

Folks,

I was on Bloomberg TV twice this week – I suppose I'm like the old-fashioned utility infielder, ready to fill in anywhere when many on the roster are on the injured list (or drinking margaritas in the Caribbean!)

<https://www.bloomberg.com/news/videos/2018-12-27/oil-s-rollercoaster-ride-turns-lower-to-close-out-2018-video>

In any event, Alix Steel's producers replayed an interview she did with Andy Hall as a lead-in for our chat. Andy is a famous oil trader and (quite frankly) hero of mine, who managed to be paid a \$100 million dollar bonus – not once-- but twice following the financial crisis of 2007. That's right, while all the major banks were sucking up to the Treasury to get bailed out, a nice chunk of that taxpayer money went in Hall's pocket.

Hall is a legend, and not normally known to speak in public, but did so here, succumbing to Alix's wily charms. His take on oil was rather positive (not unusual for a guy who's made all his money buying it) quoting the axiom that "Low prices solve low prices".

He's of course right, and many of you have sent me messages with the same theme – that oil below \$50 is frankly unprofitable, will cause a recoil of rigs and production, squeeze stockpiles and again cause a rally in oil prices and our beloved oil stocks.

And no one could argue with the axiom that low prices DO solve low prices. Unfortunately, it doesn't do it immediately.

Even with the flexible nature of shale production, the turnaround from wellbore to spud is at a minimum three months – and more like six. Plans for new shale production can be shut off more quickly than virtually any other form of both conventional and non-conventional production, but it doesn't seem to me that a firm stomping on the brakes by US shale producers will be seen at least until early March.

Remember, most of the new production that was registered in 2018 – a staggering TWO MILLION BARRELS A DAY – was seen mostly in the back half of the year, a virtual flood that caught me (and the rest of the oil market) by surprise. The latest new record for US oil production was just registered for October, with numbers not yet known for November and then this last month of 2018. As the oil disaster only began in early October, you'd have to figure that oil executives would only be beginning to throttle back in panic starting, at best, at the beginning of November. That would imply we'll continue to see increases, and not insignificant ones, at least until February.

And, as we walk into 2019 with stocks in a bear market, the threat (and I would say more like certainty) of recession, the tightening of credit markets and consequently the inevitable revisions of global crude demand figures downwards --- well, I just cannot see a constructive oil market returning, and low prices fixing our current low prices, until well into the 2<sup>nd</sup> quarter at least.

So – what do we do in the meantime?

I'm going to sound like a broken record, but we must park money safely – and find the opportunities where they lay. I'm still for dividend producing mega-majors, mostly. Exxon-Mobil paying 5%? I

think that's one that's impossible to go wrong with. Same for Conoco-Philips and of course my fave Total.

As we wait for some of the overleveraged players to go bust in this mini-replay of 2015, some of the others caught in the downdraft, while far less vulnerable, will represent value. I spoke of waiting for a disaster like the bankruptcy of Southwestern (SWN) or Chesapeake (CHK) to happen to signal the bottom in oil on Bloomberg for me, but that pressure on them will drive names like EQT and Range Resources (RRC) to even better value areas.

And then there's always Cheniere.

We've got lots of work to do in 2019. Have a great New Year and I'll see you on January 7<sup>th</sup>.

Dan