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They’re the de facto leader of OPEC. If I have that short position, and I think that it’s going to go down because it looks so bad. That was what caused that big rally in prices because we hit a supply window. 61:35 Alright, so this is the point in the show where we take a question from our audience. And there’s this whole movement called the “Peak oil” movement a few years ago that was saying oil production is going to decline forever type thing. And if we’re basing that off of the history of the last hundred years, which it’s no judgment of what’s actually going to happen in the future, but let’s just say that you were going to do that. I’m a big fan.So this is going to be a lot of fun. And OPEC, their only ambition the world is to have higher oil prices and so they try, and reduce supply occasionally to try and prop up prices. Here, on our site, you can download the free Oil 101 Pdf and also read a short review of the book.Oil 101 PDF Features.Listed below are some of the features of this book.It is absolutely free for you to download.Contains every important information on how things work in oil market.Easy to read and understand.Available in both hard and soft formats.Called a ‘Must Read’ by the Financial Times.Oil 101 PDF Free Download: Last week, when we had our Mastermind group, we were talking about some of our opposing positions. And this is in places like Brazil. And if our people are going to become more efficient, engines are becoming more efficient, but people are then using that efficiency to consume more oil. All that requires diesel usually for commercial transportation. You have to do some. And I mean, there’s some cheap onshore oil, but not enough to meet demand growth, it wouldn’t meet the demand we have today. They ship more stuff and buy stuff because Amazon can ship cheaper. I am just not comfortable enough to invest also because it will be… It is my opinion some sort of short-run bets and that’s just not my approach. But I just want to put it out there. Preston Pysh 27:39 And you don’t know whatever his political intentions might have been for saying that over in Saudi Arabia. Morgan Downey 33:03 Okay, so the oil industry is always got all these conspiracies surrounding us. And the electric cars to be sold this year in the US, just around 20,000. One is you had the there was a Libya, decent size oil producer and those guys had gone through a whole bunch turmoil with their oil industry. But these days, everyone produces flamberge including Libya. All those things. It’s obviously controversial somewhat in the US because people are concerned about what the oil leaching into groundwater and chemicals uses in fracking fluids. If somebody else out there wants to get your question played on the show, go to asktheinvestors.com, you can record your question there. And so it’s all this fracking oil is coming from what’s called tight oil reserves. And before we get into the questions which Stig and I are obviously going to be probably prepping so that they’re in our favor, so we can win our argument, our ongoing argument between the two of us. I do. And it doesn’t sit well for too long in tanks as it degrades relatively quickly. One is the EIA and then once the IEA. The biggest challenge is on the supply side. You had it back in 2004-2005 when I started putting this book together, you had a huge move in oil prices. So he’s actually a famous guy he, in the oil industry for not just his statements, but just the history of the industry. And I found this article. Like a love-hate relationship with Wall Street. He hates Wall Street, but he loves to write about Wall Street. And then we’ve offshore oil production is not going to meet this continued growth and demand. But obviously, Saudi Arabia is a very unusual country. So Commodity MD. They’re probably throwing things, they’re probably throwing things at their radio or their phone or smartphone or whatever right now, but I want to hear what Stig has to say about short selling, or primarily about an ETF, a short ETF. I want to talk real briefly about if you’re the type of person that wants to do a short sell. Stig Brodersen 57:14 Oh, yeah. And, there’s no real alternative out there at the moment. And it was crickets, you could hear the chirping of the crickets in Vienna where OPEC is based and one of the most interesting things that the Russian oil minister… So one of the CEO of one of the Russian oil companies went to this meeting as well, and Russia is not part of OPEC. The world’s gross consumption runs around 2 million barrels a day. Great book, great book. Preston Pysh 58:07 Do you have any, like online resources that we could put into our show notes or like a link that you could provide to us? So that’s why I have never short sold an individual stock in my entire life and I don’t ever intend on doing it is primarily because of that specific risk. It involves almost the exact same oil consumption as if you drove to the store because Amazon now has to ship this single box to you. That sounds like a very stressful position. And it’s all those, coal, nat gas, and nuclear. S So who do I listen to? Now we’re down to $75. And then it was a whole bunch of Boogeymen that people were just grasping for straws.And one of the reasons was that there was nothing out there that explained here’s how the price of oil is set at your local gas station or petrol station here inside the US. Morgan Downey 44:32 And so you’ve got to just look at… It is a currency. If you want to repair an oil rig, you need a wrench 50 miles our of water. I’m really curious. So Saudi oil minister, Al Naimi, is one of the critical people that anytime he says anything or just where he is. So is he in China? Submit your questions or request a guest’s appearance to The Investor’s Podcast by going to www.asktheinvestors.com. In fact, we’ll put the link to the article on the show notes so people can see this, but it was in USA Today. That was his first book. Maybe he’s got some other attention tied to that comment or whatever. 14:50 Fracking is actually a natural gas technology. You can create gasoline out of any other hydrocarbon. I know a guy that looks at numbers and physical supply and demand. And then you started to hear all these things about Saudis were saying, “Well, why aren’t you cutting? And technically it’s difficult during the winter. But it only really started to take off in 2009, because oil had reached a place where this new source of supply, it’s a very expensive thing to frack for oil and oil fracking costs $70 to $90, depending on where the fracking is occurring. So they’re still growing but just not as rapidly. So a lot of if you look at some people that work at research banks a lot of there’s good research produced by Citibank. Having seen it, the thing that I really liked is you started really big picture and it’s really well organized where it’s not like this scatterbrain of different oil facts and list of assumptions here and there. And one of those big companies is called Gulf Petroleum. And so there was a demand for information and information in a simple, straightforward fashion. There’s no other industry there. If your question is answered during the show, you will receive a free autographed copy of The Warren Buffett Accounting Book. And so our supply ceiling, and we had to force the market up to pay for the newer higher price oil, which was deep offshore, and then fracking oil. The oil market needed to increase the high cost of oil to come out of the ground. Preston Pysh 35:19 Morgan, see what you’re trying, what you’re describing here is that basically one person starts producing more, everyone wants to basically keep their market share. And then you’ve got the world of oil, and the two are not really, they’re not fungible, you can’t… People are trying to solve the renewable world is trying to solve the electricity issue. 18:22 But the big challenge is that oil is not a renewable resource. And he came out of one of these meetings and he said you would expect them to say something supportive of oil prices. I know I’d follow it. Never say we’re going to continue to produce and we’re not going to support OPEC. The stability of oil at $100 enables the fracking industry to flourish. And, and, but he writes really well. 68:42 if that’s truly the case, then the market could go a whole lot higher. Now we’re going to much higher costs. It was surprising. And the supply side is the more difficult thing to model for all markets because you do get these lumpy and technological shifts. And I found this to be totally mind-blowing, that somebody could come out, with his credentials and his background, and being so intimately familiar with oil over in Saudi Arabia, that he would say something like this. I will definitely add you shortly after we’re done with this. I could have actually written it into “Oil 101.” But one of the Seven Sisters, they were called, they were this big bunch of companies that control the oil from the 1930s to up until 1970. And since 1859, oil demand for consumption of oil has only fallen through three times. But hey, it was really fun answering your question. This good to have some innovate to have innovation, but the scale of renewables in the transportation field, it’s not on the radar. Whereas, if you look at the electricity, electricity production almost all around the world is roughly coal, nat gas, and nuclear. And if it moves against you, and you get called, you have to come up with the resources in order to meet that call. That hadn’t been expected. So, Dan, thank you so much for submitting your question. Preston Pysh 61:19 Awesome. Number one, the reason why I feel that way is because of buyouts. They’re not a huge producer, but everything in the market moves at the margin, they went from just over a million barrels per day to over 2 million barrels per day. And that is very bad. He wrote the book “Oil 101.” You should have no problems finding it on Amazon. So, all that new source of supply US Oil. 24:18 So you’ve got a trend work, miles per gallon if the average cars on this road in the US and globally are increasing pretty at a decent rapid rate. It is really well organized and thought out the way that you structured the book and huge kudos to you. And, one of them and usually the interesting is that a lot of these people can have a bias. And so you’ve got… when you boil it down to people drive to and from work every day, to and from school, and at scale, it’s very easy to model consumption. That’s unsure we just drill straight down and it’s cheap oil, 15 to 25 dollars per hour. You move up to more and more expensive cost curves when you burn through your low-cost supplies and so we’ve moved up to deep offshore. Your great grandparents were there at the beginning of this industry. The demand will continue to grow. And so everyone thinks that everyone in Saudi Arabia knows everything about oil. Everyone starts cutting oil services to almost… It’s a more exaggerated or more levered version of the oil majors. And I was watching Stig he was placing a trade while we were talking there. And we’ve only now started in seeing that big shock in 2005 when oil went from $20 to $150. And there’s also… there is a definite progression of technology on the supply side. And that the problem with that is that no one tells the oil market to trade oil in dollars. I know anybody out there who would read your book, they’re going to see that immediately how well structured it is and how it’s a big top-level picture but then yet, it digs down into the finer elements if you really want to go that deep. 22:42 And there’s a whole variety of reasons why fracking is uniquely a US thing at the moment. So the logical question for me to ask would be 50 years from now, do we as a world, like globally, do we consume more oil than today? Ronald Reagan telling, the Saudis to pump as much as possible, and let’s get these. I can see he’s buying more. I have no idea where it’s… how high it’s going to go or how or when the potential crash could occur. You’ve got to be the only guy out there with that excess supply. But look, oh, there’s $100 and it’s been stable at $100.” So it encouraged all this new supply which the oil… it’s just pure economics. Preston Pysh 43:45 So I love your comment about oil being like a currency and when you say that and we look at the current condition in the world right now with China, really their market, their equity market is falling apart. Brazil made a whole bunch of noise, the Brazilian government about five or six years ago when they said they had discovered this huge oil field and it was called the Tupi field back then. And you’re saying that also that fracking is going to go international, that you have fracking in Saudi Arabia, in Europe, in Russia, and that hasn’t happened yet. Every year steadily. And Brazil said, “We’re going to save the world, we’re going to produce all this oil.” The problem with it is that it cost $200 per bottle to produce that oil. And the challenge with this oil is that. It is really, really bad. And so does that make sense for them to do that or economically whatnot? No matter how you shake it is that you are buying a business. And so you had that creation of that whole new industry, the fracking industry, and so up until August 2009. And the way he uses… he makes everything very accessible like things like Moneyball and those that his books are also… I like his approach to looking at an issue or a story, but looking at it from a different angle, but it would that was his first book, I believe it was his first book called “Liar’s Poker” written about the trading floor at Salomon Brothers back in the day, and that got m… That was the book that inspired me to get, one of the books that inspired me to get into financial markets. And all that the average consumer does is they fly more because airline tickets become cheaper. And this question comes from Dan Taggart. Okay. But what you’re talking about is not short selling an individual stock pick and having to worry about a call. Conventional oil production has peaked and began to decline in 2005. We had a supply crisis and no one was actually talking about the supply crisis that we were in. And if you look at the performance of those ETS, it doesn’t really work that well when you have an ETF based on oil futures because all the futures themselves are there’s a whole bunch of transaction costs involved with them and whatnot. So, maybe it could go up over 20,000. If this person says something, it’s usually a pretty valuable piece of information. I know our audience is going to take away a whole lot from this interview. You’re short ETF or bear ETF, which are commonly referred to would move in the exact opposite direction by the same magnitude. And there are two big areas. Is that what you’re saying? So there are only certain parts of the US than can be fracked for oil. , there’s a whole debate around that. It’s limited supply and also there’s not that much in storage. You’ve got 6 billion people and people can when you get up the little scale of numbers, people behave very predictably. And so that was what knocked us I think, sideways. Preston Pysh 51:50 Absolutely. It was a nonsense type statement. And we want to play that one because that’s a really hard one. The question I got goes to, there’s a lot of these TV commentators on TV talking about the price of oil. And one of the reasons for that is that if you look at obviously fracking over the past few years, Schlumberger, Halliburton. You can’t do that, but solar just doesn’t work like *inaudible oil. I mean, I guess I want to voice my own opinions, in addition to what all these other billionaires that are proven successes are doing, but that’s all we got, guys. So there’s motor gasoline, there’s petrol is slang for motor gasoline or gas in the US is slang for motor gasoline. So to put the renewables in transportation in perspective, this year, there should be roughly 16 million cars sold in the US, just the US alone, obviously. And since 1973, the Saudis have controlled the price of oil, or at least have tried to, if sometimes lost control of it. One is Arctic oil, which is where you drill way up and in the Arctic in polar regions, where it becomes a much more technically expensive thing because you’ve got freezing conditions obviously and ice flows, and all that stuff. But they are not part of OPEC. And it markets to trade… And people try and find your efficiency in if it were cheaper to trade oil in euros in terms of the bid-ask spread every time you have to buy and sell euros. And I wrote that book I wish someone else had written.And I can attest to that. This podcast is for entertainment purposes only. And that’s what I really liked this how it was organized, but we’re going to go ahead.Stig is going ahead and ask the first question here. One of the biggest things in the oil market in the past few years has been all these ETFs for oil services funds and ETS for trying to track the underlying price of oil. It was primarily way back. Yeah, I think it’d be a great thing if battery technology evolves and we can ramp up solar and wind and renewable energy. The world of the future and Google and buying stuff off the internet involves no oil consumption. And where is the… We even have demand has continued to increase, every year it grows by one to one and a half million barrels per day. And so there’s no efficiency out there that’s not being offset by higher consumption at the moment. The oil service companies, they get hit when oil prices fall. I read everything I could get my hands on in terms of oil markets, the engineering, the whole process of exploration, production, whatnot. 64:21 The other risk that I just gently discussed was that you would get called so you’d have to buy this stock on margin, which is a loan or borrowed money. And if you need to follow me on Twitter. 21:49 So the challenge I have with that statement that we’ll never see $100 oil again, is that okay, so where is this additional supply? But the original version, I want to reprint it out at one day and it was something like 1800 pages. Morgan Downey 07:20 I’d be slightly shocked if we will be consuming a similar amount of oil as today, mainly because there’s a supply-side issue. And the summer of 2015. So I would hand it to my mother and say, “Here read this and tell me is it entertaining first…” because and so I try to put in what I call them like knowledge bombs, like putting little things in every page that people will go, “I didn’t realize that.” And make them interesting because there’s nothing worse than reading an engineering text of, “Okay, here’s a chemical process.” You gotta say something interesting about, what is the little things like, why is the acronym for oil in the oil market is BBL. If you price oil, it’s pure economics. And there was a movement that was called a whole movement called the “Peak oil” movement that started then. And then what happened in August 2009. But in that, if you’re in that position, you should never say that publicly. Morgan Downey 26:19 Yeah. It was a stable situation, they actually have gotten even worse again. You cannot do that with oil. Also, make it turn it into a usable product like gasoline or jet fuel. I guess you’d have to use the valuations in the year 2000, as basically the highest they could that it could go, which was what a PE of like 75, or somewhere around in that range, somewhere very high. They buy a larger car. But the big challenge is that the scale of oil consumption is so huge, that it’s baked into our modern society. It’s all there. I’m not necessarily saying that a short ETF is really all that bad of a thing to be in right now based on these current market conditions. And so basically it is a currency and if the dollar has been strengthening a lot over the past six months a year and if the dollar does continue to strengthen then oil will likely sell off in dollar terms. Preston Pysh 67:32 Here’s what’s crazy is I agree with everything that Stig just said. Maybe someone should create a Twitter account for them. I’m very much a “look at supply, look at demand, and adding the numbers up type game” person and that… You can actually… Oil demand is actually relatively easy to model mathematically because it’s the law of huge numbers. But they don’t, they can’t buy the proper pipes, the pumps that do the seismic tests that they need to do because they’re operating under sanctions. It’s almost like writing a headline, you need to say something sensational. And you look at the Dow Jones and it’s at 18,000. 71:10 We really appreciate these questions that everyone submits to us. And it was developed from the nat gas industry for where you drill down and you turn the drilling pipe sideways, and then you literally frack the rock with water. When the books that got me interested in financial markets was “Liar’s Poker,” Michael Lewis. So in Libya, when production went up by over a million pounds per day back in August of last year, and it came out of nowhere. I mean, you’re so intimately familiar with this stuff, who’s the person that you really pay attention to? And so I would hand it to someone who had no idea about anything about the oil industry. Now it is going to grow by one and a half billion. Let’s say that another business comes along that has a much larger market cap and has a lot of resources on its balance sheet in order to buy out Sears. We’re going to send you a free signed copy of the Warren Buffett Accounting Book and in that book, you’ll see Warren Buffett does not recommend that approach. For all those people that cannot, all those peak-oilers, they were all right. Jump to ratings and reviewsOIL 101 is a straightforward guide to oil and an essential read for anyone coming to grips with where oil prices, the economy and society are headed.In OIL 101, Downey provides the facts one needs to understand oil, from its history and chemistry, to refining, finished products, storage, transportation, alternatives, and how prices are determined every day in global wholesale oil markets and how those markets are connected to prices at the pump.Economics Business Nonfiction Finance Having good grip on the knowledge of exploration, drilling, and production is one thing which is fundamental for a petroleum engineer. And I looked at my desk when I’m and it took me about three years to edit it down. Like, it took this whole understanding of oil to a whole new level.” And I see Stig shaking his head because I know he totally agrees with me. If you’re a kid of a rich family, everyone thinks that your opinions are much more weight here and deserve credibility, whereas that may not be the case. So there was that… but the actual writing of all “Oil 101” at the end was something like 380 pages and I don’t consider myself to be a natural writer. And so now we’re moving on to what’s the next high-cost source of oil. And so the reason your market trades and dollars is because it is the most liquid, actively traded currency. I haven’t created the fake Al Naimi on me yet, @commoditymd. I’m so impressed. I will not say to salespeople either that they should go short the S&P 500. To say that it will never see $100 oil, that means you’re basically by default, saying, we’re going to find cheap onshore oil. Boone Pickens that he’s a famous guy. And then the inverse S&P 500 index. Preston Pysh 60:38 Well, fantastic. I think it really applies to the current market conditions here in the middle of 2015. So that’s the underlying logic of going into that OPEC meeting in November. And so they do it under the auspices of OPEC, so they can point a finger at someone else. And globally, not just in the US and others globally. Morgan Downey 47:42 The energy return investment is to get a unit of energy out of used energy out of the ground, and you have to spend the energy to get that. Who is the meeting in China? I don’t care what anybody says. Morgan Downey 09:50 No. I don’t see it happening. We are burning through our supplies, and then obviously, at an ever rapid rate. And they do that by withholding production. So I’m really curious, do you see oil prices staying where they’re at based on those circumstances and treating it as if it’s a currency? And I guess I could understand your mindset a little bit. And so I would almost argue the opposite that it’s the oil majors are much more closely correlated to the price of oil. Offshore oil is a $50 per barrel business that’s where it’s going to start. But you see a lot of people running the US. That was the first thing that kicked off everything. And I just read in a blog post here the other day that I think since 2009, where your book was from, the US production has increased by 3.2. And from that 3.2 to 2 billion of that barrels per day, that was from shale oil. Preston Pysh 59:05 We’re big fans of Michael Lewis. It has been five years stuck at $100. Morgan Downey 11:58 Yeah. So by shipping more products, by flying more airlines, by buying larger cars, or just turning on the air conditioning in the car, are adding additional devices. And I think there’s particularly a lot of risk in short selling an individual stock pick. Preston Pysh 09:41 So what you’re saying is that there’s a potential for the demand to decrease in a long 50 year period, but you just don’t see that happening in a short amount of time? So now that all that Libyan oil that was hitting the market is no longer in the market as we recovered back up to $60 or $55. The Flashpoint. And it is an enormous oil field. Japan going down to try and get to Indonesian oil, that was their reason to push down and claim knock the US out of… The Germans going into Eastern Europe, to get to the oil fields in Russia, that was that, to their detriment. And so that’s fracking, the fracking industry. If it will even be a crasher. He’s making these predictions and stuff which Stig and I usually shy away from any predictions, but I’m really curious for you, Morgan. People sell, give oil to get goods and so it actually is a currency in itself. But how did you… What motivated you to write this big comprehensive book on oil?So it was actually interesting, I wrote the book I wish someone else had written. I don’t know where those sources exist. His name is Al Naimi. I’m like you. Then the early 1980s, you had 1981, 1982, 1983 you had a fall off and the consumption. And, again, he’s an interesting author. And it’s just I think for me. And that’s all we have for you guys this week. And I think that if you’re a conservative investor and you’re trying to ultimately protect your principle, I think that that’s how you got to look at it and you got to also look at the fundamental nature of the market. But we want to learn a little bit more about you. And it’s something that I know I’ve been personally thinking a lot about, and then really happy to hear Stig’s opinion. There is, it was that whole thing in the 1980s, where people think that the Soviet Union was ultimately collapsed by the US. So with those conditions, what you’re asking is short selling the market, but doing it through an ETF or doing it through an index. I don’t know, I have no idea if that’s going to happen. I want to first say thanks for a great show. It’s not even a comparison. What did he say in China? We might as well be just talking about general energy consumption. But I think that the general consensus is that a lot of people think that the markets overvalued. So if the market goes up 1% for that, let’s just say the S&P 500. Instead, what he said was we Russia, we’re not going to cut price. Like, the US government doesn’t say “Hey, you must trade oil in dollars.” There’s no edict. So in other words, it’s becoming much more energy-intensive to produce to get usable energy out of the ground. I’m just completely floored about the knowledge you have. So, Morgan, looking from the perspective of the stock investor, when we think about the oil industry, the typical thing about companies like Chevron, Exxon, Shell, and so on, like these big vertical integrated companies that might be quite vulnerable to the oil price, because they have a given cost structure, as you said, depending on how they explore that oil. 38:39 And then OPEC, we met in November of last year. Dan Taggart 61:41 Hi, Preston and Stig. Look at what he says with that lens, of course, this guy wants higher prices. Every other year in the 155 or 156 years of the oil industry, the consumption has gone up. Morgan Downey 61:12 Thanks, guys. And a lot of those companies have gotten hit in the power hurt their stock prices for oil services companies have got hurt because they’ve lost their fracking business when oil moved down to the 40s and 50s over the past few months, at the end of last year. 36:47 The second thing was that you had the dollar starts to rally and oil is currency. And should there be competition? So we are so thrilled to have you on the show.Well, thanks, guys. And so we’ve shifted to an even higher cost supply, which is all this fracking. Preston Pysh 58:14 It’ll be great. And I think whenever you look at a, a distribution, you’re seeing it, two standard deviations away from where it normally is at. And then within a year, we went from $22 to almost $150. It was just like, “Hey, I feel it’ never going to be higher than $100.” And that was pretty much like the essence of the article. Before he was, famous for a hedge fund. One of the general books which have been written beautifully is Oil 101 by Morgan Downey. And a lot of that title is in a type of rock called shale. His book “Oil 101” explains the nuts and bolts of the oil business, from its composition on the molecular level to the analysis of the market players from refining economics to trading. And I think a lot of value investors out there might really say, Preston, what in the world are you talking about? And oil had been WTI crude oil, which is the US benchmark. So on the supply side, he’s definitely wrong. It’s old technology. And so you read these articles, you look for certain keywords, and it basically came out that said, the Saudis in particular, and they were looking at the growth of US and Canadian oil production of the past few years. A lot of expensive things to that hydrocarbon to get an oil or coal, or to make gasoline out of coal, but at $500 per barrel, all things being equal. But where is that cheap onshore oil? And people say, “Well, modern kids these days are using Skype more so you don’t have to fly or are using our chatting online so you don’t actually have to physically visit someone. If you go to the Amazon, just type in “Oil 101,” it’ll be the first thing that pops up. I didn’t realize that you were on Twitter. And but in terms of there being an alternative to oil, there’s nothing really out there at any scale at the moment. This is better than any book out there that I’ve ever seen on oil, by a landslide. It is just one of those majors, the Exxons. The only country out there that actually deliberately withhold oil from the market is Saudi Arabia. And I originally, I started out as an oil trader, and many, many years ago. I mean, it just goes on and on. I don’t know. WTI crude oil had been around $100 a barrel, give or take $10, and for five years, that is an incredibly stable weather market. That was not speculators. But I would say that they’re also less leveraged version play on oil than the oil services companies. So the energy return on investment has been decreasing. Stig Brodersen 47:03 Yeah. And so over time, and like drilling on dry land is it has got a high return energy return on investment because you don’t have to helicopter things out, you don’t have to build an offshore oil rig, you don’t have to build any of these deep underwater pipes. So it’s when I talk to, fellow oil traders, we don’t talk about the top line stuff in the ordinary, we always look at under the hood. And people have said, “Oh, well, suburbia is ending.” Even if suburbia ends, you’ve got a huge amount of things needed to be transported around the world every day, and the only fuel that is used to transport is pretty much oil. There’s nothing really… Politics does play a certain part in the story, but it’s purely economics. His name is Prince Bin Talal. So if you’re listening to this, and you want to see what Morgan provides, Stig and I will have that in the show notes. Boone Pickens was a big guy. It has to go through a whole network of planes, boats, and trucks to get to you. That’s about books. We move to deep offshore, around US Gulf Coast, obviously the North Sea and all that stuff, that’s around $50 oil. That was purely because conventional easy onshore oil has begun the production has begun to decline. That’s what gave him his big name. But that’s not enough supply there. And before you ask it, I’m just curious, were you talking about when there was an undersupply, you were talking about, like the 2006 to 2007 timeframe?Yeah, yeah. And then the revenue is basically the oil price. And we were looking to help OPEC cut supply. That pushed oil down to say at $75 from $100. Obviously, anything that comes out of Al Naimi, the Saudi oil minister, that is like you, you have to listen to it. You guys are a wonderful resource, and I have had a lot of fun listening and learning from your podcast every week. A lull in the fighting and some stability there. I don’t think you can find anyone where they will tell you otherwise. They’re smaller engines but they’re turbocharged so you can actually get more efficiency out that way. Morgan Downey 27:49 Yeah, I mean, the thing about the Saudi is that… I don’t want to necessarily pick on the Saudis, but, their entire economy is 100% dependent on oil and of the 90 or 95 million barrels per day of supply in the world, and just over 10 million of that, it comes from Saudi Arabia. And so there’s always these underlying conspiracy theories. So thank you so much. Morgan Downey 52:20 Well, actually, it was an interesting thing that research because I knew a lot about the oil industry. You have to just like you can make oil out of any hydrocarbon you’ve got, it would take a huge amount of energy to make oil from shale but to frack too tight oil fracking, which sometimes involves fracking shale rock, then you blast through the shale rock. Well written, very entertaining. And so we’re moving up a lot to these different supply curves. Separately, there’s a type of rock called shale, which is immature oil, and it’s basically oil that if you leave it cooked for another several million years, it will eventually turn into liquid oil, but it’s basically called shale. And I also think he’s a little get a bit of a bias. But 16 million in the US number. Now, they’re only going to grow at 6% per year. I say that jokingly but I’m serious. But during August, September, October of last year, they’re oil production doubles with In a few weeks or a few months. Morgan Downey 55:08 So, but I do that I know, T. Morgan Downey 60:08 Yeah, yeah. So Morgan Downey is his name. I’m serious. So let’s say that, and right now in 2015, the perfect company that I would say is just doomed for failure that is going to go into bankruptcy is Sears. It’s kinda like saying that everyone in Idaho knows everything about potatoes or things like that. Preston Pysh 32:33 So I got a question for you, Morgan. And oil, as you mentioned, the oil industry started in 1859. Morgan Downey 55:00 There’s obviously I listen to myself first. I want to stop talking because I think I’ve probably made a bunch of value investors very mad. And you made the comment that oil typically moves in the opposite direction of the strength of the dollar. Stig Brodersen 58:35 Okay, so, Morgan, the final question that we have. And all of those that confluence of Libya, the dollar starting to take higher and global economic growth forecasts being all been reduced and been reduced by decent big piece, big amounts. Morgan Downey 57:15 And so he’s obviously critical. I know for like investing where we watch the Fed like a hawk, they have a huge influence on the impact of where the markets move, and things like that, but who’s one of those key people that you follow for the oil industry that people could maybe latch on to? Or none of the scaling as in the US. He is famous for the old world and usually, everyone hangs on. But there are huge numbers internationally in China and Europe and whatnot. And as a commodities trader, primarily oil. They’re all saying that and I see you smirking. That supply had been growing at almost 2 million barrels, an additional 2 million barrels per day, and spreading perspective. So the growth in US supplies stalled. So that’s me, other people were comfortable with being in that position. And so oil is a currency. And do I listen to him in terms of oil price predictions? Rockefeller’s blue barrel, that the original barrels that were standardized in the oil industry of 42 gallons per barrel, or blue barrels, and that’s why everyone in the oil market today calls a barrel by acronym BBL and it comes from that little things. But the growth in US supply stalls completely stopped. So, Morgan, thank you so much for coming on the show and sharing your time and your expertise. So you’ve heard this story too. They, if you’re doing a frack job, Exxon don’t do the fracking of the world themselves. In fact, we can’t because we need the money. And so that’s what’s the confusing part of which I probably will have to clarify in the next edition of fracking tight oil, which can be oil left in shale rock. So that was a really fun question to answer. That’s probably why I maybe see it as being something that somebody could do if you were comfortable with that. You sound like a crazy person right now. 37:34 And then the third thing, which was one of the more critical things is that and two big organizations do oil demand forecasts. Stig Brodersen 11:14 So, Morgan, I think you have a really good point because when I’m talking about like, will the oil demand increase, one thing is to talk about the demand for oil. Now, at the same time, you hear politicians talk about moving away from fossil fuel. There’s and there’s no real competition for that at the moment. It hasn’t been as bad as expected. I know it’s a lame thing to say. Would you agree that that industry is less vulnerable to the fluctuating oil price? One of the interesting things that people talk when people talk about oil energy and renewable energy, oil is its own bucket. Preston Pysh 19:43 So right now. And but it’s much more difficult to predict the supply side than it is the consumption side. My name is Dan and I’m from Minneapolis, Minnesota. And that is not me saying this is a bad idea. Preston Pysh 55:04 I would imagine. Is it renewables or is it with a third thing? Not necessarily sell them if they’re high priced because sometimes stock market high price. It’s not because anyone tells anyone, and if, it’s it’s a but it does trade as, if you have if all things being equal, it’s just classic economics. Let’s crush the Soviet Union. But history has shown that has not ever been the case with oil. I mean, oil is, as I mentioned in the book, is essential to the modern way of life. Stig Brodersen 29:08 Yeah. And a lot of the strategic decisions were based on oil. And the thing that I like about it most, Morgan, is the fact that it’s written in simple and plain English for anybody to understand, which is a true accomplishment in any type of economics book. And yet, is there more oil at that price? Obviously, oil grows pretty much per population. Preston Pysh 62:18 All right, Dan. That’s almost a good thing that they’re correlated to the price of oil. People can see it and you do seismic analysis. So I just don’t think that he can… What are the underlying facts that he would say that oil can never go above $100? He said that that he will not see or that we will the world will never see another hundred dollar barrel of oil again. So you have to be willing to roll with some fluctuations and oil price correlations. And so that that was the impetus was that defining moment. And so it’s one of those things that people have to get to and from the office, have to get to and from work and school. And it’s entirely dependent on oil. And conventional oil production has actually peaked and is declining. Morgan Downey 30:10 And unfortunately, I think it’s even more vulnerable. It was almost got wrapped up into this sort of evangelical type movement. Where’s he going? Maybe it could go up to 22,000, something like that. So, Morgan, there’s just this thing that just keeps puzzling me and that is you see that the oil consumption has just still increased and you showed that in your book. So it grows steadily, has grown over the last hundred 155 years. I’m excited here to be on also. Russia said negative things, you’re almost forced the oil market to fall even further. And in a small amount of Hydro and wind and other renewables. And the three periods where it fell were 1973 and it only fell for that one year, just that single year of 1973 where there was no growth in consumption. But I mean, that’s really where I see this because I feel like the market has been so heavily manipulated by the Fed. And so people, even though the underlying consumption device airlines, use more efficient jet engines, ships use more efficient marine engines, cars use more get more miles per gallon. I think you have a lot of people really running to the US, looking at the dollar as being one of the strongest currencies of all these fiat currencies, which are all just miserably terrible. And I’m really curious, because I know recently he’s been saying that oil is going to be within a year, the oil will be like $80. But basically, you’re assuming that you’re going to see all these sorts of sources of supply are going to come out over the next five to 10 years that are going to be under $100 per barrel. That’s great, that’s a great book also. But no, have you noticed that no other country in the world is fracking for oil. The reason oil is traded in dollars is that it’s the most liquid currency. Then in November, you had an OPEC meeting that was OPEC itself and no the ministers of Saudi oil minister said nothing. Morgan Downey 58:12 Yeah, I can indeed, yeah. We highly recommend that if you’re interested in the oil industry, this is the go-to book. If you look at the numbers that come out every Friday for the Baker Hughes Drilling Rig numbers, reutilization has been collapsing. And so, but one of the heads and supposedly he’s Putin’s number two guy at the OPEC meeting, was listening in and participate. I’m generally a long-only investor, but I am wondering what your thoughts are regarding inverse ETFs? The fake Al Naimi. And so you’ve got a situation where the demand side demand is going to continue to grow because there’s no real alternative at the moment. And yeah, “The Flashpoint” is also a great book. And the question that I’ve got, so in January of 2015, in our show, we obviously like to study these different billionaires. The stronger dollar, the weaker all prices. So you had Libya recovering unexpectedly, out of nowhere, you had the dollar starting to strengthen. Preston Pysh 56:56 Is he on Twitter? And the only way you can do that is that you’ve actually got to be emergent. The easiest way to think about it is that if you’re driller well, you’ve got to power that diesel generator to drill that well. And we shifted to a newer source because we are running out of that easy, cheap onshore oil. So I guess I look at the market right now. But I guess if I’m going to try to defend this idea of a short position, I think that it’d be hard for the market to go much higher than 20,000 or 22,000. And one of the most unusual OPEC meetings ever in that they all met and everyone else always listens to what the Saudi says and there’s a Saudi oil minister. You had a few major things that happened. No need to really follow anybody else. , what happened since then is that demand growth wasn’t as bad as people had expected it to be so oil prices can hit the 40s. So I’m really curious to hear your opinions on why do you think he has this long term opinion of oil remaining below $100? And so that’s energy return investment. So then they start producing more and it gets competitive. You are buying a business when you buy a share of stock. So that was interesting for me, especially when I read your book because, in your book, you present shale oil, and you also introduce the concept, energy return of investment. 50:36 And then there’s another process of making oil, actually cooking oil out of shale rock turning, physically transforming rock coal shell into the oil. It started off in August. Is he in Russia? And you can go to that and click on those links, and then you can use those from now into perpetuity as you continue to research your oil. He from Texas, he’s on TV all the time. And so that whole, because mainly, a lot of was due to China, but then it clustered to all the BRIC countries: Brazil, Russia, India, China started… People, I had to expect them to grow at 8%. That’s not anything that I feel like I can predict or control. So Al Naimi is obviously a Saudi oil minister, he’s got a bias toward higher prices all the time. I mean, this book is so comprehensive. And unfortunately for renewables, but fortunately for the oil industry, there’s almost no alternative at the moment. Yeah. And so look at SUVs around the world, SUV sales are actually quite healthy. And so usually oil drops $25 a barrel, you expect OPEC and the Saudis to say we are going to support, we’re going to cut our production by two because Libya has increased by a million. And even if you do get a ramp-up in solar and wind and renewable generation, power generation, that’s primarily for use in the electrical grid. You can make oil, liquid gasoline out of coal, you can actually go to hydrocarbon. And I think what a lot of people forget, is that you can’t just replace oil and I also think that’s what you’re saying that oil has some provisions, for instance, when it comes to distribution and storage that you can’t do with windmills. Say the world consumes 90-95 million barrels of oil per day and it’s a real-time operation because oil companies like Exxon and BP and Shell, they don’t like to sit there with tanks, huge, huge tanks full of oil because that it costs money to buy that oil and store it. Morgan Downey 35:31 No, no, no. They can get 40 miles per gallon. He’s a great writer. 42:21 But basically, they’ve said, and they’ve said it much more clearly, since November of last year, they basically said, “We’re going to crash, we’re not going to cut oil production in order to support prices.” So it was a very, that whole confluence of things was very unusual. It’s so much fun to respond to this and just get all the different email questions that we get and being able to correspond with our audience. If they make it get out of the ground at $80, sell it for $81 at markets, then they’ll do that. So, bear that in mind when he says anything. It basically increases from the very day that it was invented. And you mentioned renewables and the underlying thing about oil is that oil is primarily a transportation fuel. However, a good petroleum engineer must know about how the oil market works or how do the economics work in the oil and field industry. It just made it, turned it alive, turned that whole space into made it very interesting and compelling. So you do have electric cars, but they are a tiny, tiny fraction of the transportation world. There’s North Dakota, West Texas, some parts of Pennsylvania, New York. And the only ever time oil demand that fell was 2009 because you had a spike in prices and the credit crisis in just that single year. You just can build a simple rig on dry land using very little energy and yet the return is huge, you get a lot of energy out of the ground from oil. So that was that. And then you’ve got the next highest cost of oil is what’s called ultra-deep offshore oil. We’re up to the mid 19 million barrels per day of consumption right now. So it does definitely trade as a currency and as I remember back a few years ago, there was this big push to trade oil and euros and trade oil and yen and all this trade oil in rubles and our Chinese one. Preston Pysh 58:31 Exactly, exactly. There are no supplies, no huge source of supply coming out under $100 per barrel. And Stig and I did an episode where we talked about his most recent book, the high-frequency trading book that he recently did. And yeah, I’m just… We had a guest on the show, and he commented that the US, was payback to Russia. A book that has really had an impact on you, and why the book has impacted you? That wrench becomes a thousand dollar wrench because you got a helicopter to fly that thing out and back. You had a collapse in US fracking. What you’re talking about is investing in an ETF that moves in the exact opposite direction of the market. Or if you mean gasoline, or do you mean aviation gasoline or motor gasoline?” And so I usually like to use one phrase and use it very precisely. So a lot of people would be asking me so if you think that the market is high, why don’t you sell all your stocks? Everyone hangs at every single word, and how will his facial expression and all that stuff because Saudi Arabia is the only country that deliberately tries to manipulate prices. Preston Pysh 59:56 Yeah, we’re huge fans and yeah, you’re right. In some parts of the world, oil is used as barter. So it sounds like a strange concept but at its core, the cost of supply and energy has been increasing over time and will continue to increase. And so the dollar started to strengthen all these… Everything against the dollar, including the Euro, all other currencies, including commodities started to sell-off. Stig Brodersen 52:02 Yeah and I almost think that I’m unfair to you Morgan because, I pick and I got to be completely honest three

expensive the oil could get here in the future. If you look at and if you look right now there’s a few in the northeast of the US Petrol gas stations or gas stations that sell Gulf Petroleum. And I was in a similar situation to you guys. Just regular board, whatever, they can afford. It drives and looks like a regular car. Morgan Downey 20:06 Bin Talal, Al-Waleed. 40:44 So basically, you had a confluence of Libya, a dollar stronger, a slowdown in economic growth, still growth but slow down economic growth, all in August. Just simple economics. People still will need to get from A to B and get goods moved from A to B. So and basically over time, going deep offshore, and then with fracking, the amount of energy required to be spent to get energy out of the ground has been increasing. And so oil production recovered. I know. I mean, some people might not agree with that. It’s there.

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