

Hello Everyone,

The first part of today's transcript is a repeat of what I sent you last week. But please read to the end, as it will (in part) explain why the economics of fracking is so tough.

Next, Fed Chair, Jerome Powell, sounded a little like Robert Mueller last week. Unsure. Disoriented. Squishy. It was disconcerting...and the markets thought so, too.

Next, President Trump and Speaker Pelosi don't agree on much, but it was all hugs when they agreed to lift the budget ceiling until after the 2020 election. Trillion-dollar yearly deficits are in our future.

Finally...how do the Chinese counter 25% tariffs? Answer: devalue the yuan 25%...making you products 25% cheaper. Voila! Tariffs don't matter. Historically, this kind of thing launches "competitive currency devaluations"---a race to the bottom. You devalue, I'll devalue. That's why on a scale of 1-10, it's an 11 on Wall Street right now. It's also why gold is rising.

Signed, Your Thinking-August-Won't-Be-The-Quiet-Investment-Month-It-Used-To-Be Financial Advisor,

Greg

[KKOB 08.05.2019 Shale Follow Up](#)

Bob: Well Greg, last week you changed some of our listeners' conceptions about fracking and shale. I know many believe everyone in the oil industry is getting rich; but you're saying the numbers show otherwise.

Greg: I am. And last week, I used free cash flow to make my point---which was probably a mistake, since that term is a little wonk-ish. So, let's come at it differently and look at stock prices.

Last Friday, I sent you a sheet of paper listing the top 15 shale/fracking companies. Next to each company name, I put the company's stock price as of August 1st, 2014...almost exactly five years ago.

Now, in front of me, I have a list of those same companies---- showing the share prices as of last Friday.

So, let's do this. Bob, choose any company on your list and give me the share price from 2014. Then, I'll give the current price. Oh, and remember, over the past five years, the overall stock market is up about 45%, so anything less than up-45 is considered under-performance. Ready?

Bob: Ready. OK. Hess Petroleum. Five years ago, it was at \$101 a share. What is it today?

Greg: \$62.

Bob: Wait. \$62 a share!? Hess is big---and it's down almost 40%?!

Greg: Yup. Give me another one.

Bob: Occidental. Five years ago...\$99 a share.

Greg: Now \$51.

Bob: Uhm...EP Energy \$19.

Greg: Sixteen cents.

Bob: Sixteen cents!? That's down 99%. It's a penny stock.

Greg: Right. Bob, 14 of the top 15 shale companies are down anywhere from 25% - 99%.

Bob: So, wait...what's going on? I mean, last week you told us the debts at these companies were sky high, so I know that has something to do with it. But lots of companies have rising debts and this isn't happening to them.

Greg: You're right; there is something more. Let me explain.

As you know, it takes energy to get energy. In the old days, if you used a barrel's worth of energy to drill a hole in the ground, you got 30 barrels out. That's a good ratio, One in---30 out. But, over

the decades, the “easy oil” was extracted. Now we must go farther, deeper, colder.

It takes more energy to get energy.

Today, for guys like Chevron and Exxon, one barrel of energy in gets you roughly 12-15 out. And for the fracking guys, it's 1 barrel in and 5-7 out.

Oh, and that's only to get it out of the ground. It then takes energy to get it to the refiner--- and more energy to refine it---and more energy to deliver it to the gas station. You get the idea.

Bob: So, even if the price goes up, it doesn't necessarily help because the energy-in vs. energy-out ratio doesn't change.

Greg: Right. And I don't want to minimize the amazing things the oil guys are doing. The technology is remarkable. They drill down and horizontally (!)...they inject water, sand, and chemicals into rock at super high pressures...that allows the gas or oil to flow out to the head of the well. It's a remarkable process; but it takes a lot of energy.

Anyway, this same energy-in vs. energy-out phenomenon happened to coal. The world didn't run out of coal. It just took so much coal to get the coal it wasn't worth it.

Anyway, what I'm saying is-----yes, the world has lots of oil left. I am not disputing that. We're not running out.

But the fracking stocks are telling you geology—or, physics---is changing the economic calculation. We need technology to close the gap. And while the tech is improving, we need it to improve faster.

In the meantime, fracking companies are compensating by borrowing to remain operational.

Bob: And that's why the stocks are going down. People are seeing the landscape and realizing the debts must eventually be repaid---but the money may not be there.

Greg: I think you could defend that analysis.

Bob: As usual, very insightful. But we're up against traffic and weather. How do people reach you?

Greg: My number is 505-508-5550. 508 triple 5 zero. Or go to my website at zanettifinancial.com.

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