



Missive

APRIL 12, 2022

Energy Desperados

Dear fellow investors,

*Desperado
Why don't you come to your senses?
You've been out ridin' fences
For so long now*

As a firm, we refrain from delving into politics and political debates. However, the climate change fundamentalists have put our body politic into an energy bind, exacerbated by Russia's attack on Ukraine. They have moved oil from an economic discussion into a political football and are attempting to defy the laws of supply and demand.

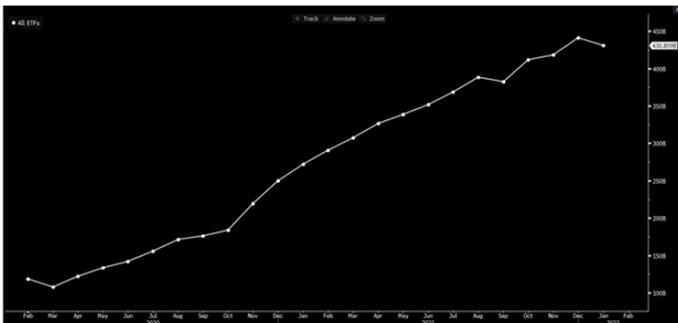
On the one hand, highly respected folks have been urging that we sacrifice short-term economic benefits for the sake of a "clean energy" future. The other group, larger in number but smaller in financial might, are voters who are the average American folks President Biden grew up with. This is a very hard fence to "ride" when it comes to oil prices.

The campaign for "clean energy" has pushed ESG investing to the forefront of the worldwide investment markets. Unfortunately, it has run headlong into the moms and pops who vote in every election.

*Oh, you're a hard one
But I know that you got your reasons*

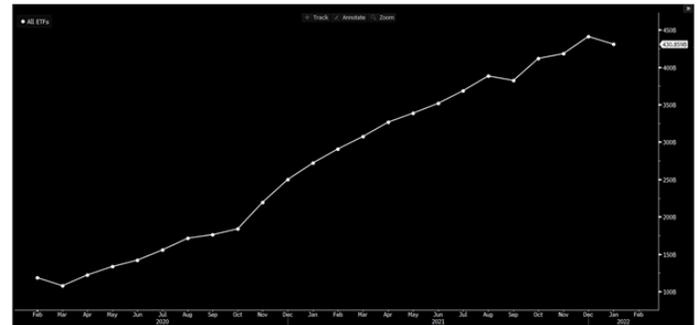
The body politic has been "ridin'" this fence "for so long" that the lack of investment in fossil fuels and the demonization of the oil and gas industry finally caught up with us on March 31st of 2022. In desperation, we have potentially put our military defense at risk by releasing 180 million barrels of oil in our strategic reserve into the market. This is done to show that the body politic cares about average Americans who are paying higher prices at the pump. This is "a hard one," but we know that they have "got your reasons."

The circumstances of the last three years have caused a massive amount of money to go into ESG ETFs and funds:



Source: Bloomberg.

While almost no new money went into publicly traded oil and gas companies in the same time period:



Source: Bloomberg.

*These things that are pleasin' you
Can hurt you somehow*

These facts "hurt" because Warren Buffett, who owns the largest energy utility company in the U.S., has told anyone who is listening that "the people who think we will make a quick transition away from fossil fuels and those who think we will never transition are both crazy!" Every 20 years the "Peak Oil" theorists take over the investment markets, but this time they've chosen to make average citizens pay for their agenda. There will likely be many combustion energy cars and trucks around the world for decades. Gasoline and natural gas are also abundant sources of making electricity, which is now obvious to everyone as we run way behind the forward demand.

In effect, the oil and gas industry has the energy supply and the solutions to our current pickle at its disposal regardless of how quickly we make the transition to "cleaner" forms of transportation. We are not making more dams, more nuclear plants and more coal-fired electricity plants.

Where does this leave investors? First, oil and gas expenditures do not command a significant part of the average American's wallet compared to the last 50 years.

NOT 1980 NOR 2008: Gasoline as % wallet

Monthly, Gasoline spend as %PCE per BEA



Second, there is virtually no incentive to ramp up drilling and production if you are demonized by the body politic. Investors deserve to get wealthy by meeting this economic need and the oil and gas industry is as lean and mean as it has been in my 41 years in the investment business. Do you think that Buffett doesn't get this as he piles into Occidental Petroleum (OXY) stock?

We need to take a time-out from the climate change agenda to meet the economic need by giving incentives to the consumers on the demand side, and or, oil and gas companies on the supply side. As the song goes, we need the Jed Clampett's of the oil industry to get rich by pumping out "a bubbling crude. Oil that is — black gold and Texas tea." We believe this would allow energy producers to keep our economy humming along while we make the clean energy transition over the coming decades.

Warm regards,

Bill Smead
Chief Investment Officer

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