

WALL STREET UNPLUGGED

////////// AUDIO TRANSCRIPT //////////

Frank Curzio:

What's going on out there? It's November 1st. I'm Frank Curzio, host of the Wall Street Unplugged podcast, where I break down the headlines and tell you what's really moving these markets.

I took my kids trick-or-treating yesterday, Halloween. It's a cool event in my neighborhood. We have a nice area, not a lot of traffic. It was pretty cool. I mean, outside of the people on the board, which I think, probably, an average age of 106, and place signs, as soon as you come into our community, that all trick-or-treating ends at 8:00 p.m. Outside of that, it's kind of fun. People playing music outside. Kids running around like crazy.



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My daughters were Harley Quinn. She's nine. That's the Joker's girlfriend who is crazy and kills people, so I guess that makes me a terrible dad. My youngest was this nice cute cat and had makeup on, cute outfit, really cool. And it's cool because the parents really get involved. They get dressed up as well, and one of the parents would take turns walking the kids around. The guys hang around, the husbands, and have a couple beers, and the wives will hang around. We'll take them around again. It's really cool. Hang out in beach chairs. Beach chairs for Halloween ... yeah, it is Florida. But it's cool.

But when did trick-or-treating become the most dangerous thing in the world? Parents are like, "Watch out, kids! Make sure every piece of candy is wrapped! Be careful! It could be poisonous!" Every single parent goes trick-or-treating with their kid. That was never like that when I was younger. Think about that. Up til like 12, 13 year-old-kids who still like to get dressed up, you have parents hanging out with them. You got to hang out with them, they might get kidnapped. Or when a car is coming ... and in our neighborhood, I think the speed limit is like five miles an hour. And if somebody pulls out of their driveway, they know it's trick-or-treat, it's Halloween, and they pull out. It was like, "Watch out! The car's coming, kids!" It's almost like someone just threw a grenade in the ... "Get on the sidewalk!" Why is everybody so panicked? When did Halloween become so scary for kids? It used to be such a fun event.

You don't see a bunch of kids trick-or-treating ever, at least in my neighborhoods or even around. There's always a bunch of parents with them. And it's not just, "Hey. All right. Let's get a couple parents." It's all the parents go with all the kids and they're just running around in groups, massive packs of people, and the parents stand in the street and the kids run up to the door and ring the bell and they'll look in, as the person answers the bell, "Is everything okay? Who is that person? I don't know if I know them."

But it's nuts. My parents never took me trick-or-treating. I seriously can't remember it. I'm sure they took me when was five, six. But none of my friends, when we were like eight and nine, when I lived in Queens, New York, their parents didn't come with us trick-or-treating. We started trick-or-treating the second we got home from school, like 3:00 p.m., and we came home at 10:00 at night. Our parents weren't worried about us getting hit by a car, getting kidnapped, somebody poisoning the candy.

And there certainly wasn't a time limit on trick-or-treating. In New York, if you rang a guy's bell at 11:00 p.m., he'd probably throw something at you and yell at you, "Crazy kid, get out of here!" And if you went home to tell your parents, my dad would probably throw something at me for ringing his bell at 11:00 p.m. He'd rip me for being dumb, "Don't ring anyone's bell at 11:00 p.m. You're lucky the guy didn't kill you."

But that's how we knew. You didn't have specific hours. My board actually put signs up that say, "Trick-or-treating ends at 8:00 p.m." And they make sure it doesn't start earlier than 6:00 p.m., so you have two hours to basically comb a neighborhood that takes you at least three to walk around. You're talking to neighbors, and everyone has really cool neighbors, but you also have the neighbors that you really don't like and they're outside for Halloween, and you did like, "Hey, how are you? It's been so long. Let's get together." And the next time you see them is next Halloween. We all have those neighbors. And for the board members, if you hate kids, if you hate this stuff, you don't want to be bothered, shut your light off. Simple, if your light's off, you're not going to have kids come up. Let them trick-or-treat til 9:00 if they want. It's okay if they stay up a little late. It's fun. It's fun. It's nice.

I can't tell the board that because they just don't like me for some reason. I just got my yard finished. I basically put a basketball court back there for the kids and put artificial grass, since I tried to buy grass three different times and it dies because of the shade. You have these old people sneaking up behind my fence and taking

pictures. They're not too tech savvy, so they try to rotate the ... It takes a minute to take one picture. They're like, "Is this right?" And they're trying to take pictures to see if I'm doing anything wrong. Did I cut a tree down? It's like you want to take these people and toss them across the street or just hang them in a tree. Leave me alone. God. Believe me, it's a good thing. This increases the value of my house, which is going to increase the value to the houses next to it, as long as we all take care of it. It's a good thing. It's not a bad thing. We're not doing anything bad. Anyway, that's another rant.

But Halloween these days, it's insane. When did everyone become so scared? It's like your trick-or-treating in Beirut. "Don't ring that guy's doorbell! Watch out!" And in my neck of the woods, you also have extremists, which never, never, ever happened to me in New York, ever. But there's a lot of people down here that believe Halloween is demonic. They believe witches and magic are the works of Satan. Basically, if your seven year old dresses up like Harry Potter, it's like, "Throw holy water on the kid! The devil's going to get you!" I'm not even kidding. It's insane. "Don't wave that Harry Potter wand or the earth is going to end!" Whatever. How do you ... It's a seven-year-old kid. Leave him alone.

But it gets really crazy down here. It's not crazy for everyone to carry a gun while they're trick-or-treating. All the parents carrying guns is fine. It's not crazy for these same extremists that are really preaching to always have beers in their hand, and I know a lot of them take drugs. That's fine. That's okay. "Don't dress up like Harry Potter! You're the devil!" What the hell is going on with people today? It's just trick-or-treating, kids having fun, dressing up, laughing.

It's just another thing ... The world has become so serious these days. You can't say anything. Everybody gets emotion ... It's got to be an event. "I got to protest!" Big deal. Somebody calls you something, big deal. It's not that big of a deal. At least, enjoy Halloween with the kids, without someone saying, "Watch out! A car's going to run into the sidewalk!" or "Watch the candy!" Anyway, I had to get that off my chest since this just happened yesterday. It was nice to just walk around, nobody worried, happy, just drink more beer. I don't know.

Anyway, I have an awesome podcast for you today, which includes my interview with one of the smartest people in the oil industry, that's Cactus Schroeder. Cactus has been drilling for wells in Texas for over 40 years. I hate saying that, like 30 years, 40 years, because I think people think, "Oh, wow, I'm really old. I've been in

this industry for so long." But 40 years, think about that. He was a partner in the largest oil well drilled in the Eagle Ford, 2011. That eventually got sold for over a billion dollars, so he's made a lot of money in this industry. He was a partner in it. He didn't get the whole ... but still, a lot of money. And Cactus would be the first to tell you, it wasn't easy. He almost went bust several times, since we all know energy ... the most cyclical market in the world. He watched many of his friends lose everything they have. They were being real aggressive at the wrong time.

But I've learned a ton about the oil industry because of Cactus. I traveled the Eagle Ford, just about the entire Eagle Ford, like 20 ... I think there's 28 counties, so over 20 counties. Hop on rigs, talking to people that have been in this industry for decades. Also in the Permian, that was in 2011, 2012, spending weeks driving around. He's a trusted source, not just for me, but also for you. Why do I say that? Cactus is not a perma-bull or a perma-bear, so he's not ... He's an oil investor, a wildcatter, so he puts his money where his mouth is, and if he's wrong, he loses millions of dollars. He's going, "Oil is going up to ..." It's not like that.

It's not like the people you see in the media sometimes, calling for, "Oil's going to go to \$200 a barrel next year," or "It's going to go to \$10 ..." How many \$10 a barrel oil calls did we see when oil fell to around 30? I saw a ton of them. "It's going to 10!" And these people have no stake, other than owning a stock or two that they could sell a week later if it doesn't work out. That's not credible to me. And what's credible is, if that oil trend continues, Cactus ... It's millions of dollars to drill these wells. He's going to lose a lot, a lot of money. It's not a quick short-term call, "Hey, this is where I see things. This is what I'm going to do. This is where I'm spending my money." To me, that makes it a more credible source than just listening to someone out there that's buying a few stocks, that has research and is saying this.

If you look at the research that I have, which I wrote a fantastic report on why oil prices are going to surge past \$50 when they were 40, and this is just a couple months ago, so a fantastic report. And you know what happened? The stocks I recommended in the report just didn't follow oil prices higher. I wound up getting nailed on some of these stocks. Some of them are coming back. But a lot of that information and stuff that I get in the oil industry in a macro is from Cactus. But if you own oil stocks, or are thinking of owning oil stocks, it's a must listen interview. He can tell you where he thinks oil prices are heading, the risks you need to worry about when investing in this space. He's going to tell you what the break-

even, the break-even price is to drill in the Permian, the Bakken, and the Eagle Ford, also as well as the oil sands, deep water.

And I'm telling you, it's interesting because these prices are going to surprise the hell out of you. They're a lot different from what's being published out there. Now, who are you going to trust? You going to trust some guy that actually has been drilling for 40 years, drilling for oil? Not only is he drilling, but he stores it and eventually transports it to prospective buyers, so he know exactly what the price is. That's his business. That's how he makes money. And I was fascinated with the numbers he gave me compared to the numbers that I'm seeing out there being published all the time. There's going to be a fantastic interview, guys, coming up. He's going to go over just all ... maps that he has. He knows where all the oil companies are drilling, all public information, but he's able to find a lot of this stuff out before you hear about it every place else and this is all public record.

And most of the time, you hear about these small companies after. It's too late. They found a big well in a certain area where Cactus can say, "Wow, there's seven or eight wells that Exxon drilled that are killing it right now, and here's a little company that owns something that's going to drill." It's just really nice to have access to that type of information, and the only way you have it is by being inside that industry, going in there, having these maps, and knowing what to do. And that's what's Cactus is all about. Not to build up the interview so much, but, yeah, he's just a good friend, a great guy, and a good source. It's going to be an awesome interview.

Then in my educational segment, I'm going to replay a segment from last week's podcast because if you listened to it, you're sitting on over a 60% gain in a week on this one pick that Marin Katusa highlighted. Now this isn't about highlighting one of my guests who made an amazing call, especially with Marin, because that means I may be forced to listen to his music again. He actually made an album. He used to wear leather pants and be a lead singer in a hard rock band 20 years ago. It's not about that. And, seriously, it's more about how, despite all the risks in the marketplace, operating in a market that's terrible right now, the resource market. Here's a guy that said, "People are being forced out of this name. I'm not. I'm adding to my position. I've done the homework. The market's eventually going to realize it," and, you know what, it realized it a week later. Amazing timing.

Really, really cool stuff. I'm going to play that video and I'm going to tell you why that is so important, especially in today's market

during earnings season, where we're seeing companies crashing or either popping 15% plus after they report earnings. I've never seen an earnings season like this, which also impacts me because the volatility in some of these names, especially when they hit and you think, "Ah, this is a great price, we're getting in," and they report a weak quarter and they're falling after being down 60%. Or companies that you have a target price and say, "You know what? This is undervalued by 20%." And, in one day, they're up 20, 25%. Big names, not just small caps.

It's a crazy market right now that you really have to dig deep, ignore some of the headwinds out there because long-term, if your thesis is still right, you're going to make a lot of money. We're going to cover that because it's questions that I'm getting from a lot of subscribers, a lot of people out there, due to the massive volatility, where we're seeing 10, 20 stocks that are reporting they're moving, on average, more than 12, 13%, at least in my portfolio, a day on the upside and downside, on one day, when they report earnings. We're going to talk about how the best way to play this market. It's going to be a really, really good segment in the educational part. Before I get to that, let's get to my interview with my buddy, good friend, and oil legend, Cactus Schroeder.

We're talking to Cactus Schroeder. Cactus, thanks so much for coming back on the podcast.

Cactus S.: Absolutely. I'm glad to be here, Frank.

Frank Curzio: Aw, thanks, man. Thanks. Good friend, and we've had a lot of road trips together through different areas of Texas and oil areas. And I want to really start off asking you about the state of the oil industry. I think a lot of people want to know this. We have prices trading over \$50. When oil prices fell to around 42, 43, I came out with an awesome report, about 12 pages, on how oil prices are going to push back up to 50, likely stay around those levels going forward, or higher, since most producers can't make money under 40. I was right, but dead wrong because, even though oil prices popped higher, a lot of oil stocks still sold off.

I know you're not a stock analyst, but I also know you've been drilling for oil in Texas for over 40 years, have a ton of contacts, Cactus, some of those that you were able to introduce me to when I was in Texas with you, great relationships. What do you see today in terms of spending? Are companies getting more aggressive again, when it comes to drilling, cutting back? I'm just curious to see some of the trends that you're seeing, as someone that's there all the time.

Cactus S.:

Well, I think what you initially saw, and it didn't rattle the markets, but it kept everything trading between 45 and 53, because anytime the oil got above 50, you would have these companies go out and hedge their production out for a year or two years. And then, all of a sudden, prices would drop back down because there were so many hedges out there in the market. And so it was really staying trapped within that zone. And so I saw a good Wall Street article out about it, where the traders, typically, they either trade oil up too high or down too low, and now they've got it trapped in the zone where if it gets above 50, they're hedging. If it gets down to 45 or below, they're buying, and so at least it's created some stability in the markets.

But the one thing that I've seen in some recent quotes coming out of Saudi Aramco is that their aim is to try to rebalance the market over the five year average. Now if you average prices over the last five years, they've been as high as 110 and as low as 27, so I don't know which two numbers you pick to average. But it would seem that they're not happy at 50, that they would much rather get it in the 60 to 70 dollar range. But how much is that going to promote all this drilling? In the Permian, they can make money at 50, 55, but you sure can't make money in the Canadian oil sands or in the Bakken at that price. It's just operating costs are too high. And so it's going to be very interesting to see how the market plays out, but it seems like now they've established another floor at 50. Every time it gets below 50, over the last month, it jumps right back.

I'm optimistic that it's going to go higher. How much higher, I don't know. I think there's a certain point where, if it does get up to 60, 65, are people going to re-hedge? And so I will say the drilling rig count has stabilized and actually has come down, so you don't see a lot more drilling, so I'm interested in that particular statistic. And I think also your stockholders of these bigger companies, they don't want them to be quite as aggressive, and bonuses aren't handed out anymore based on how much oil you find. It's handed out on how much money the company makes. I think there's starting to me a new mentality amongst those companies.

Frank Curzio:

Yeah, it's great points with the incentives there. You mentioned something very interesting with the Permian, because we hear, and I saw Shell come out and say, well, we can produce in the Permian for, I think, it was like \$25. I've heard companies say 30, 35. You said an interesting number, which is 50, 55. As someone that actually lives very close to there, and we looked at a lot of companies and sites and things like that, and you've obviously drilled the Permian, what is the actual price where people can

make money on? Because I know ... the reason why I figured out oil prices are going to go higher, is when we see it go towards 40, the rig count goes down tremendously in every other area outside the Permian. It kind of stabilizes. But Eagle Ford, and you have Williston Basin, you see the rig counts come down and then you see a lot of oil come off the market and prices usually go higher. But I'm interested to see what actually that price is from someone who actually drills in the Permian, at the break-even price?

Cactus S.:

Well, people try to paint with real broad brushes. And there are sweet spots in the Permian where you could probably make money at \$35 oil, but there are not very many of them. And it's like if you think of a target, that little target right in the middle, that bullseye, yeah, you can make money at 30, 35 dollars, but as you start getting out and going in different directions, it's much more price sensitive. There are some areas in the Permian basin that they're going to have to 45 or 50 dollar oil to make money. Basically, these companies have been drilling two areas over the last year and a half, two years. They have been drilling areas where they have lease commitments and they either have to drill it or lose it.

And then the second thing is when they find those sweet spots, they get into those sweet spots and so they can really jack up their production levels. They'll drill out a sweet spot. They'll drill 20, 30 horizontal wells all close together in that sweet spot because they know that they can drill them cheaper. They can produce them higher, and they have higher reserves. Those are the two areas that have been drilled over the last year and a half or two years. And some of the sweet spots, they've kind of got them worn out and so they're having to drill some of their other areas. Consequently, it depends on which area in the Permian you're at as to what your break-even point is.

Frank Curzio:

Very interesting. Looking at it that way, and you're saying it's just a few areas where it's 35, it seems ... I guess I know why these guys ... what you said, they're locking in hedges when oil goes at 50, 52. But it seems like oil prices, even if you're looking at the other shale areas, I don't know ... again, it's hard to put ... Because I think we actually drove to 22 or 23 counties in the Eagle Ford a couple years ago and, depending on what county you're in, it's totally different. The cost could be much higher, three, four, five dollars more. But it seems like we need oil over 55, 60 for basically most of these shale producers in the entire U.S. to make money. Does that indicate that, hey, you know what, here's a good shot because we are increasing production right now, but it almost seems like we're

going to see higher prices eventually. I don't know if you have that ... Is that why you come to your conclusion? Because you did say, "I see oil prices do going higher."

Cactus S.:

I do see them going higher. How much higher, I don't know because you have ... Well, There's so much geopolitical risk right now. I don't care whether you're talking about Iraq, Iran, Libya, Nigeria, Venezuela. I can pick out 10 different hot spots in the world that are big time oil producers that that oil could come off the market at any time. And so that's always a big risk, and it's tough to calculate that into what you're doing because it can change the oil price so volatily. We could have \$50 oil now, and, all of a sudden, if Iraq blew up or Iran blew up or things like that, all of a sudden, you'd see oil jump to 70. How long would it stay there? It depends on how long is it going to take everything to settle down.

There's a lot of the geopolitical risk, and I think these companies have pretty much identified the areas in their portfolio that they want to drill at certain prices. And so if they decide, say, Pioneer is running 20 rigs and oil prices jumped up to 65 or 70 dollars, would they start running 30 rigs? You don't know what their next plan is going to be and it varies company to company on their cash flow, what their investors want, what the board wants, and that's domestically. But, internationally, hell, these things can come and go at any time because there's no way of gaging what's going to happen in Libya.

Frank Curzio:

No, that's a good point. You brought up another good point too where you're looking at Canadian oil sands offshore drilling, these are two big markets for the majors. And when Shell basically really started getting going on the oil side, we also knew Shell worked for natural gas, and we were able to extract this through horizontal drilling, fracking, and stuff. It seemed like they missed the boat, which really put guys like Pioneer, Continental, EOG Resources on the map. What are you seeing today? With so many of these stock prices down, a lot of these companies probably have little liquidity crunches, although we've seen bankruptcies too in the past. But are they investing more?

Because, just to put it into perspective, guys, when I went to Cactus's office, he has a massive map of the entire Permian, and all the names of people are drilling. When the results come in, you have dots on it. It's unbelievable. But there was a name of a company that, whatever it was, it was Joe's whatever, and you're like that's Exxon or that's this. Are you seeing more of the majors come in now because prices are cheaper and try ... because

Cactus S.:

Canadian oils sands offshore drilling, it can't work at this price.

It's funny. You see companies like Shell throw up their hands and leave, and they really got burned up in Alaska. They had a big offshore project up there in the Arctic and it was a dry hole and they had all kinds of problems with the tree huggers and those type of things and EPA. They drilled one or two wells up there and then they said, "We're done." They gave up all their concessions, and I think they gave up in the Permian too. But you take a company like Exxon, which owns XTO ... Exxon, through XTO, had a big position in the Permian. Well, then the Bass brothers in Fort Worth, they sold out to Exxon for over six billion dollars in the Permian.

I think that that deal that Exxon put six and half billion dollars in the Permian and they are still buying out there, I think Exxon's got to be one of the best well-run companies in the world. They just never make mistakes and they're always looking five, 10 years out, and they're wanting to be in the Permian basin for a long time. It's stable. There's no political problems. You don't have problems with the EPA, or as much with the EPA and the railroad commission, who governs the oil and gas in Texas. It's much more oil company friendly. It's got a great infrastructure, pipelines going to different refineries, whether it's on the Gulf Coast or in Cushing, where there's more oil refineries being either upgraded or built. Out in west Texas, I think they're building a refinery now out in that Alpine area, where Apache has that new big play out there.

And then we also have much milder weather. We don't have to fight blizzards and everything freezing up like you do in the Williston Basin or the Bakken. I think they look at all those pluses and they're getting a bigger footprint out there all the time. Chevron already has a big footprint out in the Permian. You've got majors that still like it and they could book those reserves and they know that they're there. And so it's been very interesting watching it. Midland, Odessa, are still abuzz right now. Everybody's employed. It's still tough to buy a house out there. The restaurants are starting to fill up.

A lot of good things are happening out there that I feel are pretty strong and I don't think are going to go away anytime real soon. But the oil business has always been cyclical, and so they would ride those big waves and valleys and so how long until oil prices go up and when will they go back down. That's always the question. You know they're going up, but you know they're also probably going to go back down at some point.

Frank Curzio:

Yeah. Once again, we're talking to Cactus Schroeder, a 40-year oil vet, wildcatter, drilling Texas for over 40 years. I want to talk about the technologies, which is always a big deal and something you're always looking at. We saw pair drilling, which is huge, and you were showing me what that means. Basically, you used to see the pumps, but if you see like four or five pumps within a few yards of each other, they're drilling multiple wells. And we've seen drilling costs come down substantially, and you explained that to me as well. I wonder where technology is today, where sometimes you're almost forced to reinvent yourself, especially with oil prices if they do stay at 40, and they went down to 20 something at one point. But you see new technologies that maybe even you're using that, really, people may not be talking about too much and could make a huge difference as it keeps developing, as more people learn about this stuff.

Cactus S.:

Right. Yeah. The technology has developed quicker. The prices have come down. The biggest problem we have out here is labor, people that know what they're doing. So many people, when oil prices crashed, they just put up their hand and said, "Hey, I'm 60, 65, 70. I'm quitting. I'm done." There's a lot of people that have to be replaced, everywhere from minimum wage labor to the highest executives. There's just been a lot of folks that have said, "It's about time for me to ride into the sunset." Well, that doesn't have anything to do with technology, but you also have the ... From a technological standpoint, it used to, when you were drilling a horizontal that was a mile, 5,000 feet, that was a long lateral. Now they're drilling laterals that are two miles, 10,000 foot laterals, so they'll be drilling 7,000 feet deep and then turning the corner and going two miles horizontally.

And in pumping these frack jobs, they've got equipment that can handle the pressures, the down hole pressures, the down hole heat, the pressure of pumping twice as much sand as they used to. They've found places that have superior sand, more perfectly rounded, higher crush strengths. There's people that are coming up with a synthetic proppant, or synthetic sand, that can withstand pressure and temperatures a lot more readily than natural made sand. You have all of those things where technology is pretty amazing, and you need fewer people on the rigs with these top drive rigs. People can run a rig from nearly at a computer at their desk in Houston. They haven't quite done that yet, but it's getting there. And so they're being able to log these wells as they're drilling. When I say log, that's giving them all the pertinent information they need, as far as reservoir quality, the permeability,

the porosity, all types of measures.

And so there's a lot of technology that has been developed and is being developed, which will make them cheaper, more effective. And the other thing that a lot of folks don't realize that in these shale plays, we're only getting about 5 to 7% of the oil in place. And when technology comes around to where, instead of getting 5 to 7% of the oil, if we can get even 15% of the oil. Well, you've doubled your reserves if you can get 15% of the oil versus 7. As long as we know that the oil is there, technology will guide us, I think, and help us to be able to produce more of it and more of it efficiently.

Frank Curzio:

It's funny. I want to ask you a couple of questions. But what you said about the 5 to 7%, which is something that I knew, which is remarkable. That's all they're recovering when they drill. What are your thoughts ... remember the peak oil stories. Actually, it only goes back 2010, 2011, the peak oil, but it makes me think. What happens if oil prices went to \$300, hypothetically, which they won't do anytime soon? What would you say, as someone who drills, and the technology where you're telling me they almost hit on almost every well they drill because the Permian's been mapped out, so people know exactly where the oil is because they've been drilling there for 100 years. It seems like if oil goes to those prices, you don't want to say you have an unlimited, but I can't see ...

The amount oil we have in the U.S. is incredible. We have the Utica, the Cline. We're not even tapping these because they're too deep and the prices don't make sense. But even if they do, it seems like we would never, ever run out of oil. I don't know if that's a crazy statement to make, but just showing how much oil we could actually extract from new technologies and how much deeper we could drill if oil prices went higher, it seems like we really have a ton, right?

Cactus S.:

Exactly. The higher the prices are, the more incentives there are, the more people that you get into it. You still look at, right now ... I saw a deal in the Wall Street Journal the other day. They were talking about college graduates and the people that made the most money when they got out of college and made the most money when they were 20 or 25 years into their career. And the petroleum engineer was at the top of both of them. And so it's very lucrative for people that are going to college, if they're not going to get into computer technology ... Computer technology and the oil, or petroleum engineering, are probably the two most lucrative areas for a bright college student to get into today.

Frank Curzio:

Yeah, that's interesting too because you had talked about the labor shortage earlier, where you need good geologists and more computer programmers, computer technology, but also, could you tell us, all right ... because it's about safety right?. I'm making fun of it because you asked me when I was on site, "Hey, Frank, why do you think everybody backs their truck into spaces?" Could you explain that?

Cactus S.:

Oh, yeah. All these major oil companies, they're so sensitive to safety. Before you perform any operation, you have a meeting of everybody that's on the location, and you talk about safety and what happens if something goes wrong. And the reason people back their vehicles into any particular space is so that if there is an emergency or a problem or a fire or a blowout or whatever it is, when they get in their car, they don't have to worry about backing out. They've already backed into their space. They start their car and they get out of there. And it's funny. You go into any restaurant in Abilene and you'll see people that back into spaces, and the majority of them are folks that work for big oil companies. They're used to doing it. They've been taught to do it and they're instructed to do it and they get fired if they don't do it.

Frank Curzio:

That's great. Just a couple more questions here too, because this is great. I can go on forever with this. But I want to talk about what you're doing personally doing now, I guess, what you're working on these days. Because you actually told me last year, which was interesting, which I haven't heard anywhere, and someone that's been fracking and using new technology, you said, "You know what? We're drilling vertical wells now, which is cheaper and it's just an easier way when prices have come down." Are you still doing things like that? Because that's an interesting trend to me, that you thought it was basically a lost art. It's gone. We're not doing it. You do fracking all the time. But the cost is so much less and it seems like you guys know a lot where the oil is. What are some of the things you're doing right now?

Cactus S.:

Well, I'm still drilling vertically. I've got some projects that I'm participating in as a working interest owner that are more horizontal-type drilling. But what I do ... it's kind of like it's tough to teach an old dog new tricks. I see those new tricks out there, but I'm so ingrained in what I do and have been successful at it for over the last 35 years that it's tough for me to change what I do in the Abilene area. The Abilene area is on the eastern shelf of the Permian Basin, and then we still drill an awful lot of vertical wells, and the wells are much cheaper. For instance, if you drill a 7,000 foot well and then turn it and go 5,000 feet horizontally, you're

looking a well that's going to cost about five million dollars out in the Permian.

Whereas, when I'm drilling vertically, I can drill and complete a well, say, at 6,000 feet, and I can drill it and complete it for \$600,000. There's a lot of difference bet \$600,000 and five million, and so I can afford to drill a dry hole or two because when I make a good well, it has ... whereas a vertical well might, over the course of its life, give you a three or four to one return on your money, my vertical wells would give you a 10 or 12 to one return on your money. But the vertical people can drill some dry holes, whereas the people that are drilling horizontally, there's typically never a dry hole. You may not ever get your money back and it may be noneconomic, but when they're drilling, they know the oil's there. It's just a matter of is the rock quality enough rock where when the frack it they can get the amount of oil out of it that they need to make some money.

Frank Curzio: And this is last part here. Explain why ... It's a remarkable statement, when you think of oil and wildcatting, that when these service companies drill, there's almost never, you said, a dry hole.

Cactus S.: Yeah. They have done all the studies where they are drilling and it's a deal that they know that the oil is there. Can you get it out? For instance, when we were doing the Cline, and the Cline looked like it was going to be the next best thing out in the Permian Basin. Well, we drilled those ... there were probably 30 horizontal wells drilled in the Cline out in this country and there might have been only one or two of them that paid out, and probably none of them made any money. We just never did find the right recipe to frack the wells with, whether it was a problem with how we pumped it, the proppant size. Did we drill a long enough vertical? What did we do wrong?

Well, after drilling 30 of them or so out in this part of the country, people realized that it just wasn't going to be economic. And so as they went further into the Permian Basin, they were economic. And so right now, to drill a five million barrel, excuse me, a five million dollar well, you're going to need to have a well that's going to give you at least 200,000 barrels in reserves and ultimately give you closer to a half a million to a million barrels in reserves for that well. And, of course, a lot of that depends on is the price of oil 20 or is it 100 or is it 50, and you've got to work out your economics before you ever put a bit in the ground. And you've got a pretty good idea of what your return will be and how much you need to drill that well for and how much it will make with the current technology.

Frank Curzio:

And when you say, because when I was driving around with you to all these areas in the Permian and also the Eagle Ford in Texas, you get to look at what company is doing what and hedges and stuff like that. I know you were investing in stocks, but are you still investing in some oil stocks? Because the information that you get just from being in the field and knowing what these guys are doing, where they're drilling, who hit previously not too far away. That has to give you a significant edge in terms of which companies you may want to personally invest in, right?

Cactus S.:

Right. Right. And I used to. My theory, Frank, was I'm in the industry and I know this industry better than anybody, but what I also found is if you put too many eggs in one basket and drop it, you're out of eggs. And so when things made a downturn back in 2014, I pretty much got out of the oil stocks because I had so much exposure in oil to what I do myself. And so I haven't been in any oil stocks for probably three years, just because if there was another downturn or if it stayed at 20 or 30, I don't need the exposure of what I'm doing plus what I'm investing in stock-wise.

But if I had, the companies that I would be owning would be companies like EOG and Pioneer and Exxon, just to name three right off the bat. Those would be at the top of the line. But there was ... What was the offshore company, Frank, that filled for bankruptcy here two or three months ago? And they were ... Transocean. Golly, they have been in the offshore drilling business forever and it's pretty amazing that they ended up filing for bankruptcy. But that is a really good company that, when the offshore does start coming back, they're going to be one of the ones that are going to benefit from it if they can just hang on.

Frank Curzio:

No, it definitely makes sense. Okay. Most important question of the day, what we talked about 18 months ago. You said, "You know what, Frank? It's going to be real difficult for Roger Federer," who's your favorite tennis player in the world, "to win another major," and he's won quite a few since then. Since he had this sudden revival, does this mean you may come out of retirement soon and start hitting the circuits in Texas, or what?

Cactus S.:

I'm not only a has-been, I'm a never-was. No, it would be fun to get back and hitting the ball around. It's so much more fun to watch those guys hit it around. It's been a real pleasure this year to watch. Well, people are also writing off Nadal, and so out of the four majors this year, Nadal wins two and Federer wins two, so go figure. If you'd have made that bet in January of this year, you'd have made a ton of money.

Frank Curzio:

And I want to put things in perspective before I let you go because when Cactus was showing me around and introducing me to his friends, and, remember, we're talking about a guy who's a wildcatter. It just doesn't go with tennis. But they didn't care about oil. They were like, "Did you ever see this guy ..." Apparently, Cactus, you're a legend in the tennis industry. "Did you see this guy ... Did you ever see this guy play tennis?" That's what everybody was talking about. I was like, "What's going on with you and tennis?" And I know your family's into it too, so it's really cool to see your buddy Federer and I know you travel around the world to see these events too and the majors, so really good stuff.

But, Cactus, thanks so much for coming on. I know how busy you are. I know my subscribers appreciate it. I know listeners appreciate it. I definitely appreciate it, and, hopefully, we definitely talk again soon.

Cactus S.:

Hey, no problem, Frank. You take care.

Frank Curzio:

Great stuff from Cactus. He's been such a good friend to me, always willing to hop on a call and make time, go out there whenever I want, which I'm probably going to make another trip out there to the oil patch. You'll see that, especially if you get my newsletter, subscribe to my newsletters, little pictures and I'll give you updates in that. For Cactus, he was always there to answer my questions, and I had a whole book full of them, because we'd drive in these tiny towns throughout the south and west Texas and it's lonely. It's all flat, desert-like. And sometimes driving for hours without even seeing anything, not even a tree. There's nothing. But I used that to my advantage to learn everything I can, pick his mind, learn about shale, the new technologies, how to make money.

He taught me how to make money outside of just producing oil and gas because sometimes you're going to generate a lot of money and you want to put that into other things. But also you can buy even more land with those gains from previous oil wells and to offset your taxes, how some of these people could grow cattle on the lands to receive even more tax benefits. You see a lot of people in the industry have tons of ranches. And not only that, they're specific, especially if you're really smart, to buy property with sand and gravel on it since it's a necessity at drilling sites. You got trucks that go there, pick it up, make money delivering this to other projects where sometimes it's hard to get, believe it or not.

But there's just so many little ways to make money. It's like going

to Domino's. You don't just have to buy the pizza. You can get wings or chicken parm sandwich or the brownie cookie. It's so many different ways. If you're hitting the oil and it works, that's fine. But if you don't, it doesn't. But there's just so many different avenues and so much I learned within that industry that's really, really fantastic. And those little things are big, especially during times that aren't so good, where you could find ways to make money in the industry, when maybe prices crashed to 30 bucks not too long ago and no one could really drill at those prices, but just little things like that, that have helped him be in this industry, which is incredibly cyclical, for 40 years and make a lot of money from it.

If you guys enjoyed that interview ... really good stuff. This podcast is about you, not about me, so let me know what you thought at Frank@curzioresearch.com. That's Frank@curzioresearch.com. Again, I thank Cactus so much for coming on the podcast, but I want to hear your thoughts.

Now, moving on, here comes the educational segment. Last week, I interviewed Marin Katusa. I appreciate the fact that Marin came on the podcast. Why? Look, there's not a lot of positives to talk about in the resource industry these days. And he's a guy that always comes on the podcast at a moment's notice, and it's great when things are going great. You can highlight, and the gains in the sector you see could be 300, 400, 500%. When things go bad, even if great companies are reporting good drilling results, whatever it is, these companies ... That'll be used as a liquidity event to sell in this type of market, which is insane. You're reporting good news, and you think your stock's going to go up, but it goes down 10% that day.

There's so many people looking to get out of the industry, to get out of it, especially in some of these stocks that aren't liquid, you need a liquidity event, so, hey, good news coming out. Try to get that volume up. You're getting some buyers in and you'll see it just get nailed. It's kind of crazy in this industry, so I appreciate he's coming on when this industry has been horrible. And this isn't about resources. I get it, "Frank, could you discuss some of the things outside of ..." Sometimes it's a little resource heavy, a little bit. I get that.

This educational segment's going to go deep into that. It's about sticking to your guns when you really did your homework, no matter what the market believes or how the stock is trading, what you're seeing right now. And you know what? Here's Marin talking about his biggest position that he owns and why he added to this

position in a terrible market. Let's roll that clip right now.

Marin Katusa:

Here's another example of a ... I just got back from Iceland. I truly believe, and I'm one of the largest shareholders of this company, so yes, I am talking my book, but people should know that I am talking my book. That is a good thing, because I believe that if you look at all of the market peers to Alterra, Alterra is the cheapest power producer, green power producer, not just in Canada, not just in the U.S., in the world. You look at what valuations are trading at to their peers and what the buyouts are happening. I'm pulling my hair out, going, "I don't understand." I reanalyzed, rebuilt, my models from scratch multiple times going, "Am I wrong or is the market wrong?"

And I don't care about the market agrees with me until the end. That's the key point here. And I believe that I'm going to be right. Now, if I'm wrong, the stock's going to go a lot lower, but I don't believe I'm wrong because my numbers are telling me. I've done the site visits. Frank, you came with me to the site visits with their assets in B.C. These are real companies paying a dividend that produce power and they're trading like they're juniors because nobody cares about it right now, but that's what's called contrarian value investing. They will one day, and at that day, we sell our stock.

Frank Curzio:

Marin made this call on Wednesday's podcast last week. Alterra Power was five bucks. On Monday, Energex, a large renewable energy producer, said they're going to acquire Alterra at \$8.25 a share, so we're talking 60% plus gains inside of a few days on a free pick, or a stock that you could have bought on Thursday or Friday, which is pretty amazing. I'm not replaying this segment to highlight a big winner that I'm sure a lot of you didn't run out and buy. Although, if you did, I'd like to hear from you, Frank@curzioresearch.com. Let me know if you actually purchased that stock after Marin mentioned it, which would be really cool.

But I'm highlighting this particular segment and what happened because of what Marin said during that clip. He knows the stock is incredibly undervalued. He knows the market's eventually going to get it. There's a major disconnect, given that it's a great name in a terrible market, and in a terrible market, even the great names get hit. And how this is his biggest position personally, and how he's contrarian because nobody really believes in it. And pretty cool stuff.

Now how does it relate to today? Because this earning season, even last earning season, but especially this earning season

has been insane and one of the most volatile I've seen in about 20 years of analyzing stocks. That's not a joke. I'm not trying to sell you something here and build up something. I'm being honest with you. I'm telling you this because I'm worried. A lot of my subscribers know what I'm talking about because about 15 stocks in my portfolio that reported, out of two portfolios in my newsletters, reported earnings over the past two to three weeks, the average one day move in these stocks, on the day they reported, was over 13%, 13% in one day on stocks that I'm recommending to hold for 12 to 18 months as maybe ... we're buying a company that's down a ton from its highs.

And you see the insiders loading up and were buying a stock down 60, 70%. Insiders loading up. We're getting it at a discount, 20, 25, so we had insiders bought millions of dollars worth of their stock, which they know more about their company. And it'll come out in reports. Some of them are like, "Oh, we're taking a bigger charge," or "We're doing this," kind of kitchen sink things, and these stocks will get crushed. On the flip side, we had two in one day that went up an average of ... one went up 12%. Another went up 17% or 18% in one day.

And as a newsletter guy, a guy giving advice, it's not easy to do that. Because not only are you explaining why is this down when I bought this stock down 60% ... One is nobody cares about value and we're not bottom fishing. We're not trying to catch a full on knife here, and we're not just buying stocks that are 100% based on value. You have to have that catalyst, that growth catalyst. But right now, nobody cares. It's hey, you have to take on that risk of buying Facebook today and to the quarter and we're doing this Wednesday. I think they report after the close today. I have no idea what they're going to report. I'd be surprised if they didn't blow up the numbers. It might come off a little bit. The stocks has been running up. Unlike Amazon, who kind of ran up before and then took a breather for two weeks and then just blew out the numbers. And that stock went up 12%. And Tesla's going to report.

It's almost like stocks are incredibly expensive, so to generate those returns, generate alpha market beating returns, you have to buy a lot of these expensive names to do so. And when you do, it's cool when you have an Amazon, you have a Microsoft, that actually blew out the numbers and those stocks went up. But sometimes if you miss, good luck, because you're buying a growth stock that all of a sudden stops growing and reports that they're not growing as fast. Look at the downturn in Under Armour, how insane that was. What was that 50, 60, and it's pushing 10, 11, 12, around there?

Fell another 20% in one day. And that might not be a good name to highlight because it's still expensive, even it's so expensive to where they're growing, which they're not growing anymore.

And it's not just limited to small caps. You're seeing Celgene fall 20% after earnings. And even on the plus, say if you get it right and you have Buffalo Wild Wings. And you say, "Well, you know what? I think this stock is undervalued. It should be trading 20% higher." It goes up 20% in one day after earnings. As an investor, if you don't see anything really change other than, "Well, it was a good value play. I knew this was going to happen and I was right." It's not like they announced a major partnership, so that your thesis would change even more positive. But as an investor, you should be selling that stock after one day, which is crazy because who does that after making 20% in one day? It's almost impossible. We're not wired that way to sell a stock that's up. We ... "Wow." The greed kicks in. "Oh, wow, this thing could keep going."

That's why we say sell half when you're up 100% because you're happy either way. If it goes up, hey, I still own it. If it goes down, down, down, you're not looking at every day where you purchased the stock at 10 and it goes down to eight and you're like, "Oh, what should I do?" It's all basically free money and you get to ride it out over two, three years because, all right, if it goes down 15, 20% this year, I know two, three years from now, I want to see this biotech company and these catalysts kick in later on.

There's something to be said for that, guys, because the emails that I'm getting and the nervousness that are out there, and it's well-deserved because we had stocks that have come down on earnings. We've seen it. It wasn't all positive. We had some negative ones too, which is frustrating. I hate to see people lose money. But the volatility around earnings season, how do you play it? Well, one thing, be patient. Wait for a little bit of an uptrend, even if you see insider buying, but the selloffs in these names of companies that are down 40, 50% that clearly seem to be oversold and they'll come out and report earnings that aren't so good. And you know what's funny? They'll open up down 3, 4% and finish the day down 15%. It's like all these algorithms kick in. They just keep going down.

Now what does that do? Think about it. It's important here, guys. Because I know you're seeing this, even if it's in some of the stocks in my portfolio, other stocks that you own. You're saying, "What does that do?" Well, it takes a lot of long-term holders out of the stock who are in it and maybe, "Hey, it's already down and I think it's a great value." Now it's down even 5%, let's go down 7, 9, 11.

Now you have the long term people saying, "Wow. I'm out of there. This is a joke. I got to get out of this thing. How is it down so much?" And now you're seeing a further selloff. How is that beneficial to you? Well, if you don't own these names, they're going to be trending at pretty close to almost no-risk levels. You going to be buying them, probably, at a 40% discount to where insiders were buying maybe a few months ago.

Even GE is a good example. It broke 20 today. It's something I've been purchasing. You know I own it. You know I've been wrong on it. I think I'm going to be incredibly right on it. I'm not being stubborn. I think there's great catalysts. I think it's easy for the stock to come down right now with uncertainty about what's the strategy going to be when Flannery announces it, what, in about five, seven business days from now, so I get it. But insiders were aggressively purchasing this, I'm not even talking about 27, 28, 26, 25. Recently, after Flannery came in, a lot of other insiders purchased it at 22, 21, and you're seeing it fall, getting a discount to where the CEO is going to have the biggest restructuring plan in the company's history, 100 year history, which should be good, selling a whole bunch of ... try generating 20 to 30 billion dollars with a small dividend cut. That's going to be announced, taking those cashflow concerns right off the table.

But it's amazing with this market, it's very dangerous. It's difficult. Be careful out there, but also be patient. Stick to your methodology. That's why I played Marin's thing, where he's been through this and said, "This is a great company. Alterra's great. Ross Beaty ..." We went to go see this project, fantastic, and it just happened a week later, which is great timing. But the point of the education segment is stick to your guns. It's easy to get out of control. It's easy to get pissed at things. It's easy to say, "Well, Frank. This stock is down. I can't believe it's down."

Stick to your guns. You want to follow your stop, of course. You don't know if the market's going to crash tomorrow. You'll be able to save a lot of money. But even having some of that money on the sidelines and being able to pick up some of these stocks that get completely sold off, especially right now heading into, what, where a market's at an all-time high and people need to sell their losers for tax losses, you might even get a better price to purchase some of these names and closing your eyes and waking up three years from now, trust me, you'll be happy with a lot of names, especially the ones in the portfolio. They'll be trading at super cheap valuations.

That's the way to play it. This is based on emails I'm getting, not

just from subscribers, from people who listen to the podcast and the volatility and they're nervous, "I don't know if we should be in this market." Be patient. Look for opportunities. Stick to what works, what you've been doing for five years, 10 years, whatever it is. And, believe me, it'll come around. But right now, it's a really hectic market, a lot of volatility, a lot of nervousness, and you need to be careful, and basically finish up earnings season here. Hopefully, that came across good. A lot of information to digest, but more important, hopefully, a lot of you guys ... I love to see people make money, so, hopefully, I wish everyone of you bought Alterra on Thursday or Friday and up 60% in a few days. That'd be really, really cool.

But let me know what you thought about that educational segment at Frank@curzioresearch.com. That's Frank@curzioresearch.com. Okay, guys, thanks so much for listening. I'll see you guys in seven days. Take care.



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