



# Missive

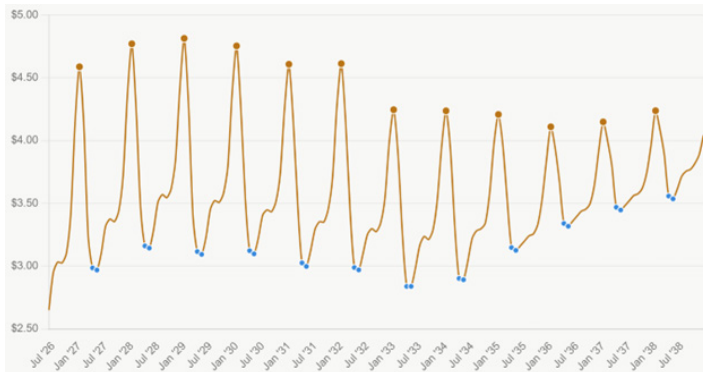
APRIL 30, 2026

## The Big Money Always Requires Faith

Dear Fellow Investors,

Shell (SHELL NA) announced this week that they are acquiring ARC Resources (ARX CN). Arc Resources is a gas business in the Montney Region of Canada and is a name that the investors of Smead Capital Management are fairly familiar with. For our investors who aren't familiar with this region, it's often referred to as liquids-rich, meaning that there is great ability to extract NGLs (natural gas liquids) from wells there. When they get gas from those wells that don't have a pipeline to get out of the basin, the gas sells at the local AECO (Alberta Energy Company natural gas) price. When they get NGLs out of those wells, they sell at a price similar to WTI (West Texas Intermediate). If you're reading this, you should be thinking, "Wait, so gas companies in the Montney aren't in the gas business?" No. They make most of their money from oil prices like WTI.

All of this is a preface to a principle that we have been talking about for weeks. The gas businesses aren't producing the outcomes investors hoped for because of how the commodity is priced. It doesn't require faith. Below is a look at the futures curve for Henry Hub gas futures.



Source: Bloomberg.

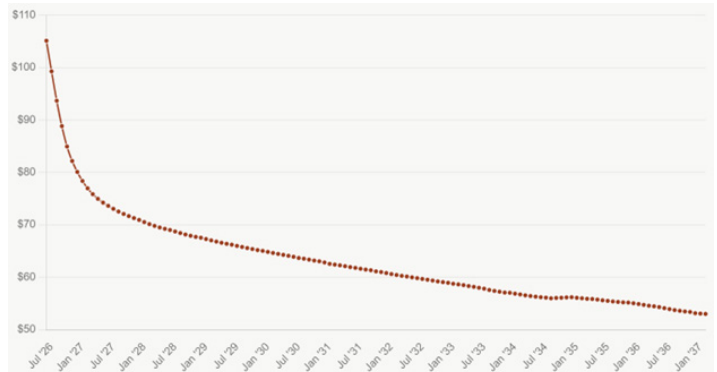
This is referred to as a contango market, where futures are pricing a higher price in the future. Here is the inherent issue with that. Below is another look at how gas names (TOU, OVV, WCP) traded versus oil companies (CVE, IMO, SU) in Canada in US dollar terms over the last five years.



Source: Bloomberg.

There has been a difference in outcomes. While the natural gas names have compounded capital at attractive rates (20%+), the oil names have shown a superior outcome (30%+). The question is why?

The theory for Smead Capital Management's investors is illustrated in the chart below. It's the futures curve of WTI crude oil.



Source: Bloomberg.

What price do you get for futures in the oil market? Much lower than today. Therein lies the paradox of the oil market currently. With high current prices, why are the energy producers in the USA not putting more rigs to work? If they can't hedge future production at attractive prices in the future, why would they produce? They aren't. The Baker Hughes Rig Count has declined from 587 rigs in the US to 544 rigs over the last 12 months.

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The rig counts tell you what you need to know. Low future prices keep added supply from coming to the market. Current producers don't have faith as they look into the bottomless pit of oil prices at \$70 or lower two years out from now.

Why would an investor want to step into such a messy future to participate in the oil business with dour visions of the future in the oil pricing curve? Because the old saying is true that once it's on the cover of *The Wall Street Journal*, you can't make money from it. By definition, faith is believing without seeing. Natural gas investors don't have to exhibit the same faith as oil investors; they can see a brighter future in the curve. This causes supply to marginally grow. Oil investors are required to exhibit faith. Why do we think the big money is in faith? It already has been, as we've shown with the returns above. Oil companies produce oil. Gas companies make most of their money on oil prices, but investors marginally bet on them because they require less faith in the natural gas futures pricing.

We theorize this won't end until we see contango in the oil markets like we saw in the 2010s. When you can see that, it will be on the cover of *The Wall Street Journal* and in your Bloomberg terminals for all to see. This will require no faith, and the opportunity of these oil stocks will already be reflected in their trailing returns. There will be a more attractive return elsewhere at that point. We would have to seek a new place to analyze companies that require faith because the big money always requires faith.

Play The Long Game,



**Cole Smead, CFA**  
CEO & Portfolio Manager

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