

Results of the Black Swan

A SPECIAL REPORT



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Opportunities Abound During A Black Swan

***RARE OPPORTUNITIES TO CREATE
WEALTH ARE PRESENT FOR THE
WISE BUYER WHO KNOWS WHERE
TO LOOK, WHAT TO BUY
AND
HOW TO MANAGE THE ASSETS.***

***FOR MORE INFORMATION ON THESE
OPPORTUNITIES, CONTACT
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NOTE: THE EVENTS DESCRIBED IN THIS REPORT ARE MOST APPARENT IN OIL PRODUCING REGIONS, BUT THE ECONOMIC EFFECTS ARE FELT THROUGHOUT THE GLOBAL FINANCIAL SYSTEMS.

During our daily study time in the 1960's and 1970's, my father told me wonderful stories about the creation of wealth during the Great Depression. Out of all the studies and investments he made and monitored during that time, he told me that if your portfolio included necessary items like oil and gas production, food production, and shelter without debt, you would grow your wealth and survive during economic hard times and grow your wealth and prosper during good times. This is still true today. This paper is a discussion of the opportunities to create enormous wealth that are presented when a "Black Swan" event occurs.

When the price of oil is stable for an extended period of time, like it was from 2009 to 2014 (hovering between \$60 and \$70 per barrel), the US energy industry, much like other industries, becomes accustomed to certain levels of income. Thanks to human nature, oil people begin to believe that the price can never drop again. As with most humans, oil workers spend all the money they acquire trying to make life better for people around them. But, when that income is interrupted or reduced, cash buyers are presented with tremendous low risk opportunities that can create wealth for generations. I was visiting with a gentleman the other day in Ft. Worth who is living proof of this wealth generation. His father had taken his life savings and purchased assets during the Resolution Trust days of the 1990's. (the Resolution Trust Corp. was established by the US Office of Thrift Supervision to manage the dismantling of the US Savings & Loans which started in July 1982 with the failure of Penn Square Bank in Oklahoma City – a large oil and gas lender and the first of 130 banks that failed in the 1980's). This savvy buyer bought several large commercial buildings and land in Ft. Worth for pennies on the dollar and today, in 2020, those properties are cash-flowing 100% of invested capital monthly. The fortune of this family has grown from \$1 million in 1990 to over \$300 million in 2019 with the ownership and management of the assets purchased during a two year period in the 1990's.

Much different than Gold or Silver, *Oil is a required commodity*, not just a desired commodity. Society requires energy to function each day! **As the Oil business slows, rare economic opportunities arise.**

When the price of oil drops, oil production activity does not cease, it just slows and becomes more deliberate, as operators, engineers and geologists re-evaluate the profitability of potential production under the new price structure.

IF PRICES STAY LOW FOR A SHORT TIME

Unlike the efficient stock markets, the oil business is "slow" inefficient money. Things do not happen overnight. If crude oil prices remain low for 2 months or longer, the global economy will begin to feel the pinch. Oil producing countries will begin to waver and fall into depression, affecting the global economy in a very negative way. Governments will become insolvent, wars and violence will escalate, which could easily cause a global depression.

Locally, in North America, the first thing that will happen when prices are depressed is that oil operators will change their short term plans. As drilling prospects and workovers that *were* worth the risk at \$50/barrel no longer look promising at \$20/barrel. The net result is that operators will cancel near term plans and oil rigs will begin to be stacked, workers will be laid off and service companies will close their doors. It is estimated that each large horizontal drilling rig creates 100 direct daily jobs and affects 1000's of indirect jobs. The services of fuel, food, filters, supplies, lube oils, transportation and housing are affected as the slowdown causes them to lose business. All types of stores and service providers begin to suffer and the smaller ones close their doors, followed soon by the larger ones. Out of town laborers return to their permanent homes and vacate trailer parks, hotel rooms, apartments and homes which soon come on the market at bargain prices. Crime will escalate as laid off workers, out of resources, have to find a way to eat and feed their families. Banks will start to call personal loans and begin the foreclosure process on assets of affected workers as they begin to miss obligations. Smaller companies that relied on the oil activity to sustain their daily lives begin to shut down and car/truck repossessions will increase as the jobless can no longer keep up with monthly payments. All of these things ripple up the economic food chain, eventually hitting

**PEOPLE WITH CASH TO INVEST
WILL CREATE WEALTH.**

the bottom line of hundreds of publicly traded companies. It is estimated that a sustained 50% decline in the price of crude oil will have negative double-digit effects on the S&P 500 index. Smaller suppliers of oil field goods will begin to have auctions as the banks take their assets, many times selling them at no reserve for pennies on the dollar.

Here is a real example of this fundamental truth in action. The price of oil had declined from around \$30 per barrel in late 1985 to a rock bottom price of \$10.25 per barrel on March 31, 1986. Our crude at that time was being purchased for \$6/bbl in the field but it was still profitable because our lifting costs was \$4/barrel. I remember numerous times, standing in a public auction in Midland/Odessa, Texas in the summer of 1986 when the hammer went down on millions of feet of new oilfield tubulars at ten cents per linear foot (that six months earlier was selling for \$4.50 per foot). Auctions like this happened for 24 months after the price of oil declined as banks, oil companies and private lenders had to sell assets to pay down debt. Within 2 years after these sales, the assets had been turned for a significant profit (500% in many cases). **Opportunities like this are coming to an oil producing state near you soon and intelligent buyer will be ready with CASH.**

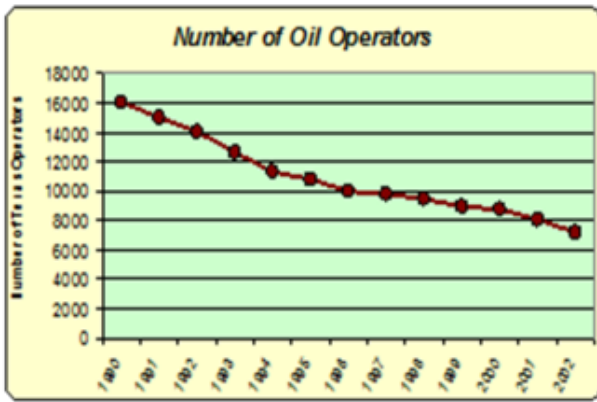
One bright star in this mix is that producers with experienced management, who own oil and gas production, equipment and assets, without debt will continue to receive income and create wealth. Marginal wells will be shut in, but more profitable wells with low lifting costs will continue to be profitable and continue to be produced. Oil companies with debt will begin to sell off non-core producing properties and real estate to focus on their core holdings. Banks will require companies that are in debt to sell properties that are making money and have value to cover debt payments and opportunities to purchase stellar long-life production, real estate, land and other hard, useful assets at deep discounts will be presented.

IF YOU UNDERSTAND THE OIL BUSINESS AND CAN MANAGE THE ASSETS, YOU KNOW THAT CERTAIN EQUIPMENT IS ALWAYS IN DEMAND IN THE FIELD. REMEMBER, THE OIL BUSINESS DOES NOT STOP, IT JUST SLOWS, THERE IS ALWAYS DEMAND FOR ENERGY.

IF PRICES STAY LOW FOR LONGER

In 2020, due to sustained low commodity prices, most oil and gas companies were in poor financial condition (even peril) before the Black Swan of Covid19 occurred. In the near future, Royalty owners will feel the pinch as leases are shut in, lease bonus prices decline and leasing activity ceases altogether. The decline will continue as economic reserves run out for those who planned for a year. Land foreclosures will rise. If prices stay down long enough, oil companies will begin to sell core production that has no further development opportunities to provide capital to pay bondholders. The cashflow from infrastructure assets like tank farms, pipelines and rolling stock will no longer meet market expectations and be sold by Master Limited Partnerships (MLP's) that must adjust their capital structure to stay solvent. MLP's with debt will cut their distributions and many will face bankruptcy as they cannot find a ready buyer for their assets. Credit facilities will dry up and very low risk investments will not be funded because investment bankers are "scared of the space". Tremendous opportunities will exist for the well-financed buyer who has the knowledge and skill to manage the assets as credit tightens in the industry. Saltwater haulers and disposal facilities will waver as operators reduce production and make cheaper arrangements for disposal. Drilling companies and operators will sell off production, rigs, trucks and other assets as they can no longer placate their bankers. As operators begin to cocoon (called hunker-down in the field), they once again lay off personnel, older employees will be offered early retirement, then the support staff, then the higher paid staff members will be laid off and the unemployment rate will once again rise causing a ripple throughout the economy. A partner of mine was the accountant for a large oil family office in the 1980's and 90's. He was the only remaining accountant out of a staff of 12 during the decline of the 1980's. He kept his position only because he was the cheapest

WHEN PEOPLE ARE SCARED, GENERATIONAL WEALTH IS CREATED BY INVESTORS WITH CASH!



accountant on staff. A very large number of professionals will leave the energy business, never to return. Due to the 1986 price decline, it has been estimated that from 1990 to 2002, over 60% of the active oil and gas operators in Texas left the business and did not return, leaving a tremendous void in the knowledge base of the business. Banks will escalate foreclosures as bankers continue to exhaust the reserves of their borrowers. Many banks will fail, taxing the resources of the Federal Deposit Insurance Corporation (FDIC). Local governments will begin to reel as the tax base shrinks. Auctions will increase as higher quality properties, luxury items and equipment come to market for

CASH buyers will be able to make instant deals at half appraised value, just because they can close in a week. **The market will overcorrect.**

far less than replacement cost. Real estate will come to market at less than fifty cents on the dollar and can be purchased for cash for twenty five percent of replacement cost. Already at a high level in 2019, oil company bankruptcies will hit record highs in the oil producing states, assets will come to market through the Federal bankruptcy system for pennies on the dollar **AND CASH BUYERS WILL CREATE WEALTH.**

Here are some examples of the opportunities that are coming for the cash flush buyer in 2020 and beyond...

- A. A natural gas producer in Texas was informed by his bank that he would have to liquidate the production that secured his loan and repay his debt – production that is profitable at less than \$1.00/Mcf.
- B. An operator in the Eagleford Shale that had recently declined an offer of \$800,000,000 for 1200 barrels/day of production and development acreage said he would take an offer in the \$400,000,000 range, if we could close quickly. His properties did not sell.
- C. On many occasions, from 1983 to 1992, I witnessed first-hand the sale of oil and gas production for \$2.50 per PDP barrel (equivalent in 2020 to ~\$10/bbl in the ground).
- D. In the late 1990's, I personally know of banks that foreclosed on Permian basin oil and gas production of 1000+ barrels per day, selling that production for less than \$4,000,000. In 2020, at \$50/barrel market price, the same production would be worth \$40,000,000 and would have paid itself out an estimated 5 times since the sale.
- E. In the early 1990's, I was standing in an RTC Auction in Arlington Texas when one hundred 2 bedroom condos in the University Park area of Dallas sold for \$100 cash each, a result of the oil and gas market crash of 1986.

THE GOOD NEWS...ECONOMIC RULES ARE OMNIPRESENT

The silver lining in everything discussed in this paper is that these actions, though necessary, are a self-fulfilling prophecy, for you see, as oil and gas production slowly declines, the price rises and the cycle begins all over again. Regardless of what people say about Peak Oil, the supplies of oil and natural gas are finite and non-renewable, the demand for energy will continue to grow as populations grow, oil is a required commodity for the human race, not a desired commodity like gold or silver, and finally, the old adage “low prices are the cure for low prices” has never been more true than it is today.

KEEP YOUR CHIN UP, THE SUN WILL COME OUT TOMORROW AND **THE CASH BUYER WILL CREATE WEALTH ALONG THE WAY.**

AUTHOR PHILOSOPHY

Over 90 years of experience in opportunistic public and private investing in all types of markets managing all types of assets, experience has led the author to know that assets purchased without debt during Black Swan economic events can create vast amounts of wealth. Proven hundreds of times throughout history, these types of hard asset-based holdings have proven to be the greatest investments that anyone can own in times of economic uncertainty or prosperity.



Who Is Paul Anthony Thomas

Skill Summary:

Beginning at the age of 13, Paul has spent 45+ years analyzing and researching publicly traded stocks, public and private markets, and all types of investment opportunities in all facets of the investment arena. Paul worked, edited and wrote for such noted publications as the Supertrends for Investors Newsletter, New Horizons for Investors Newsletter (10,000 global subscribers), Oil & Gas Journal, Penwell Publishing, WallStreetCity.com and CNBC (CNBC.com). Paul spent thirteen years conducting due diligence, analyzing public equity and debt markets for a private family office. Paul has supervised 50 professional and blue collar employees (in four regional offices) for 15 years working in the oil, gas and mineral exploration business. Paul managed a regional natural gas pipeline gathering operation including all accounting and contract negotiations for 25 million cubic feet of natural gas delivery per day. Paul financed, purchased or drilled over 500 oil and gas wells, while managing the development, purchase, renovation and divestiture of over 180 commercial and residential real estate properties. Paul supervised in depth due diligence research and legal discovery into over 50 manufacturing operations throughout the Texas region (Texas, Arkansas, Louisiana, New Mexico and Oklahoma) for the US EPA, including financial statement analysis, ability to pay federal penalties research and best business practice research/analysis.

Education

B.S. Psychology/Marketing	Texas A&M University (1979)	College Station, TX
B.S. Geology/Earth Science	Hardin-Simmons University (1981)	Abilene, TX
Novel Network Administrator	US EPA and University of Texas Arlington (1992)	Arlington, TX
UNIX ARC/Info Remote Sensing	US EPA and University Texas (1995, 96, 97)	Arlington, TX
MCSE Education (240 hours)	McMurry University (1997)	Abilene, TX
Incident Command/Emergency Response	Texas A&M University (1990)	College Station, TX
Total Quality Management Program Leader	US EPA (1992-97)	Dallas, TX
Accounting/Investment Coursework	SMU & UT Arlington (1997)	Dallas & Arlington, TX
CFP Studies	Texas A&M	Commerce, TX
CFA Studies	SMU & UT Arlington (1995-1996-1997)	Dallas, TX

Professional Designations and Trust Associations:

- Current Member American Institute of Professional Geologists (AIPG Certificate #7243)
- Current Member American Association of Petroleum Geologists (AAPG)
- Current Member – AAPG Southwest Section – Counselor
- Current Member – Abilene Geological Society
- Current Member American Association of Professional Landmen (AAPL)
- Current President – Rotary Club of Abilene
- Former Member, CFA Institute (formerly AIMR), 1997-2008
- Former Member, Dallas Society of Financial Analysts
- Former Member, Houston Society of Financial Analysts
- Former Member, Austin Society of Financial Analysts
- Former NASD Registered Broker Dealer (Series 22, 6, 63 – all expired)
- Former FINRA Registered Investment Advisor (Farpoint Advisors-Series 65)
- Former Member West Central Texas Oil & Gas Association.
- Board of Directors: Grapevine Farms of Abilene (non-profit organic farm)
- Board Member – Habitat for Humanities (Abilene chapter)
- Former Treasurer, NOAH Project, Abilene Texas – Domestic Violence Shelter