East oil -----and it sure helps New Mexico's finances.

**Greg:** You're right. It's been remarkable how America has been able to rejuvenate its energy output with fracking and other unconventional extraction methods. We are now nearly energy independent. And, yes, New Mexico's oil fields have sprung to life...and that's been great for tax revenues.

**Bob:** But you have concerns. And since our theme has been debt, my guess is you are going to approach it from that angle.

**Greg:** I am. Let's revisit the term "free cash flow." Free cash flow is a fancy term for "after all is said and done, what do I have left?"

For example, Bob, let's say you get out a piece of paper and you put your income on one side. Then, on the other side you list all

your expenses---gas, mortgage, food and so on. Then, let's say after you subtract all your expenses from your income you have \$1000 left over. That's your free cash flow--\$1000. Make sense?

**Bob:** Sure. So, I think you are going to say you're seeing free cash flow problems with the shale (slash) fracking companies.

**Greg:** I am and I'm not alone on this. Bob, when you and I talked about this topic last year, it all seemed highly unlikely. Now it's going mainstream.

For example, in the first quarter of this year, every one of the top 15 shale/fracking companies had negative free cash flow. These are names your listeners know--- Hess, EOG, Devon, Apache, Occidental, Whiting. All negative.

Now, if it were just one quarter, I'd say "No big deal, anyone can have a bad quarter." But, that's not the case. It's chronic. And, it's been going on for years.

**Bob:** But wait. At some point, they'd have to go bankrupt. I mean, if they aren't making any money, how are they staying in business?

**Greg:** They're borrowing money. It's kind of like a family first tapping the equity in their house and then using credit cards to keep going. You can do it, but eventually, even the interest payments overwhelm you.

And this is what we're seeing with the shale guys. In the last ten years, the top 20 have paid almost \$40 billion just in interest. Expenses like that make it hard to turn a profit. Oh, and looking forward, that number jumps to \$90 billion.

**Bob:** So, wait. Who loaned all this money to these companies?

**Greg:** Some of it came from banks. Those banks are now getting edgy about getting repaid, so that money flow is slowing.

The other groups were hedge funds, speculators, private equity, pension funds, and other investors. They hoped these energy firms would turn into the next Exxon or Chevron. And everyone believed new technologies would make the industry profitable. And while the technology improved, it wasn't to the degree everyone thought.

Anyway, looking at their stock prices...over the past five years, 14 of the top 15 oil shale stocks are down double digits percentage wise---this is during a time when the overall stock market rose 50%.

**Bob:** So, circling back to New Mexico, shouldn't we—as a State-- be making things as easy as possible for these guys? Because...I mean...if they start to shut down operations, we want them doing it in other places first. Right?

**Greg:** That's my take. Simultaneously, if I were advising the Governor, I would suggest putting together budgetary contingency plans in case this oil boom runs out of steam sooner than expected--- and possibly in an abrupt manner.

**Bob:** Contingency plans make sense to me. If folks want to discuss how this affects their personal portfolios, how do people reach you?

**Greg:** My number is 505-508-5550, 508-triple five zero. Or, go to my website at [zanettifinancial.com](http://zanettifinancial.com).

**Bob:** If I were advising the Governor, I would tell her if Greg Zanetti calls, she should take his call.

**Greg:** (Laughing) I doubt the Governor is going to take my calls!

By accepting this material, you acknowledge, understand and accept the following:  
This material has been prepared at your request by Zanetti Financial, LLC This material is subject to change without notice. This document is for information and illustrative purposes only. It is not, and should not, be regarded as “investment advice” or as a “recommendation” regarding a course of action, including without limitation as those terms are used in any applicable law or regulation. This information is provided with the understanding that with respect to the material provided herein (i) Zanetti Financial, LLC is not acting in a fiduciary or advisory capacity under any contract with you, or any applicable law or regulation, (ii) that you will make your own independent decision with respect to any course of action in connection herewith, as to whether such course of action is appropriate or proper based on your own judgment and your specific circumstances and objectives, (iii) that you are capable of understanding and assessing the merits of a course of action and evaluating investment risks independently, and (iv) to the extent you are acting with respect to an ERISA plan, you are deemed to represent to Zanetti Financial, LLC that you qualify and shall be treated as an independent fiduciary for purposes of applicable regulation. Zanetti Financial, LLC does not purport to and does not, in any fashion, provide tax, accounting, actuarial, recordkeeping, legal, broker/dealer or any related services. You should consult your advisors with respect to these areas and the material presented herein. You may not rely on the material contained herein. Zanetti Financial, LLC shall not have any liability for any damages of any kind whatsoever relating to this material. No part of this document may be reproduced in any manner, in whole or in part, without the written permission of Zanetti Financial, LLC except for your internal use. This material is being provided to you at no cost and any fees paid by you to Zanetti Financial, LLC are solely for the provision of investment management services pursuant to a written agreement. All of the foregoing statements apply regardless of (i) whether you now currently or may in the future become a client of Zanetti Financial, LLC and (ii) the terms contained in any applicable investment management agreement or similar contract between you and Zanetti Financial, LLC.