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Investment Management

Letter to Investors: Tarpon Folio

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Dear Investors,

To those of you who have not looked at your account performance for a few months:

Congratulations. Good call.

The spring of 2020 was brutal for the energy sector in particular. An oil price war started during the arrival of the coronavirus pandemic was exacerbated by a technical anomaly in a popular oil trading product. On April 20th, those events culminated in the price of WTI oil hitting negative $38 a barrel.

Energy stocks got crushed. Tarpon was not spared.

The good news, however, is this:

Through Friday, the Tarpon Folio on an unaudited basis, is now up 0.63% on the year, compared to the S&P 500, which is down 0.3%.

We've had a significant rally off the lows. I am particularly pleased with the changes made to Tarpon during the spring chaos. We are also through the worst of it, finally, and have a long runway in front of us – though it's going to take time.

Mea Culpa

I have now been surprised by two oil market shocks which have cost us both time and money: the November 2018 waiver on Iranian oil sanctions granted by the U.S. Administration, and this February, a foolish Russia-Saudi oil price war…started during a global pandemic.

I didn't see either one coming.

I view those two setbacks as both bad luck and naivety on my part. I did not see either event coming, because I failed to imagine they could happen. Each event was at root a political decision – and political risk is, to me, the most difficult of all risks to handicap. Rationality is not useful when it comes to political science.

I do, however, believe there is a failure far greater than being naive: being irresolute. Knowing the right path, but ignoring it. Wanting to achieve something difficult, but only putting in a half-baked effort. And giving up on this thesis because of yet another unpleasant surprise would have been exactly that.

So, by having some resolve instead of panicking with the herd this spring, we're back in the fight. Thank you for your patience. Again.

To be clear, a man should know his limits. You know, that whole Kenny Rogers song. But, well, this is the time to hold 'em.

There is a strong analytical case for being exclusively focused on energy in Tarpon. That decision also mirrors one of my own beliefs: hard things are easier if you are fully committed to them.

As much as I would like to reassure you that we will no longer see any third-standard-deviation type surprises in the oil market, because much of the geopolitics driving oil prices of late has been playing out behind the scenes…I cannot guarantee that.

The Pep Talk

What I can tell you, though, is that you have seen this movie before.

It's about three quarters of the way through.

Screenwriters call it "the dark night of the soul." In the 16th century, the Roman Catholic priest St. John of the Cross called it "Oscura Noche." In Rocky II, it's when Adrian goes into labor...and then slips into a coma.

It's that moment when the main character has lost everything. His goal feels farther away than ever. He has been beaten up and broken down. He is alone - in a waiting room, a shower, on a mountain ledge, or standing on the shore.

And he's gotta look inward, before he can move forward.

There is no quick fix. There is no magic pill, no meditation app that can help. He's gotta help himself. He alone must walk the path.

But, whew, is it rough out there.

If it's not the global pandemic, it's the recession. The mass protests. Everyone's masked and isolated. Everything's uncertain and weird. The places that aren't closed are surreal to be in. Last week a couple of them were even on fire.

Then there are the murder hornets.

Murder. Hornets.

Shoot, even getting groceries is scary.

Everything seems like a catastrophe. Before you looked at your March statement, I mean.

But, then.

Then...Adrian wakes up. She's still in the hospital, but is okay.

Then she sees her healthy baby boy, and he is okay, too.

And then she looks over at Rocky, smiles…and whispers:

"There is one thing I want you to do for me...."

Rocky: "What?"

"...come here..."

"What?"

"...win."

A single ring, from a church bell in the distance.

"Win."

The bell rings again.

And what just became clear to Rocky, then becomes clear to you…

We can do this.

Then ya hop off the couch, pump your fist, spill your beer, flop down on the rug and grunt out two-and-a-half push-ups. Big time.

Or maybe that's just me?

I get that you may be as receptive to a pep talk from your portfolio manager these days as I would be about getting inspirational texts from my refrigerator.

And this thesis has clearly been very unpopular for many of you. And many of you also undoubtedly felt like giving up this spring.

But that's kinda the whole point.

Let 'Em Panic

It's that moment when you feel like giving up that the payoff is actually the highest.

Sticking with it isn't easy - especially when it feels like the entire world is trying to convince you you're wrong. But fear and reward are two sides of the same coin. If history and over half a century of financial market research have taught us anything, it's that long-run investors are rewarded *exactly because* it's so difficult to stay invested. If it were easy to be disciplined and to hold onto stocks when the going got tough, everyone would do it. But thank goodness they don't – because that would drive down expected returns, and make stocks less appealing in the long run.

And I'd be giving that Rocky II speech to a pee wee football team at halftime instead of to you.

So, let 'em panic. The most mispriced stocks in history became that way because of panic and groupthink - not a lack of information. The way to capitalize on this is by thinking independently – not trying to find better data.

And if everything is a catastrophe…then nothing really is.

Recent Changes

This spring was the final flush for this oil cycle. We did a lot of buying.

To be clear, we had little cash in Tarpon going into that market meltdown. So before bragging about how we were "buying when there was blood in the streets" in March and April, I should also acknowledge to you that some of that blood was, in fact, our own. We took some big losses on some longer-held positions I sold to have proceeds to put into higher quality names with less risk and highly attractive returns. I decided that if that was the price we had to pay to increase our long-term returns, so be it. We would never see negative oil prices again.

The oil market chaos in March and April in Tarpon demanded a sudden re-assessment of certain aspects of our companies' financials – to ensure they could survive oil prices in the $20s for at least twelve months…even if West Texas Intermediate oil (WTI) was unlikely to stay that low for very long.

Specifically, it meant re-examining hedge books, liquidity needs, the occasional debt covenant and borrowing bases, too. It was also critical to me that our companies clarify their plans for reducing capital expenditures - immediately.

As important as those plans, though, was management's rationale for curtailing production.

The right reason was that continuing to produce at very low oil prices is not economically rational.

That may mean a company would curtail production at oil prices significantly above its variable costs and/or cash flow breakevens - if it adds value. Specifically, the deferred value of that production is maximized when future oil prices will be much higher than the current price. Oil prices in April were clearly unsustainably low, and though how long they might stay at those low levels was hard to qualify – the immediate shutdowns those prices triggered among producers made significantly higher oil prices later, at some point, that much more assured.

Which meant that companies with strong balance sheets and low incremental costs of capital would be uniquely positioned to accrue equity value by deferring their production. Yet because of the panic, even some of the strongest companies in the sector were trading at ten and twenty cents on the dollar. The irony being that by slowing production now, these companies would by definition be worth more later…yet they were being priced at all-time lows.

Most companies we owned at the time returned my phone calls, quickly and with sufficient detail - or they released details of their emergency plans concurrently. A few companies that did not explain their plans, however, were jettisoned from the portfolio. I could understand being shell-shocked, but, you know, shake it off, fellas. It was not the time for a management team to be indecisive or, even worse, "go dark."

Among the most significant aspects of changes to Tarpon, which were completed by mid-April, were (a) an upgrading of a number of our oil companies, and (b) the addition of several natural gas companies now, too. More in a bit on a couple of those new companies.

Thoughts on COVID

The biggest threats to the recent strength in the price of WTI are distillate product builds and another virus flare-up. The first is likely temporary, so I'll focus on the latter risk.

On COVID in the U.S., there is both good news and bad news.

On the good news front, the death rate is falling. The death rate peaked on May 16th, and has since fallen slowly but steadily, declining by approximately 5% over the past three weeks. So, mortality rates are improving, though not very fast.

The number of new U.S. cases continues to be stubbornly high, however. New cases this past week were actually higher than the week before. Ideally, the current viral load declines more prior to the coming flu season, which begins in late September. And the recent mass protests around the country of late clearly demand a close eye on the virus spread in the coming weeks.

Several recent reports have also suggested that the virus may be mutating into a less virulent form, gradually transforming into a common flu. While some U.S. data is mildly supportive of the "declining potency hypothesis" – specifically, a decline in the U.S. death rate for recently confirmed cases from about 6% to about 4% in the last month – that could also be explained by numerous other factors. So, it's simply too early to tell if the virus is becoming less dangerous over time. Keep those fingers crossed.

With regards to oil demand specifically, I feel considerably more justified in being optimistic – even if we do see a virus flare-up this fall.

First, the technical anomalies in the USO ETF (as I explained more here) that contributed to negative oil prices this April no longer exist. Continued deep OPEC cuts will also more than compensate for the gradual return of currently curtailed and shut-in production. As the front-month WTI contract continues to rise, the incentive to store oil also continues to decline. And I believe that it's extremely unlikely that the federal government would move to lockdown the country, again, in the run-up to the November election.

So, while a virus flare-up this fall is a distinct possibility, if it does happen, I do not expect it to have anywhere near the same impact on oil prices as it did when emerging this spring.

Masks still on in the grocery store in the meantime.

And though we're still going to need patience and time regardless of COVID, it otherwise appears we have seen the lows in oil prices. Finally.

Better Days Ahead

Here is the short version of why I believe the worst is behind us:

I do not believe the downside risks to our stocks from here will approach the March/April lows again because (a) crude markets appear to be balancing faster than originally feared, (b) economies are beginning to recover from the COVID shutdowns, and (c) unprecedented Fed stimulus has helped the market look beyond the near-term challenges and re-focus on the arrival of normalized supply and demand.

That, in a nutshell, is why it's okay to relax a bit now.

And here are a number of more detailed reasons it's okay to start getting a little excited about the brighter days that are ahead for us in Tarpon.

The Buy Signal

First, historically speaking, the single best "buy signal" for oil-related equities has been when the spot price moves below the average industry cash costs, or the "cash cost floor." During the global financial crisis, and then again in 2016, the spot price touched that cash cost curve, and provided extremely attractive times to invest. This April, the spot price fell right through that floor…and then a few more floors below that. It scared the industry enough that significant amounts of oil production were immediately ceased – setting the stage for the price rebound we have seen since.

A Change in Market Leadership

Second, we are also starting to finally see a shift from momentum/growth stocks to value stocks. Though early, it's particularly intriguing because energy companies are the most undervalued corner of the value stock universe.

As highlighted by a recent Research Affiliates' study called *Reports of Value's Death May Be Greatly Exaggerated*:

> *"With today's value vs. growth valuation gap at an extreme (the 100th percentile of historical relative valuations), the stage is set for potentially historic outperformance of value relative to growth over the coming decade."*

Further, there have been notable shifts in which strategy – momentum or value – is outperforming the other of late. Recently there has been an extreme outperformance of value versus growth strategies. Probably because recessions tend to reign in the extended valuations of growth stocks. One research firm recently put this shift in context by highlighting two consecutive 4+ sigma declines in a popular momentum index – one of which was particularly reminiscent of March 2009. After which value stocks went on an epic run.

To be clear, tracking those shifts it not something I regularly do. I mention it because, closer to home, it seems to have sparked some significant short-covering in many value stocks - including in energy. It's early, but it also seems rational to expect that trend to continue - given where we are in this oil cycle. In other words, there is a strong case to be made that the rally we have seen in Tarpon may continue, over time, if *for no other reason than* value strategies in general may continue to outperform momentum stocks. Finally.

If so, energy stocks, like the ones we own in Tarpon, should be out front, riding that wave like DiCaprio standing on the bow of *The Titanic*, signaling a touchdown. Or whatever that was.

And assuming you stopped the movie at minute 29, I mean.

Okay, probably not the best analogy. Righty-o, moving on.

Macro Tailwinds

I also believe the worst is also behind us due to several important fundamental macro factors.

In April and May, OECD Pacific and North American oil inventories – which account for two thirds of global storage – increased by 193 million barrels – which is four times larger than the normal build for that time of year. As you would expect, locking down the global economy meant a whole lot less driving and flying than usual. However, most analysts were estimating those inventory builds would be significantly higher than they actually appear to be. The IEA, for instance, had projected that inventories for the period would increase by more than 800 million barrels. Again, however, the actual global build appears to be less than a third of that.

So while there are a number of variables involved, it's also becoming clearer each day that the global supply and demand equilibrium for oil will return to balance much faster than originally expected.

Concerns about running out of global storage capacity have diminished significantly. Road travel in the U.S., the world's largest oil-consuming country, is now beginning to approach pre-pandemic levels – in part due to people's reluctance to use planes and public transport. The number of drilling rigs in the U.S. has dropped by more than 65% from the peak. Last month, the EIA noted U.S. crude production had fallen by 1.6 million barrels of oil per day (bopd) from March, to a total of 11.5 million bopd. There is good reason to believe that real-time, however, U.S. oil production at the moment is closer to 10 million bopd.

In other words, the biggest contributor to the growth in global oil production over the last few years – U.S. shale – has slammed on the brakes. While global demand is accelerating. Even before the virus, U.S. shale companies were already in the midst of a transition from high growth to slower growth. And COVID just pinned those brakes to the floor.

As a result, millions of barrels of future oil supply may not be there after the industry recovers from the trillion-dollar impact of COVID-19. That recovery is happening now…much faster than expected.

And right before the coronavirus, the world was consuming 100 million barrels of oil per day. The highest level in history.

100. Million. Barrels. Every day.

There is no reason to believe that oil demand should not return to that same level before too long – and then resume rising modestly every year for the foreseeable future, as well. The growth in demand for oil from the new internal combustion engines of China and India will far outstrip the decline in demand represented by news Tesla here in the U.S. Not even close. It's just math.

That disconnect between perception and reality may also help explain the speed and magnitude of the rally we have seen in Tarpon lately.

Markets are forward-looking even when investors find it difficult to be.

The Shale Flywheel Is Here

The other reason I am particularly bullish about Tarpon at the moment is this:

COVID has accelerated the transition of U.S. shale to a free cash flow generating industry.

I will explain this concept in more detail later this summer. For now, I'll summarize it like this:

The U.S. shale industry is understudied and misunderstood. I believe it fostered one of the greatest technological breakthroughs of our lifetimes. It's been an extremely challenging place to invest the last few years, but the beneficial impact that shale had for the American consumer is beyond dispute.

Shale companies grew up believing themselves to be price-takers, not price-makers. Growth was rewarded in these companies by their early investors - and it had no macro consequences. That is no longer the case now, though. Just the opposite.

As investors, the most important result of this recognition in the sector is that the shale companies are transitioning to a new, profitable, free cash flow-generating phase of their lifecycle. And as those E&Ps get more disciplined about reinvesting their cash flows, their valuations will start to prioritize free cash flow.

For the first time in history, a number of U.S. shale companies have the quality of inventory to both grow at a moderate pace for more than ten years while also producing significant free cash flow and generating attractive returns on capital. Not all of them, to be sure…but enough of them for us. These survivors are positioned to weather the current volatility and unsustainably low oil prices and emerge on the other side with significant, low-cost drilling inventory – just as the marginal cost of supply will inevitably (finally) rise. These companies will be able to both grow and return cash to shareholders. While their shares prices have rallied significantly over the past ten weeks, they still, on balance, represent exceptional value. Further, in several small cap names, I would categorize the opportunity as extreme.

That said, the way most shale companies think about capital discipline at the moment is also still a bit immature. To simply "live within free cash flow and have some left over to distribute to shareholders" is still, at its core, pro-cyclical behavior. If taken literally, that means these companies would drill more wells at higher prices, and less wells at lower prices. And those sorts of wild swings in activity are more expensive, and exhausting, in the long run.

So, one way or another, the laws of capitalism will soon drive shale companies to the market's optimal outcome: drilling at a consistent pace – throughout the whole cycle.

Which will be entirely dependent on strong balance sheets.

And what does an optimized, drilling-patiently-through-the-whole-oil-cycle pace produce?

Lower base decline. Lower capital intensity.

Also known as lots of free cash flow and high returns on capital.

I believe the market is making a significant and exploitable mistake by presuming the cash flow profiles of U.S. shale companies in those years of oversupply will not change as supply normalizes. That change was happening before COVID, and it is accelerating now.

Like after any disruptive change, investor enthusiasm got ahead of itself ten years ago. Shale companies have absolutely relied on too much on debt to finance their growth in the past. But less growth also now means less debt. Shale does have significantly higher decline rates than conventional wells - but it also has fewer dry holes, and much quicker returns on capital. Yes, shale has historically consumed a whole lot of outside capital – much more than it has generated for investors – as measured by free cash flow. And sure, if oil prices stayed here forever, the shale revolution would indeed have destroyed a staggering amount of that capital. But prices won't stay down here.

And sure, some marginal shale operators will get culled during this most recent leg down…but the data is also clear that the better operators in most major shale basins can also generate healthy free cash flow at $65 per barrel. Which also happens to be the average Brent crude price since the year 2000. And if the historical trend of oil prices driving capex holds true, then $60 per barrel Brent results in trivial supply growth. And $80 to $100 per barrel is really needed to incent meaningful growth. Further, if discipline in the shale patch remains strong, an even higher price will be needed.

So, yes, it's been a disorganized, sloppy, painful transition as the market has forced shale to transition to a more responsible, mature contributor to the global oil market. But a number of these companies are there now. Only investors are too complacent, scared or cynical to notice.

That said, just because a shale company produces attractive free cash flow doesn't mean that it has the right balance sheet to manage through the cycle, has high quality assets, and/or that it's free cash flow will be sustainable. A high free cash flow yield could be a function of less drilling, poor asset quality or weak capex. I believe discerning those details will separate winners from laggards among the survivors of this cycle.

On Broader Market Headwinds

To be clear – it's still going to be a fight for us looking ahead. I, too, feel a pang of regret when I compare our returns over the last few years to the S&P 500.

But emotions also have nothing to do with it.

I believe the expected long-term returns of Tarpon from here are significantly higher than those of the S&P 500. That's a function of notable tailwinds for Tarpon, as mentioned above, but I would also note the emergence of some potential regulatory headwinds for the Big Tech companies that dominate the S&P 500 Index that may also narrow that gap.

Last week, President Trump issued an executive order concerning a little-known legal provision - Section 230 of the Telecommunications Act of 1996. As a former telecom analyst, that news in particular caught my eye – as it has significant implications for both Facebook and Google – two of the biggest constituents of the S&P 500 Index.

That specific provision shields "interactive computer services" from liability for the third-party content on their websites. And although the order does not change the law in any way, yet, both former Vice President Joe Biden and Speaker of the House Nancy Pelosi have subsequently called for Congress to revisit the protections that the law provides.

In other words – we have just seen yet another example of the rare political issue these days on which both parties agree:

The Regulation of Big Tech

Even prior to last week, a number of states were considering breaking up Google. President Trump has previously Tweeted his disdain for Amazon's founder. Vice President Biden has previously voiced his strong opinion that Amazon should pay much more in taxes. Etcetera.

Meanwhile, most investors have little idea how much of the S&P 500s returns are dominated by the Big Tech companies inside that index.

Those three companies – Amazon, Facebook and Google – today make up approximately 10% of the value by weight of the S&P 500 Index.

And when growth stocks are priced to perfection, they have to deliver on that growth - just to maintain their valuation. The bar to improve that valuation…i.e. for their share prices to rise more…is significantly higher.

I believe the significant and growing regulatory risk to Big Tech represents a significant potential headwind for growth in the S&P 500 Index over the next few years. While it's too early to attempt to quantify the political risk to Big Tech's earnings over the next few years, I would suggest to you that the potential break-up of Facebook, Google and/or Amazon is not being priced into any of those stocks in the S&P 500 at the moment. At all.

And while the regulation of just three out of five hundred companies in the S&P 500 may not seem particularly threatening, I would also submit to you that – due to the rise of passive investing – the S&P 500 Index has essentially become a trend-following system. It holds on to winners – and adds to them – while the losers are reduced in size, and eventually removed.

In that context, it's probably important to note that even among the other 497 companies in that index, you don't have to look very far to spot overvalued companies. Other "hot stocks" in the index like Advanced Micro Devices, Netflix and Salesforce.com are all trading for more than 50x anticipated earnings for 2020.

Which should be relevant at the margin at least when thinking about Tarpon's performance versus the broader market over the next five years.

On False Choices

That aside, picking one or the other – Tarpon, or the S&P 500 - is also a false choice.

The choice when investing long-term is not "easy and smooth" versus "hard and volatile." Investing is really about committing to a single choice, which is "long and hard." It's just that most index investors do not realize it. Yet.

I strongly believe that the broader market continues to get skewed by passive flows, which also confer a distinct performance advantage to the stocks included in an index. And we don't own any of those companies.

In some circles, that can be construed as a controversial take - in addition to being a somewhat complex topic. Describing it more here also risks coming across as a sanctimonious effort to attempt to explain our underperformance the last few years. Which it is not. No need to blame anyone but yours truly for that. So, let's just consider that another topic to be explored further down the road.

For now, though, I would suggest that the money flowing into Exchange Traded Funds or ETFs like USO (the popular "United States Oil Fund") may actually be raising the risk of catastrophic events in the oil and gas sector. For instance, by creating artificial demand for WTI oil, the USO ETF is effectively subsidizing continued production in the U.S. - and should this artificial demand disappear, it is possible that the ability to hedge forward production could be significantly impaired. One outcome of which could be an oil price spike.

This is independent of the other factors suggesting the same.

All About The Compounding

We're in this for the compounding. Full stop.

Most people don't fully understand the concept of compound interest. Talking about percentages of percentages at parties is an excellent way to enforce social distancing. And even if you do understand it, it's easy to forget. But it's also how we are going to continue to make up ground on the S&P 500.

Compounding is the ability of portfolio to generate gains from previous gains. Over time, it's indistinguishable from magic – but it's also extremely back-loaded. The impact is hard to see unless you actually plot it out on a spreadsheet, or on a chart. But small gains can reaaaaaallly add up over time - even though it may not feel like it in the moment.

To maximize our future compounding, we need (a) extremely low-cost-basis positions in good companies; (b) a long, sustainable upwards move in oil prices; and (c) an ability to exploit the inefficiencies created by the panic selling and behavioral biases of other investors.

Mostly that first one, though.

In late March and early April, we had all three. Especially that first one. So we did a lot of buying.

And while saying "there are ten baggers among us" risks coming across as the height of arrogance…if I also told you that in the last few months three of our stocks are now up more than 300%, perhaps it's less braggadocios.

A Few Good Companies

As mentioned earlier, this spring I sold some good undervalued companies in order to buy some better, even more undervalued companies. I had a strong quality bias on these new names in Tarpon – meaning I emphasized acreage, expected cash flow per share, balance sheets, and growth. New positions in Tarpon in this group include Parsley Energy, Diamondback Energy and Matador Resources.

Diamondback (FANG), one of the largest operators in the Permian Basin in Texas, is one of the few unconventional E&Ps that I believe has a legitimate and sustainable competitive advantage. The company's moat is based on its assets, as it long ago accumulated a huge, cheap footprint in the most prolific areas of the Permian – which itself is cheapest source of crude oil in the U.S.

Over time, management has strengthened that moat more, through the early adoption of innovations like high-intensity completions.

More recently, the firm has started seeing significant economies of scale as well, resulting in among other things more production for each dollar spent and breakevens under $30 WTI. FANG's acreage still contains over 9,000 undrilled locations, or about 25 years of potential activity, and two-thirds of those locations have performance characteristics comparable to what the firm is currently drilling - meaning no drop-off in productivity or capital efficiency is expected. And finally, in contrast to many peers, the company's CEO has been an exemplary steward of capital.

FANG at $18 per share in March was too tempting to pass up.

Parsley Energy (PE), smaller and younger than Diamondback, also owns a compelling asset base of prime Permian acreage and is living within cash flows, even in this brutal environment. Parsley entered the Basin later than Diamondback, and as a result is a year or so behind on the learning curve when it comes to sub-surface geology and optimal well designs – but it also trades at a disproportionate discount. Parsley has better than average debt adjusted growth, and an excellent balance sheet. Shares should re-rate significantly higher as the company makes good on anticipated further improvements to capital efficiency. Our cost basis in Parsley is $6 per share.

Matador Resources (MTDR) operates in both the Permian and and Eagle Ford plays in Texas, and at an average cost basis of $1.84 per share became our third largest position in March. Matador managed extremely well through the spring's volatility, with better than expected production and cost savings, and should see continued improvements in capital efficiency as they shift spend to the more prolific parts of the Delaware basin in the Permian. This week the company also updated its well inventory estimates, surprising the Street with improved quality and depth. I would encourage those of you unfamiliar with Matador to read the CEO's letter to investors from this March, available here, to get a sense of the company's culture and priorities.

I also went on the offensive in some new smaller positions, too. Several resilient small and micro-cap names were simply too cheap to pass up – or to sell. In early April we also accumulated a small position in Amplify Energy (AMPY), which, similar to our existing position in Contango Oil & Gas (MCF), was justified on the basis of, well, obscene free cash flow generation. Both companies will buy mature cash-flowing assets in overlooked areas for pennies on the dollar, cut all overhead expenses, and then run them for cash flow. And at the moment, there are a number of quality deals available at fire sale prices.

True to form, on Friday, Contango announced an intriguing development along those lines. And current investors can find my notes on a recent call with AMPY's CEO here on our message boards.

In Summary

This market is finally coming to us. It's going to take time, and we're not out of the woods yet when it comes to COVID - so let's keep our expectations in check.

Nonetheless, it appears that the last few years of cheap oil may soon be over. Not because of a lack of resources, mind you – but because prices finally fell too far below the cost of production.

U.S. shale has plugged a gap in global oil supply for ten years - but the entire sector is now locking up the brakes when it comes to the pace of its future growth. Meanwhile, the rest of the world has severely under-invested in conventional oil production.

And I am quite intrigued to see what happens next.

I'll have more later this summer.

In the meantime, I will continue to try to stay humble and flexible, given the widespread uncertainty we have seen in 2020 so far.

Yours in Quarantine,

- Cale

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